



VASO DIGITAL INTERNATIONAL HOLDINGS LIMITED

華索國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2002-2003

** For identification purposes only*

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Yasukawa Yoshihiro
Lee Chun Piu

Independent Non-executive Directors

Christopher Leu
Goh Gen Cheung

COMPANY SECRETARY

Wong Chi Ling, *ACCA, AHKSA*

QUALIFIED ACCOUNTANT

Wong Chi Ling, *ACCA, AHKSA*

COMPLIANCE OFFICER

Yasukawa Yoshihiro

AUTHORISED REPRESENTATIVES

Yasukawa Yoshihiro
Lee Chun Piu

AUDIT COMMITTEE

Christopher Leu
Goh Gen Cheung

AUDITORS

RSM Nelson Wheeler
Certified Public Accountants

PRINCIPAL BANKERS

DBS Kwong On Bank
Standard Chartered Bank

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 4, 4th Floor
Nan Fung Commercial Centre
19 Lam Lok Street
Kowloon Bay
Kowloon
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICES

Principal registrar

Bank of Bermuda (Cayman) Limited
P.O. Box 513 G.T.
36C Bermuda House
3rd Floor
Dr. Roy's Drive
Grand Cayman
Cayman Islands
British West Indies

Branch registrar

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Legal advisers to the Company

As to Hong Kong Law:
Vincent T.K. Cheung, Yap & Co.

As to Cayman Islands Law:
Conyers Dill & Pearman, Cayman

SPONSOR

Kingston Corporate Finance Limited

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I hereby present the first annual report of Vaso Digital International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31st March 2003 to our shareholders after the successful listing of the shares of the Company on GEM of the Stock Exchange on 12th November 2002.

BUSINESS REVIEW AND OUTLOOK

The turnover for the Group has increased from approximately HK\$15,254,000 in the previous corresponding year to approximately HK\$42,039,000 in the year ended 31st March 2003, an increase of approximately 176%. The increase has come principally from the sales of DVD players by the Group during the year.

Profit attributable to shareholders for the year ended 31st March 2003 amounted to approximately HK\$2,886,000, an increase of approximately 261% compared to the previous corresponding year. The increase was mainly attributable to an increase in the turnover. However, the administrative expenses increased by approximately 44% compared to the previous corresponding year. The increase was mainly due to an increase in administrative expenses following the listing of the shares of the Company on GEM. Other operating expenses also increased by approximately 81% to approximately HK\$865,000 in the year ended 31st March 2003 as compared to the previous corresponding year. The increase was as a result of the increase in research and development expenses by the Group.

The year ended 31st March 2003 has been a difficult year due to the gloomy business environment. The global consumer market, inevitably affected by the economic downturn, was further hampered by the war in the Middle East. To remain competitive, the Group has reduced its selling price, introduced new models and implemented stringent costs control to remain competitive.

Looking into the future, the Group will continue to implement its strategies of increasing marketing efforts, controlling costs and introducing new products to remain competitive. With a population of 1.3 billion and its robust economic development, the PRC market is a market that no one can afford to overlook. The Company will not succumb to challenges, but instead, we will become even more motivated to overcome these difficulties and to achieve improvements.

Finally I would like to take this opportunity to thank our staff for their dedication and loyalty, and our shareholders for their continuous support.

Yasukawa Yoshihiro
Chairman

Hong Kong, 25th June 2003

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW

General

The Group is principally engaged in the development, design and sale of digital AV products which include integrated circuit recorder ("IC recorders"), mpeg-1 audio layer-3 players ("MP3 players") and digital versatile disc ("DVD players") for the mid-price segment of the market. It is the objective of the Group to be a leading provider and developer of digital audio and visual ("AV") products in the Asia market.

The year ended 31st March 2003 has been a difficult year due to the gloomy business environment. The global consumer market, inevitably affected by the economic downturn, was further hampered by the war in the Middle East. To remain competitive, the Group has reduced its selling price, introduced new models and implemented stringent costs control to remain competitive.

FINANCIAL REVIEW

Results

During the year ended 31st March 2003, the Group recorded a turnover of approximately HK\$42,039,000, representing an increase of approximately 176% from the previous corresponding year. Profit attributable to shareholders increased to approximately HK\$2,886,000 from approximately HK\$800,000 in the previous corresponding year, representing an increase of approximately 261%.

The increase in turnover was mainly attributable to the increase in sales of DVD players and the increase in net profit was mainly attributable to the increase in turnover.

Liquidity, financial resources and capital structure

As at 31st March 2003, the Group had total assets of approximately HK\$40,325,000 (31st March 2002: approximately HK\$3,080,000) of which approximately HK\$8,540,000 was cash and bank balances and HK\$1,722,000 was pledged bank deposits (31st March 2002: approximately HK\$244,000 and Nil respectively).

During the year ended 31st March 2003, the Group financed its operations mainly with its own working capital and was granted banking facilities of HK\$10 million as at 31st March 2003 (31st March 2002: Nil). As at 31st March 2003, the Group had approximately HK\$1,722,000 outstanding bank overdrafts (31st March 2002: Nil) and has no borrowings stated at fixed interest rates (31st March 2002: Nil). As at 31st March 2003, approximate HK\$1,722,000 of the Group's assets were pledged for the banking facilities utilised (31st March 2002: Nil).

