

Report of the Directors

DIRECTORS' REPORT

The directors present their report and the audited financial statements of Telecom Plus Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March, 2002.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

The principal activities of the Company's subsidiaries as at 31 March, 2002 are set out in note 38 to the financial statements.

RESULTS

The results of the Group for the year ended 31 March, 2002 are set out in the consolidated income statement on page 22.

PROPERTY, PLANT AND MACHINERY

Details of movements in the property, plant and machinery of the Group and of the Company during the year are set out in note 12 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for approximately 46% and 87%, respectively, of the total turnover of the Group for the year.

The aggregate purchases attributable to the largest supplier and the five largest suppliers of the Group accounted for approximately 52% and 97% respectively, of the total purchases of the Group for the year.

At no time during the year did a director, an associate of a director within the meaning of the Rules Governing the Listing of Securities (the 'Listing Rules') on The Stock Exchange of Hong Kong Limited (the 'Stock Exchange') or a shareholder of the Company, which to the knowledge of the directors owns more than 5% of the issued share capital of the Company, have any interest in any of the five largest customers or suppliers of the Group.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 66 of the annual report.

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SHARE CAPITAL

In order to finance the Group's operation and acquisition, and in accordance with several debt-equity conversion agreements entered by the Company, the Company issued approximately 280 million ordinary shares of HK\$0.1 each, for an aggregate consideration of approximately HK\$87,494,000 during the year. The new shares rank pari passu with the existing shares in all respects.

The Company also repurchased and cancelled approximately 23 million ordinary shares during the year.

Details of these and other movements during the year in the share capital of the Company are set out in note 24 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Zou Yishang

Ma Hongyao

Chen Jian

Zhou Yubo

(retired on 21 September, 2001)

Non-executive directors:

Ni Guangnan

Weng Xianding

(appointed on 10 July, 2001)

Independent non-executive directors:

Leung Wai Man, Roger

Zhao Renwei

In accordance with clauses 87(1) and (2) of the Company's bye-laws, Ma Hongyao and Ni Guangnan will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

No directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation.

The term of office of each non-executive director (including independent non-executive director) is subject to retirement by rotation in accordance with clauses 87(1) and (2) of the Company's bye-laws.

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DIRECTORS' INTERESTS IN SHARES

As at 31 March, 2002, the interests of the directors of the Company and their associates in the share capital of the Company and of its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the 'SDI Ordinance'), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and to the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of directors	Nature of interest	Number of ordinary shares of the Company held
Zou Yishang	Corporate (note)	229,512,790
Chen Jian	Personal	60,000,000

Note: These shares are beneficially owned by Able Technology Limited, which is beneficially wholly-owned by Mr. Zou Yishang.

Save as disclosed above and other than certain nominee shares in subsidiaries held by certain directors in trust for the Group, as at 31 March, 2002, none of the directors or chief executives, or any of their associates, had any interests in any securities of the Company or any of its associated corporations as defined by the SDI Ordinance.

SHARE OPTION SCHEME

The Company's share option scheme (the 'Scheme') was adopted pursuant to a resolution passed on 22 January, 2001.

Summary of the Scheme

(a) Purpose of the Scheme

The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group and to retain the services of the employees who will continue to make valuable contribution to the Group.

(b) Participants of the Scheme

Pursuant to the Scheme, the board of directors of the Company (the 'Board') may grant options to any full-time employees of the Company or of its subsidiaries, including executive directors in full-time employment of the Company or any subsidiary, to subscribe for shares in the Company.

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SHARE OPTION SCHEME (CONT'D)

(c) Total number of shares available for issue under the Scheme

As at 31 March, 2002, the total number of shares of the Company available for issue under the options granted pursuant to the Scheme was 96,584,000, representing approximately 8.41% and 7.6% of the issued share capital of the Company as at 31 March, 2002 and 26 July, 2002 respectively.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time.

(d) Maximum entitlement of each participant

No participant shall be granted an option which, if exercised in full, would result in such person's maximum entitlement exceeding 25% of the aggregate number of shares of the Company for the time being issued and issuable under the Scheme.

(e) Time of exercise of options

Pursuant to the Scheme, an option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the Board to each grantee and in any event shall not exceed 10 years from the date of offer of the option.

(f) Payment on acceptance of option

Pursuant to the Scheme, HK\$1 is payable by each grantee to each Company on acceptance of the option within the period to be notified by the Board.

(g) Basis of determining the subscription price

The subscription price per share under the Scheme is determined by the directors of the Company and notified to the grantee and shall be no less than the higher of:

- (i) 80% of the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and
- (ii) the nominal value of the share of the Company.

Effective from 1 September, 2001, in accordance with the new rule 17.03 of the Listing Rules, the subscription price of the share options must not be less than the higher of (i) the average closing price of the Company's shares as quoted on the Stock Exchange for the five trading days immediately preceding the date of grant and (ii) the closing price of the Company's shares as quoted on the Stock Exchange on the date of grant and (iii) the nominal value of the share of the Company.

