

The Directors have pleasure in presenting their report together with the audited accounts of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December, 2000.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 24th November, 1999. Pursuant to a group reorganisation (the "Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in Hong Kong and the NASDAQ National Market (the "NASDAQ") in the United States of America, the Company became the holding company of the Group on 24th February, 2000. The shares of the Company were listed on the NASDAQ and the Stock Exchange on 15th and 16th March, 2000 respectively.

Details of the Reorganisation and the basis of the preparation of the accounts are set out in note 1 to the accounts.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 26 to the accounts.

An analysis of the Group's turnover and contribution to loss from operations by business segment for the year ended 31st December, 2000 by principal activities is set out in note 3 to the accounts. The activities of the Group are carried out in Hong Kong.

RESULTS

The results of the Group for the year ended 31st December, 2000 are set out in the consolidated profit and loss account on page 38.

DIVIDENDS

No interim dividend was paid for the year (1999: Nil). The Board does not recommend the payment of a final dividend for the year ended 31st December, 2000 (1999: Nil).

FINANCIAL SUMMARY

A summary of the results of the Group for the years ended 31st December, 2000, 1999, 1998, 1997, and 1996, and of the assets and liabilities of the Group as at 31st December, 2000, 1999, 1998 and 1997, is set out on page 69.

FIXED ASSETS

Movements in fixed assets of the Group during the year are set out in note 11 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 17 to the accounts.

RESERVES

Movements in the reserves of the Group during the year are set out in note 18 to the accounts.

Pursuant to the Companies Law (Revised) of the Cayman Islands and the Company's Articles of Association, the share premium is distributable to shareholders provided that immediately following the date on which the dividend is proposed to be paid, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

As at 31st December, 2000, the reserves of the Company available for distribution to shareholders amounted to HK\$2,108,492,000 (1999: Nil).

BORROWINGS

Details of the Group's bank loans and vendor loans and the convertible notes issued by the Group are set out in notes 19 and 16 to the accounts respectively.

DIRECTORS

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

Executive Directors

Richard John Siemens	Co-Chairman
Edward Wai Sun Cheng	Co-Chairman
Craig Edward Ehrlich	Group Managing Director
Kuldeep Saran	
Andrew Chun Keung Leung	
William Bruce Hicks	

Non-executive Directors

David Anderson	<i>(appointed on 3rd July, 2000 and resigned on 20th November, 2000)</i>
Johnson Chan	
Patrick Din Youn Cheung	<i>(resigned on 17th May, 2000)</i>
Peter Kin Ngok Lam	
Henry Michael Pearson Miles*	<i>(appointed on 27th January, 2000)</i>
Simon Murray	<i>(appointed on 27th January, 2000)</i>
Robert John Richard Owen*	<i>(appointed on 27th January, 2000)</i>
Bernard Pouliot	<i>(resigned on 20th November, 2000)</i>
Michael Triguboff	<i>(appointed on 18th December, 2000)</i>
George Kin Wah Wong	
Hongqing Zheng	

* Independent Non-executive Directors



In accordance with Article 86(3) of the Company's Articles of Association, Mr. Michael Triguboff, being a new Director appointed by the Board subsequent to the previous annual general meeting, will retire from office at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with Article 87(1) of the Company's Articles of Association, Messrs. Kuldeep Saran, Andrew Chun Keung Leung and William Bruce Hicks will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND MANAGEMENT EXECUTIVES

Biographical details of Directors and management executives are set out on pages 29 to 35.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has entered into or is proposing to enter into a service contract with the Company or its subsidiaries, which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under "Connected Transactions" below, no contracts of significance in relation to the Group's business 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.