The debt ratio (defined as total liabilities over total assets) of the Group as at 31st March 2003 was approximately 0.42 (31st March 2002: approximately 0.55).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

Liquidity, financial resources and capital structure (continued)

The Group's transactions during the year were denominated in Hong Kong ("HK") Dollars, Renminbi ("RMB") and United States ("US") Dollars. As the exchange rate of RMB and US Dollars to HK Dollars is fairly stable, the Directors are of the view that the Group's exposure to foreign currency exchange risk is limited and hence, no hedging or other arrangements to reduce the currency risk have been implemented.

Segment information

Sales of the Group comprise sales of the three major product lines of the Group, which are IC recorders, MP3 players and DVD players. During the year under review, the sales of IC recorders, MP3 players and DVD players accounted for approximately 27%, 28% and 45% of the Group's turnover respectively compared to approximately 52%, 36% and 12% respectively of the Group's turnover in the previous corresponding year.

The principal markets of the Group's products are the People's Republic of China (the "PRC") (including Hong Kong) and Japan. The sales to PRC and Japanese markets represent approximately 91% and 9% of the Group's turnover in the year under review as compared to 39% and 61% respectively in the previous corresponding year.

Details of the business and geographical segments are disclosed in note 4 to the financial statements.

New products/Group's order book

The group introduced 7 new models of digital AV products during the year.

The Group will continue to step up its efforts in developing new products and new models of existing products and to improve the quality, performance and functionality of the Group's products in order to achieve its objective of becoming a leading provider and developer of digital AV products in the Asian market.

As at 31st March 2003, the Group's orders on hand were approximately HK\$5 million on the three major product lines of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

Significant investments

As at 31st March 2003, there was no significant investment held by the Group (2002: Nil).

Material acquisition or disposal of subsidiaries and affiliated companies

Other than in connection with the Group Reorganisation in preparation for the listing of the Company's shares on GEM on 12th November 2002, there were no material acquisition or disposal of subsidiaries and affiliated companies in the course of the year.

Employee and remuneration policies

As at 31st March 2003, the Group employed a total of 18 (31st March 2002: 11) employees, including directors.

The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operated a share option scheme where options to subscribe for shares of the Company may be granted to the Directors and employees of the Group.

Future plans for material investments or capital assets and expected sources of funding

Details of the Group's future plans for material investments or capital assets and their expected source of funding have been stated in the paragraph headed "Statement of Business Objectives" and "Reasons for the Placing and the Use of Proceeds" respectively under the section headed "Future Plans and Prospects" in the Company's prospectus dated 30th October 2002 (the "Prospectus").

Contingent liabilities

As at 31 March 2003, the Company executed a corporate guarantee as part of the security for general banking facilities granted to a subsidiary to the extent of HK\$10,000,000 (31st March 2002: Nil).

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual progress of the Group compared with the business objectives set out in the Prospectus for the period from 24th October 2002 (Latest Practicable Date) to 31st March 2003 (the "Review Period").

According to the business objectives as stated in the Prospectus

Actual business progress in the Review Period

Marketing and promotion

Build and promote the "V" and "C" trademarks via advertisements and by participating in trade exhibitions and seminars.

The Group has applied for registration of the trademarks in Hong Kong. These applications are subject to approval by the Trade Marks Registry in Hong Kong and barring any unforeseen circumstances, the Directors expect that the Group should obtain the relevant trademark registrations before the year ending 31st March 2004. Pending the approval of the trademarks, the Group is of the opinion that it is not suitable to promote such trademarks.

Launch and promote the Group's digital AV products

- IC recorders with MP3 players and FM features
- IC recorders/MP3 players with extended compression memory features
- IC recorders/MP3 players with built in slots for memory sticks/cards

The Group continues to promote these products through joint marketing efforts with existing customers.

The Group continues to promote these products through joint marketing efforts with existing customers.

The Group has commenced to promote these products through joint marketing efforts with existing customers.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Research and product development

Upgrade features of existing digital AV products:

- | | |
|--|--|
| <ul style="list-style-type: none"> - IC recorders with MP3 players and FM features | <p>The Group continues to perform research and development to upgrade IC recorders with MP3 players and FM features. The Group expects to complete the research and development before 31st March 2004.</p> |
| <ul style="list-style-type: none"> - IC recorders/MP3 players with extended compression memory features | <p>The Group continues to perform research and development to upgrade IC recorders/MP3 players with extended compression memory features. The Group expects to complete the research and development before 31st March 2004.</p> |
| <ul style="list-style-type: none"> - IC recorders/MP3 players with built in slots for memory sticks/cards | <p>The Group has commenced research and development to upgrade IC recorders/MP3 players with built in slots for memory sticks/cards. The Group expects to complete the research and development before 30th September 2004.</p> |

Geographical expansion

Form joint marketing distribution arrangements with distributors to promote the Group's products in the PRC.

The Group has formed alliances with a distributor in the PRC to promote the Group's products in the PRC.

Expansion into overseas markets such as the US and Europe by entering into joint marketing/distribution arrangements with distributors to promote the Group's products.

Owing to the uncertain situations in the US and the Middle East, the Group has delayed expansion into new overseas markets and concentrate its resources on the PRC and Japanese markets.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Setting up production facilities

Set up production facilities in the PRC.