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SHARE OPTION SCHEME (CONT'D)

(h) Remaining life of the Scheme

The Scheme will remain valid until 21 January, 2011.

Share Options

The following share options were outstanding under the Scheme during the year:

Name and category of participants	Number of share options				Date of grant of share options	Exercise period of share options	Subscription price per share
	At 1 April, 2001	Granted during the year	Lapsed during the year	At 31 March, 2002			
Directors							
Mr. Zou Yishang	-	20,000,000	-	20,000,000	29 August, 2001	29 August, 2001 to 28 August, 2011 (Note a)	0.3520
Mr. Ma Hongyao	-	15,000,000	-	15,000,000	29 August, 2001	29 August, 2001 to 28 August, 2011 (Note a)	0.3520
Mr. Chen Jian	-	17,000,000	-	17,000,000	29 August, 2001	29 August, 2001 to 28 August, 2011 (Note a)	0.3520
	-	52,000,000	-	52,000,000			
Other employees in aggregate							
	-	4,500,000	-	4,500,000	3 August, 2001	3 August, 2001 to 2 August, 2011 (Note b)	0.3672
	-	40,670,000	(586,000)	40,084,000	29 August, 2001	29 August, 2001 to 28 August, 2011 (Note a)	0.3520
	-	45,170,000	(586,000)	44,584,000			
	-	97,170,000	(586,000)	96,584,000			

Note a: The options will vest in four tranches in the proportion of 15% : 25% : 30% : 30%. The first tranche of the options has vested on 1 April, 2002. The second, third and fourth tranche will vest on 1 April, 2003, 1 April, 2004 and 1 April, 2005, respectively.

Note b: The options are immediately vested on the date of grant.

During the year, no options were cancelled by the Company or exercised by the grantees. An aggregate of 586,000 options has lapsed upon termination of employment of the relevant employees with the Group.

The closing price of the Company's share immediately before 3 August, 2001 and 29 August, 2001, the dates of grant, was HK\$0.455 and HK\$0.440 respectively.

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SHARE OPTION SCHEME (CONT'D)

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the shares options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are lapsed or cancelled prior to their exercise date are deleted from the register of outstanding share options.

The directors do not consider that it is appropriate to disclose a theoretical value of the share options granted during the year, because in the absence of a readily available market value for share options of the Company, the directors were unable to arrive at an accurate assessment of the value of the share options.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Scheme in which the directors and the employees are eligible to participate, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors or chief executives, nor any of their spouses or children under the age of eighteen, had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year, Telecom Plus Investment Limited, a wholly owned subsidiary of the Company, repurchased a total of 22,750,000 shares in the capital of the Company on the Stock Exchange pursuant to the general mandate granted by the shareholders at the last annual general meeting held on 21 September, 2001, details are as follows:

Month/year	No. of shares repurchased	Price per share		Aggregate price paid (before expenses) HK\$'000
		Lowest HK\$	Highest HK\$	
December 2001	19,750,000	0.405	0.450	8,362
January 2002	3,000,000	0.435	0.435	1,305
	<u>22,750,000</u>			<u>9,667</u>

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PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY (CONT'D)

All shares repurchased were cancelled and accordingly the Company's issued share capital was reduced by the nominal value of these shares. An amount of approximately HK\$36,000 representing the brokerage expenses on the aforesaid repurchase, was charged against share premium account. The repurchases were effected for the benefit of the shareholders as a whole by enhancing the net assets and earnings per share of the Company.

Save as disclosed herein, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 March, 2002.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 37 to the financial statements, there were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Connected transactions disclosed in accordance with Chapter 14 of the Listing Rules of the Stock Exchange are as follows and set out in note 37 to the financial statements.

On 20 September, 2001, Beijing HollyBridge System Integration Company Limited ("Beijing HollyBridge"), a subsidiary of the Company, entered into a loan agreement with New China Trust & Investment Corp. Ltd. ('NCTIC'), an independent third party, pursuant to which NCTIC agreed to provide loan facilities to Beijing HollyBridge for an aggregate amount of Rmb59,000,000 for a term of 3 months (renewable upon the agreement of NCTIC and Beijing HollyBridge). On 2 November 2001, the Company entered into a guarantee in favour of NCTIC as a security for the loan facilities. The guarantee was provided by all the shareholders of Beijing HollyBridge on a several basis in proportion to their respective equity interests.

The independent non-executive directors confirm that the transactions have been entered into by the Company in the ordinary course of its business and in accordance with the terms of the agreement governing such transactions.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, the register of shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company as at 31 March, 2002.

POST BALANCE SHEET EVENTS

Detail of significant events occurring after the balance sheet date are set out in note 36 to the financial statements.

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RETIREMENT BENEFITS SCHEMES

Information on the retirement benefits schemes of the Group is set out in note 35 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of the Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws.

AUDITORS

During the year, Messrs. Arthur Andersen & Co. resigned, and Messrs. Deloitte Touche Tohmatsu were appointed by the directors as auditors of the Company.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Zou Yishang

Chairman

Hong Kong, 26 July, 2002