MANAGEMENT CONTRACTS

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31st December, 2000, the interests of the Directors and chief executive in the securities of the Company and its associated corporation as recorded in the register kept by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company were as follows:

Interests in shares of the Company

Name of Director/Chief Executive	Number of Shares				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Edward Wai Sun Cheng (Note 1)	–	–	–	345,000,000	345,000,000
Craig Edward Ehrlich	500,000	–	–	–	500,000
Fergus Wilmer	800,000	–	–	–	800,000

Interests in shares of an associated corporation (within the meaning of the SDI Ordinance)

– Mandarin Communications Limited

Name of Director	Number of Shares				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Edward Wai Sun Cheng (Note 1)	–	–	–	188,100,000	188,100,000

Interests in share options of the Company

Name of Director/Chief Executive	Number of Share Options Granted (Note 2)
Richard John Siemens	15,000,000
Edward Wai Sun Cheng	15,000,000
Craig Edward Ehrlich	15,000,000
Kuldeep Saran	15,000,000
Andrew Chun Keung Leung	15,000,000
William Bruce Hicks	15,000,000
Fergus Wilmer	15,000,000

Notes:

- Mr. Edward Wai Sun Cheng is a beneficiary of a trust which assets include indirect interests in 21.4% of the issued share capital of USI Holdings Limited ("USI"). USI is interested in 345,000,000 shares of the Company and 188,100,000 non-voting deferred shares of Mandarin Communications Limited.
- The share options were granted to the above-mentioned Directors and chief executive on 31st May, 2000 pursuant to the Share Option Scheme adopted by the Company on 1st March, 2000. Such share options are exercisable at a price of HK\$1.01 per share for a period of ten years from 31st May, 2000 to 30th May, 2010, of which 40%, 30% and 30% are respectively exercisable after 12 months, 24 months and 36 months from the grant date.

During the year, none of the Directors or chief executive had exercised any share options in the Company.

Save as disclosed above, none of the Directors or chief executive of the Company nor their spouses or children under 18 years of age had any interests in, or had been granted or exercised, any rights to subscribe for any securities of the Company or any of its associated corporations during the year .

Save as disclosed above, at no time during the year was the Company or 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.



SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE COMPANY

As at 31st December, 2000, the following parties (other than a Director or chief executive of the Company) were, directly or indirectly, interested or deemed to be interested in 10% or more of the nominal value of the issued share capital of the Company as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance or as otherwise notified to the Company:

Name of shareholders	Note	Number of shares	Percentage of total issued shares
Distacom Communications Limited ("Distacom")	1	1,380,000,000	46.2%
Distacom International Limited	1	1,380,000,000	46.2%
Sinomax Captial Limited	1	1,380,000,000	46.2%
USI Holdings (B.V.I.) Limited	2	345,000,000	11.5%
USI Holdings Limited	3	345,000,000	11.5%

Notes:

1. These interests were held through Distacom's wholly-owned subsidiary, Distacom Hong Kong Limited. Each of Distacom International Limited and Sinomax Capital Limited, by virtue of their respective corporate interests in Distacom, was taken to be interested in the same 1,380,000,000 shares in which Distacom was interested. These shares therefore duplicate each other.
2. These interests were held through USI Holdings (B.V.I.) Limited's wholly-owned subsidiary, Townhill Enterprises Limited.
3. USI Holdings Limited was taken to be interested in 345,000,000 shares in the Company by virtue of its corporate interests in USI Holdings (B.V.I.) Limited. The 345,000,000 shares in which USI Holdings Limited was interested are the same parcel of shares referred to in "Other Interests" of Mr. Edward Wai Sun Cheng under "Directors' and Chief Executive's Interests in Securities". These shares therefore duplicate each other.

Save as disclosed above, the Company has not been notified of any interests representing 10% or more of the issued share capital of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

Since the listing of the Company's shares, the Company has not redeemed any of its shares, and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group earned less than 30% of its income from its five largest customers.

The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

Percentage of purchases attributable to the Group's largest supplier	18.4%
Percentage of purchases attributable to the Group's five largest suppliers	46.0%

None of the Directors or their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has interests in any of the major suppliers noted above.