The Group has set up production facilities in Shenzhen, Guangdong Province, PRC. The Group has commenced acquiring plant, machinery and production facilities. Owing to the time required to set up a Wholly Foreign Owned Enterprise and higher set up costs, the Group has established its production facilities through a processing agent in the PRC. The Group will review the arrangements in due course and will, if required, change the legal entity for its production facilities in the PRC.

Human resources development

Expand the research team by recruiting additional engineers.

As at 31st March 2003, there was 5 staff at the design and development department (31st March 2002: 2)

Expand the sales team in Hong Kong and PRC by recruiting additional staff members.

As at 31st March 2003, there was 4 staff at the sales and marketing department (31st March 2002: 4)

Set up a representative office in Shenzhen, PRC.

Owing to the uncertain economic environment and for costs reason, the Group has formed an alliance with a distributor in the PRC, who will perform similar functions as a representative office. Accordingly, the Group intends to suspend such plan of setting up a representative office in Shenzhen and will review its decision when appropriate.

Set up a representative office in Tokyo.

Owing to the uncertain economic environment and for costs reason, the Group has come to an agreement with one of its customers in Japan to perform similar functions as a representative office. Accordingly, the Group intends to suspend such plan of setting up a representative office in Tokyo and will review when appropriate.

Recruit sales team for major overseas markets such as the US and Europe.

Owing to the uncertain situations in the US and the Middle East, the Group has delayed expansion into new overseas markets and concentrate its resources on the PRC and Japanese markets.

USE OF PROCEEDS

The shares of the Company were listed on GEM by way of placing of 105,300,000 shares (comprising 80,000,000 new Shares (the "New Shares") and 25,300,000 Sale Shares) on 12th November 2002. The net proceeds (after deducting listing expenses) from the issue of New Shares were approximately HK\$13,000,000.

During the Review Period, the Group has applied the net proceeds as follows:

	Amount extracted from the Prospectus <i>HK\$'000</i>	Actual usage <i>HK\$'000</i>
Setting up production facilities (Note)	5,000	1,300
Geographical expansion	500	500
Research and product development	500	500
Marketing and promotion	500	500
Total	6,500	2,800

Note:

The Group intends to utilise the remaining unused proceeds in subsequent periods. The delay in the utilisation was due to the decision by the Group to acquire the plant, machinery and production facilities in stages to ensure a smooth set up.

The remaining net proceeds as at 31st March 2003 of approximately HK\$10.2 million was placed on short term deposits with a licenced bank in Hong Kong.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Yasukawa Yoshihiro (安川義宏), aged 51, is the Chairman, Chief Executive Officer and Co-founder of the Group. Mr. Yasukawa is responsible for the overall strategic planning and management of the Group and overseeing the sales and marketing functions of the Group. Mr. Yasukawa has over thirty years experience in sales and marketing in the electronics industry. Mr. Yasukawa graduated from Kashri Technical High School in Japan, majoring in electronics. He was appointed as an executive Director in June 2002.

Lee Chun Piu (李俊彪), aged 45, is the Chief Operation Officer and Co-founder of the Group. Mr. Lee is responsible for the marketing, production and management functions of the Group. Mr. Lee has over twenty years experience in sales and marketing in the electronics industry. Mr. Lee graduated from St. Louis School in Hong Kong. Before the Group was founded in May 1999, Mr. Lee was formerly a manager of Alabross Electronics (China) Company Limited, which was then a subsidiary of Albatronics (Far East) Company Limited. He was appointed as an executive Director in June 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Christopher Leu (呂頌樂), aged 43, is an independent non-executive director of FX Creations International Holdings Limited, which is listed on the GEM. He holds a Bachelor of Science degree in Business and a Master of Science degree in Systems Management from the University of Southern California. He has over twenty years of finance and banking experience. He was appointed as an independent non-executive Director in June 2002.

Goh Gen Cheung (葛根祥), aged 56, is an independent non-executive director of Peaktop International Holdings Limited, Karce International Holdings Limited and Sun East Technology Holdings Limited, companies listed on the Main Board of the Stock Exchange. He has over thirty years of treasury, finance and banking experience. Mr. Goh is an associate member of the Chartered Institute of Bankers and holds a Master's Degree in Business Administration. He was appointed as an independent non-executive Director in June 2002.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Wong Chi Ling, aged 31, is the accounting manager and company secretary of the Group. Ms. Wong is responsible for the accounting and finance functions of the Group. She holds a Bachelor of Arts in Accountancy (Honours) from the Hong Kong Polytechnics. She is also an associate member of Association of Chartered Certified Accountants, United Kingdom and associate member of the Hong Kong Society of Accountants. Ms. Wong has over five years experience working in commercial and public accountant's firm. Prior to joining the Group in May 2002, Ms. Wong worked as a manager in Rich Path Enterprises Limited, an accounting company.

Yanashima Shinichi (筵島慎一), aged 44, is the Vice President for marketing of the Group. Mr. Yanashima is responsible for the sales and marketing of the Group in Hong Kong. He holds a Bachelor of Arts in Law from the Kanagawa University in Japan. Mr. Yanashima has over ten years of experience in sales and marketing in the electronics industry. Before joining the Group in April 2002, he was the business manager of Huabao Electronics and Appliance Limited.

Fong Siang (馮湘), aged 44, is the chief technology officer of the Group. Mr. Fong is responsible for the design, research and development functions of the Group. He holds a 工學學士學位 in 計算機控制 from 北京理工大學 in the PRC and has over fifteen years experience in research and development in the electronics industry. Before joining the Group in January 2003, he was the manager of a research and development department of a private company in Shenzhen, PRC.

DIRECTORS' REPORT

The directors submit their first report together with the audited financial statements of Vaso Digital International Holdings Limited (the "Company") for the period from 27th June 2002 (date of incorporation) to 31st March 2003.

1. GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27th June 2002 under the Companies Law (Revised) of the Cayman Islands. Pursuant to a group reorganisation scheme ("Group Reorganisation") of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 19th October 2002. Details of the Group Reorganisation are set out in the paragraph headed "Corporate Reorganisation" in Appendix IV to the prospectus (the "Prospectus") of the Company dated 30th October 2002.

The shares of the Company have been listed on GEM since 12th November 2002.

2. PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 28 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the financial statements.

3. RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March 2003 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 20 to 47.

The directors do not recommend the payment of any dividend for the year ended 31st March 2003.

4. RESERVES

Details of the movements in the reserves of the Group and the Company during the year/period are set out in consolidated statement of changes in equity on page 23 and note 23(a) to the financial statements respectively.

5. FIXED ASSETS

Details of the movements in the fixed assets of the Group are set out in note 14 to the financial statements.

DIRECTORS' REPORT

6. SHARE CAPITAL

Details of the movement of the share capital of the Company are set out in note 21 to the financial statements.

7. DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st March 2003 amounted to HK\$15,894,000. Under Section 34 of the Companies Law (Revised) of the Cayman Islands, the share premium is available for distribution to shareholders of the Company subject to the provisions of the articles of association of the Company and no distribution shall be paid to shareholders out of the share premium unless the Company shall be able to pay its debts as they fall due in the ordinary course of business.

8. THREE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three financial years is set out on page 48.

9. PURCHASE, SALE OR REDEMPTION OF SHARES

Since the listing of the Company's shares on GEM on 12th November 2002 and up to the date of this report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

10. SHARE OPTIONS

Pursuant to the written resolutions of the sole shareholder of the Company passed on 19th October 2002, the Company adopted a share option scheme, the principal terms of which are set out in the paragraph headed "Share Option Scheme" in Appendix IV to the Prospectus. As at 31st March 2003, no option had been granted or agreed to be granted by the Company under the share option scheme.

11. DIRECTORS

The directors of the Company during the period were:

Mr. Yasukawa Yoshihiro	– appointed on 28th June 2002
Mr. Lee Chun Piu	– appointed on 28th June 2002
Mr. Christopher Leu*	– appointed on 28th June 2002
Mr. Goh Gen Cheung *	– appointed on 28th June 2002

* Independent non-executive directors

In accordance with Article 86(3) of the articles of association of the Company, all the directors of the Company will retire at the forthcoming annual general meeting but, being eligible, will offer themselves for re-election.

DIRECTORS' REPORT

12. DIRECTORS' SERVICE CONTRACTS

Each of the two executive directors, Mr. Yasukawa Yoshihiro and Mr. Lee Chun Piu, has entered into a service agreement with Cyclone Technology Limited, a subsidiary of the Company, for an initial fixed period of two years commencing from 1st November 2002 and expiring on 31st October 2004 which shall thereafter automatically continue until terminated by either party giving not less than three months' prior notice in writing, as executive director of the Company's subsidiary and the Company.

The two executive directors together are entitled to a basic salary of HK\$360,000 per annum in aggregate which is subject to an annual review and in case of an increment then at a rate determined by the Company, provided that it shall not exceed 10% of the amount of such salary paid during the previous twelve-month period. In addition, each of the executive directors is also entitled to a discretionary bonus which shall be determined by the Company having regard to the operating results of the Group provided that the total sum of any discretionary bonus payable to all the executive directors in respect of any financial year shall not exceed 10% of the audited consolidated net profit after taxation of the Group in respect of the same financial year. The two executive directors shall not vote and shall not be counted in the quorum in respect of any resolution of the directors regarding the amount of the increment or discretionary bonus payable to them. Mr. Yasukawa Yoshihiro is also entitled to a housing allowance of HK\$8,500 per month.

Save as disclosed above, none of the directors who are proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

13. BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out under the section headed "Directors and Senior Management" in the annual report.

14. DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company 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.

15. CONNECTED TRANSACTIONS

As at 31st March 2003, no connected transactions were entered into by the Group under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

DIRECTORS' REPORT

16. DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st March 2003, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or otherwise notified to the Company pursuant to the minimum standards of dealings by directors as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules, the interests of directors and chief executive in the Company's issued share capital were as follows:

Director	Number of shares				Total interests
	Corporate interests	Personal interests	Family interests	Other interests	
Mr. Yasukawa Yoshihiro	364,000,000 (Note)	-	-	-	364,000,000