CONNECTED TRANSACTIONS

The following connected transactions have been entered into and/or ongoing after the listing of the Company's shares on the Stock Exchange and the NASDAQ. The Stock Exchange has, subject to certain conditions, granted a waiver to the Company from strict compliance with the requirements as stipulated in Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in connection with these transactions.

- (a) The Group occupied various premises, under various tenancy agreements of varying duration, at Park Sun Factory Building as warehouses and switching centres which are leased/licenced from Lai Sun Textiles Company Limited, a company controlled by Mr. Por Yen Lim, the father of Mr. Peter Kin Ngok Lam, a Director of the Company. The monthly rentals of such leases range from HK\$2,000 to HK\$68,000.
- (b) The Group occupied certain premises and parts of Golden Era Plaza as a repair centre and an advertising light box under the tenancy and licence agreements with Honlink Development Limited ("Honlink"), a company controlled by Mr. Por Yen Lim. The lease/licence was for a term of two years and had expired on 27th January, 2001. The monthly rentals and licence fees amounted to HK\$36,000 in 2000.
- (c) The Group also occupied certain parts of various buildings owned or managed by Lai Sun Development Company Limited, some of its subsidiaries and Honlink which are all controlled by Mr. Por Yen Lim, for the purposes of installing and operating base transceiver stations, transmission sites and other related equipment for the Group's ordinary course of business. The term of each such licence is for a maximum period of 24 months and the monthly licence fees for the use of such premises range from HK\$1,000 to HK\$17,000.

For the year ended 31st December, 2000, the aggregate rental and licence fees incurred by the Group in respect of the above arrangements amounted to HK\$3,770,000 (1999: HK\$3,457,000). The amount has been included in operating lease charges paid to related companies as disclosed in note 24(b) to the accounts.

The independent Non-executive Directors of the Company have reviewed the above transactions and confirmed that:

- (a) the transactions are:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or on terms no less favourable than terms available to/from independent third parties;
 - (iii) conducted in accordance with the terms of the respective agreements governing such transactions; and
 - (iv) fair and reasonable so far as the shareholders of the Company are concerned; and
- (b) the aggregate rental and licence fees paid or payable by the Group in respect of the connected transactions for the financial year ended 31st December, 2000 do not exceed 1% of the total turnover of the Group for the preceding year.

SUBSEQUENT EVENTS

Details of the subsequent events are set out in note 25 to the accounts.



CORPORATE GOVERNANCE

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 Non-executive Directors of the Company were not appointed for a specific term but are subject to retirement by rotation according to the provisions of the Company's Articles of Association.

Executive Management Committee

An executive management committee consisting of all the Executive Directors of the Board was formed on 21st February, 2000 to formulate strategies and oversee operational matters of the Group. The committee meets regularly during the year.

Remuneration Committee

A remuneration committee of the Board of Directors was set up on 27th January, 2000 which consists of three members, namely, Messrs. Richard John Siemens, Edward Wai Sun Cheng and Henry Michael Pearson Miles to review the remuneration of the Directors and officers and such other relevant matters as directed by the Board from time to time. The remuneration committee meets at least once a year.

Share Option Scheme Committees

A committee consisting of Messrs. Richard John Siemens and Edward Wai Sun Cheng was formed to deal with the granting of share options under the Share Option Scheme of the Company. Another committee consisting of two independent Non-executive Directors, Messrs. Robert John Richard Owen and Henry Michael Pearson Miles was formed to deal with the granting of share options to the two Co-Chairmen of the Company.

Audit Committee

An audit committee of the Board of Directors was established on 27th January, 2000 with written terms of reference which set out the authorities and duties of the audit committee adopted by the Board on the even date. Its principal duties include the review and supervision of the Group's financial reporting processes and internal controls. The audit committee is composed of three Non-executive Directors, namely Messrs. Robert John Richard Owen, Henry Michael Pearson Miles and Simon Murray. The committee meets at least twice a year.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Richard John Siemens
Co-Chairman
15th March, 2001

Edward Wai Sun Cheng
Co-Chairman