Note: These shares are registered in the name of Share Able Investments Limited ("Share Able"). Share Able is beneficially owned by Upgain Ventures Group Limited ("Upgain"), Number Great Investments Limited ("Number Great") and UPB Group Inc. ("UPB") in the proportion of 45%, 27.5% and 27.5% respectively. Mr. Yasukawa Yoshihiro holds 60% and 100% equity interests in Upgain and UPB respectively. Mr. Lee Chun Piu holds 20% equity interests in Upgain.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance. Other than in connection with the Group Reorganisation in preparation for the listing of the shares of the Company on GEM, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director of their respective spouse or children under 18 years of age, or where any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

17. SUBSTANTIAL SHAREHOLDERS

As at 31st March 2003, according to the register required to be kept by the Company under Section 16(1) of the SDI Ordinance, the following person was interested in 10% or more of the Company's issued share capital:

Name	Number of shares held	Approximate percentage of the shareholding in the Company
Share Able (Note)	364,000,000	70%

Note: Share Able is beneficially owned by Upgain, UPB and Number Great in the proportion of 45%, 27.5% and 27.5% respectively. Upgain is 60% owned by Mr. Yasukawa Yoshihiro and 20% owned by Mr. Lee Chun Piu. UPB is 100% owned by Mr. Yasukawa Yoshihiro. Accordingly, each of Upgain and Mr. Yasukawa Yoshihiro is deemed to be interested in the shares of the Company held by Share Able under the SDI Ordinance.

DIRECTORS' REPORT

17. SUBSTANTIAL SHAREHOLDERS (continued)

Save as disclosed above, no person, other than the directors, whose interests are set out above, has registered any interests in the share capital of the Company that were required to be disclosed under Section 16(1) of the SDI Ordinance.

18. MANAGEMENT CONTRACTS

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

19. MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases	
– the largest supplier	46%
– five largest suppliers combined	100%
Sales	
– the largest customer	25%
– five largest customers combined	78%

None of the directors of the Company, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the major suppliers or customers noted above.

20. SPONSOR'S INTEREST

According to a sponsorship agreement entered between the Company and Kingston Corporate Finance Limited (the "Sponsor"), for a fee, the Sponsor acts as the Company's continuing sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the period from 12th November 2002 to 31st March 2005.

As notified by the Sponsor, as at 31st March 2003, neither the Sponsor nor its directors or employees or associates, had any interests in the securities of the Company or any member of the Group, or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

21. COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules, since the listing of the Company's shares on GEM on 12th November 2002.

DIRECTORS' REPORT

22. RETIREMENT BENEFITS SCHEME

The Group complies with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) in making mandatory contributions for its staff in Hong Kong.

23. AUDIT COMMITTEE

The Company established an audit committee on 19th October 2002 with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The Group's financial statements for the year ended 31st March 2003 have been reviewed by the audit committee, who is of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures have been made.

The audit committee has two members comprising the two independent non-executive directors, Mr. Christopher Leu and Mr. Goh Gen Cheung. The audit committee held two meetings since the committee was established and performed the functions specified in the GEM Listing Rules.

24. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at 31st March 2003, none of the directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

25. PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company and there are no restrictions against such rights under the laws in the Cayman Islands.

26. AUDITORS

RSM Nelson Wheeler were appointed as auditors of the Company to fill the casual vacancy upon the resignation of Ernst & Young. A resolution will be proposed at the annual general meeting to re-appoint the auditors, RSM Nelson Wheeler.

On behalf of the Board
Yasukawa Yoshihiro
Chairman

25th June 2003

AUDITORS' REPORT

RSM Nelson Wheeler

羅 申 美 會 計 師 行

Certified Public Accountants

TO THE SHAREHOLDERS OF VASO DIGITAL INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 20 to 47 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

25th June 2003

CONSOLIDATED INCOME STATEMENT*For the year ended 31st March 2003*

	Note	2003 HK\$'000	2002 HK\$'000
Turnover	5	42,039	15,254
Cost of sales		(35,157)	(11,941)
Gross profit		6,882	3,313
Other revenue	5	34	5
Distribution expenses		(88)	(128)
Administrative expenses		(2,749)	(1,912)
Other operating expenses		(865)	(478)
Profit from operations	6	3,214	800
Finance costs	7	(122)	–
Profit before taxation		3,092	800
Taxation	10(a)	(206)	–
Profit attributable to shareholders	11	2,886	800
Dividend	12	–	–
Earnings per share – basic	13	0.61 cent	0.18 cent

CONSOLIDATED BALANCE SHEET

At 31st March 2003

	Note	2003 HK\$'000	2002 HK\$'000
ASSETS			
Non-current assets			
Fixed assets	14	842	72
Non-trading securities	16	4,000	–
		4,842	72
Current assets			
Trade receivables	17	22,138	1,301
Prepayments, deposits and other receivables		3,083	1,063
Amount due from a director	18	–	400
Pledged bank deposits	19	1,722	–
Cash and bank balances		8,540	244
		35,483	3,008
Current liabilities			
Trade payables	20	14,410	1,473
Accrued liabilities and other payables		719	233
Tax liabilities	10(b)	206	–
Bank overdraft	19	1,722	–
		17,057	1,706
Net current assets		18,426	1,302
NET ASSETS		23,268	1,374
CAPITAL AND RESERVES			
Share capital	21	5,200	78
Reserves		18,068	1,296
SHAREHOLDERS' FUNDS		23,268	1,374

Yasukawa Yoshihiro
Director

Lee Chun Piu
Director

BALANCE SHEET

At 31st March 2003

	Note	HK\$'000
ASSETS		
Non-current assets		
Interests in subsidiaries	15	21,246
Current assets		
Cash and bank balances		8
Current liabilities		
Accrued liabilities and other payables		160
Net current liabilities		(152)
NET ASSETS		21,094
CAPITAL AND RESERVES		
Share capital	21	5,200
Reserves	23	15,894
SHAREHOLDERS' FUNDS		21,094

Yasukawa Yoshihiro
Director

Lee Chun Piu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the year ended 31st March 2003*

	Share capital (note 21) HK\$'000	Reserves		Total HK\$'000
		Share premium (note 23(b)) HK\$'000	Accumulated (losses)/ profits HK\$'000	
At 1st April 2001	78	3,930	(3,434)	574
Net profit for the year	–	–	800	800
At 31st March 2002	78	3,930	(2,634)	1,374
Issue of shares for cash to Pre-IPO Investors (note 21(c))	10	5,990	–	6,000
Capitalisation on issue of shares (note 21(d))	4,312	(4,312)	–	–
Issue of shares for cash by means of placing (note 21(d))	800	19,200	–	20,000
Expenses incurred in connection with the issue of shares	–	(6,992)	–	(6,992)
Net profit for the year	–	–	2,886	2,886
At 31st March 2003	5,200	17,816	252	23,268

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2003

	Note	2003 HK\$'000	2002 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		3,092	800
Adjustments for:			
Depreciation		73	39
Interest income		(34)	(4)
Interest expenses		122	–
Operating cash flows before movements in working capital		3,253	835
Increase in trade receivables		(20,837)	(289)
(Increase)/decrease in prepayments, deposits and other receivables		(2,020)	792
Decrease in amount due from a director		400	484
Increase/(decrease) in trade payables		12,937	(245)
Decrease in accrued liabilities and other payables		(2,506)	(783)
Net cash (used in)/generated from operations		(8,773)	794
Interest paid		(122)	–
Net cash (used in)/generated from operating activities		(8,895)	794
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(843)	(18)
Payments for acquisition of a subsidiary	24	(1,008)	–
Increase in pledged bank deposits		(1,722)	–
Interest received		34	4
Net cash used in investing activities		(3,539)	(14)

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31st March 2003*

	Note	2003 HK\$'000	2002 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares to Pre-IPO Investors (note 21(c))		6,000	–
Proceeds from new issue of shares less issue expenses		13,008	–
Repayment to a director		–	(568)
Net cash generated from/(used in) financing activities		19,008	(568)
NET INCREASE IN CASH AND CASH EQUIVALENTS		6,574	212
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		244	32
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		6,818	244
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		8,540	244
Bank overdraft	19	(1,722)	–
		6,818	244

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

1. GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 27th June 2002 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands.

Pursuant to a group reorganisation scheme ("Group Reorganisation") of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 19th October 2002. The shares of the Company have been listed on the GEM since 12th November 2002. This was accomplished by the Company acquiring the entire issued share capital of Dynamic Choice Technology Limited, the then holding company of other subsidiaries set out in note 28 to the financial statements. Further details of the Group Reorganisation are set out in note 21 to the financial statements and in the prospectus (the "Prospectus") issued by the Company dated 30th October 2002.

The Company is an investment holding company and the principal activities of the Group are the development, design and sales of digital, audio and visual products.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

In the current year, the Group has adopted, for the first time, the following new and revised SSAPs issued by the Hong Kong Society of Accountants.

- | | | |
|---------------------|---|--------------------------------------|
| • SSAP 1 (Revised) | : | Presentation of financial statements |
| • SSAP 15 (Revised) | : | Cash flow statements |
| • SSAP 34 | : | Employee benefits |

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 15 prescribes the format for the cash flow statement. The impact of the revision of this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the cash flow statement in the financial statements and the notes thereto have been revised in accordance with the new requirements.

SSAP 34 prescribes the recognition, measurement and disclosure requirements for employee benefits. The adoption of this SSAP has not resulted in any significant provision for additional liability in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified by the revaluation of non-trading securities.

The principal accounting policies which conform with accounting principles generally accepted in Hong Kong are as follows:

(a) Basis of consolidation and preparation of financial statements

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation completed on 19th October 2002. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented, rather than from the date of acquisition of the subsidiaries, except for Everyday Investments Limited ("Everyday") which was acquired from an independent third party subsequent to the completion of the Group Reorganisation and are therefore consolidated from its effective date of acquisition. Accordingly, the results of the Group for the years ended 31st March 2003 and 2002 include the results of the Company and its subsidiaries, except for Everyday, with effect from 1st April 2001 or since their respective dates of incorporation where this is a shorter period, and the results of Everyday since its date of acquisition. The comparative consolidated balance sheet as at 31st March 2002 has been prepared on the basis that the existing Group had been in place at that date.

Since the Company was incorporated on 27th June 2002, no comparative amounts as at 31st March 2002 have been presented in the Company's balance sheet.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

(b) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31st March 2003***3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(c) Investments in subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(d) Revenue recognition

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Interest income is accrued on a time proportion basis, taking into account the principal amounts outstanding and at the interest rates applicable.

(e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of fixed assets, using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

Plant and machinery	10%
Furniture, fixtures and equipment	20%
Computers	25%

The gain or loss arising from disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(g) Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis, over the commercial lives of the underlying products of not exceeding five years, commencing from the date when the products are put into commercial production.

During the year ended 31st March 2003, all development costs have been expensed as no expenses satisfied the criteria for capitalisation as an asset.

(h) Trade receivables

Trade receivables, which generally have credit terms of 60-90 days, are recognised and carried at the original invoiced amount, less provisions for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

(j) Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expenses are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

(k) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, the rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

(l) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The MPF Scheme has operated since 1st December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed to the MPF Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

(n) Foreign currencies

Transactions in currencies other than Hong Kong Dollars are initially recorded at the rates of exchange ruling on dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

(o) Non-trading securities

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the income statement.

Where there is objective evidence that individual investments are impaired the cumulative loss recorded in the revaluation reserve is taken to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets and receivables, and mainly exclude non-trading securities and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately, according to the nature of their operations and the products and services they provided. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments.

For management purposes, the Group is currently organised into the following business segments – integrated circuit recorder ("IC recorders") product segment, mpeg-1 audio layer-3 players ("MP3 players") product segment and digital versatile disc ("DVD players") product segment. These divisions are the basis on which the Group reports its primary segment information.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present turnover, results and certain assets, liabilities and expenditure information of the Group's business segments.

For the year ended 31st March 2003

	IC recorders HK\$'000	MP3 players HK\$'000	DVD players HK\$'000	Con- solidated HK\$'000
TURNOVER				
External sales	11,290	11,952	18,797	42,039
RESULTS				
Segment results	2,191	2,614	1,964	6,769
Interest income				34
Finance costs				(122)
Unallocated costs				(3,589)
Profit before taxation				3,092
Taxation				(206)
Net profit for the year				2,886
As at 31st March 2003				
ASSETS				
Segment assets	2,993	4,325	18,612	25,930
Unallocated assets				14,395
				40,325
LIABILITIES				
Segment liabilities	14	14	14,382	14,410
Unallocated liabilities				2,647
				17,057
OTHER INFORMATION				
Capital expenditure	-	-	826	826
Unallocated capital expenditure				17
				843
Depreciation	-	-	33	33
Unallocated depreciation				40
				73

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

For the year ended 31st March 2002

	IC recorders HK\$'000	MP3 players HK\$'000	DVD players HK\$'000	Con- solidated HK\$'000
TURNOVER				
External sales	7,956	5,408	1,890	15,254
RESULTS				
Segment results	1,807	1,027	377	3,211
Interest income				4
Unallocated costs				(2,415)
Profit before taxation				800
Taxation				–
Net profit for the year				800
As at 31st March 2002				
ASSETS				
Segment assets	816	1,355	130	2,301
Unallocated assets				779
				3,080
LIABILITIES				
Segment liabilities	778	695	–	1,473
Unallocated liabilities				233
				1,706
OTHER INFORMATION				
Unallocated capital expenditure				18
Unallocated depreciation				39

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

In determining the Group's geographical segments, revenue is attributable to segments based on the location of customers and assets are attributable to the segments based on the location of the assets.

Geographical segments are as follows:

For the year ended 31st March 2003

	PRC (including Hong Kong) HK\$'000	Japan HK\$'000	Others HK\$'000	Con- solidated HK\$'000
TURNOVER				
External sales	38,177	3,746	116	42,039
ASSETS				
Segment assets	40,325	–	–	40,325
OTHER INFORMATION				
Capital expenditure	843	–	–	843

For the year ended 31st March 2002

	PRC (including Hong Kong) HK\$'000	Japan HK\$'000	Others HK\$'000	Con- solidated HK\$'000
TURNOVER				
External sales	5,947	9,307	–	15,254
ASSETS				
Segment assets	2,533	547	–	3,080
OTHER INFORMATION				
Capital expenditure	18	–	–	18

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

5. TURNOVER AND REVENUE

Turnover represents the invoiced value of goods sold, after allowance for returns and trade discount when applicable. All significant intra-Group transactions have been eliminated on consolidation.

	2003 HK\$'000	2002 HK\$'000
Turnover	42,039	15,254
Other revenue		
Exchange gains	-	1
Interest income	34	4
	34	5
Total revenue	42,073	15,259

6. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2003 HK\$'000	2002 HK\$'000
Auditors' remuneration	320	100
Depreciation	73	39
Operating lease rentals in respect of rented premises	227	202
Research and development expenditures	865	478
Staff costs (excluding directors' emoluments in note 8)		
Wages and salaries	598	718
Retirement benefits scheme contributions	31	59
	629	777

7. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank overdrafts	122	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

8. DIRECTORS' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
Fees		
Executive directors	–	–
Independent non-executive directors	50	–
	50	–
Other emoluments (executive directors)		
Salaries, housing benefits and other benefits	532	375
Retirement benefits scheme contributions	12	11
	544	386
	594	386

All of the directors' emoluments fell within the nil to HK\$1,000,000 band for the two years.

The Company's executive directors received emoluments of approximately HK\$317,000 (2002: HK\$304,000) and HK\$227,000 (2002: HK\$82,000) respectively for the year ended 31st March 2003.

One of the non-executive directors received emoluments of HK\$50,000 (2002: Nil) for the year ended 31st March 2003. No emoluments were paid to the remaining non-executive director during the current and prior years.

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included two (2002: one) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining three (2002: four) individuals were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries, housing benefits and other benefits	427	545
Retirement benefits scheme contributions	22	33
	449	578

The emoluments of the three (2002: four) non-directors, highest paid individuals fell within the nil to HK\$1,000,000 band for the two years. No emoluments were paid by the Group to the directors and the highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office and no director waived any emoluments.

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31st March 2003***10. TAXATION**

(a) The amount of taxation in the consolidated income statement represents:

	2003 HK\$'000	2002 HK\$'000
Provision for the year – Hong Kong profits tax	206	–

Hong Kong profits tax has been provided at the rate of 16% (2002: Nil) on the estimated assessable profits arising in Hong Kong during the year.

(b) The amount of taxation in the consolidated balance sheet represents:

	2003 HK\$'000	2002 HK\$'000
Provision for Hong Kong profits tax	206	–

(c) No provision for deferred tax has been made as the net effect of all temporary timing differences is immaterial.

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$20,000 for the period from 27th June 2002 (date of incorporation) to 31st March 2003.

12. DIVIDEND

The board of directors has not recommended the payment of any dividend for the year ended 31st March 2003 (2002: Nil).

13. EARNINGS PER SHARE – BASIC

The calculation of the basic earnings per share for the year is based on the profit for the year of HK\$2,886,000 (2002: HK\$800,000) and on the weighted average of 473,333,333 (2002: 440,000,000) shares that would have been in issue throughout the year on the assumption that the Group Reorganisation has been completed as at 1st April 2001.

There is no diluted earnings per share because there were no potential dilutive ordinary shares outstanding during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

14. FIXED ASSETS

THE GROUP

	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Computers HK\$'000	Total HK\$'000
Cost				
At 1st April 2002	–	100	73	173
Additions	656	79	108	843
At 31st March 2003	656	179	181	1,016
Accumulated depreciation				
At 1st April 2002	–	58	43	101
Charge for the year	22	26	25	73
At 31st March 2003	22	84	68	174
Net book value				
At 31st March 2003	634	95	113	842
At 31st March 2002	–	42	30	72

15. INTERESTS IN SUBSIDIARIES

	The Company 2003 HK\$'000
Unlisted shares, at cost	2,066
Amounts due from subsidiaries	19,180
	21,246

The amounts due are unsecured, interest free and repayable on demand.

Details of the subsidiaries are set out in note 28.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

16. NON-TRADING SECURITIES

	2003 HK\$'000	2002 HK\$'000
Equity securities, at market value Listed in Hong Kong	4,000	–

17. TRADE RECEIVABLES

The credit period allowed by the Group to its customers is normally 60 – 90 days.

The aged analysis of trade receivables is as follows:

	2003 HK\$'000	2002 HK\$'000
Within 30 days	10,091	1,301
31 – 60 days	6,546	–
61 – 90 days	5,501	–
	22,138	1,301

18. AMOUNT DUE FROM A DIRECTOR

Particulars of the amount due from a director of the Company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Director	Terms of advance	Balance at 1st April 2002 HK\$'000	Maximum amount outstanding during the year HK\$'000	Balance at 31st March 2003 HK\$'000
Mr. Yasukawa Yoshihiro	Unsecured, interest free and without fixed repayment terms	400	951	–

19. BANKING FACILITIES

At 31st March 2003, the Group had banking facilities totalling HK\$10,000,000. These banking facilities were secured by a corporate guarantee executed by the Company and the pledged bank deposits of HK\$1,722,000.

Banking facilities utilised at 31st March 2003 amounted to HK\$1,722,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

20. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	2003 HK\$'000	2002 HK\$'000
Within 30 days	5,528	937
31 – 60 days	5,699	536
61 – 90 days	3,183	–
	14,410	1,473

21. SHARE CAPITAL

Authorised

	Number of shares	HK\$'000
Shares of HK\$0.01 each on incorporation	10,000,000	100
Increase of share capital	9,990,000,000	99,900
Balance as at 31st March 2003	10,000,000,000	100,000

Pursuant to the written resolution passed on 19th October 2002 by the sole shareholder of the Company, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of 9,990,000,000 additional shares of HK\$0.01 each.

Issued and fully paid

	Note	Number of shares	HK\$'000
Shares of HK\$0.01 each			
Issue of shares	(a)	1	–
Issue of shares in accordance with the Group Reorganisation	(b)	7,785,999	78
Pro-forma share capital at 31st March 2002		7,786,000	78
Issue of shares to Pre-IPO Investors	(c)	1,014,000	10
Placing of new shares	(d)	80,000,000	800
Capitalisation on issue of shares	(d)	431,200,000	4,312
Balance as at 31st March 2003		520,000,000	5,200

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

21. SHARE CAPITAL (continued)

- (a) The Company was incorporated on 27th June 2002 with an authorised share capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each and one share of HK\$0.01 credited as fully paid, was issued and allotted to the subscriber of the Company.
- (b) On 19th October 2002, the Company issued a total number of 7,785,999 new shares of HK\$0.01 each for shares in a subsidiary, Dynamic Choice Technology Limited, pursuant to the Group Reorganisation, details of which were set out in the paragraph headed "Corporate Reorganisation" in Appendix IV of the Prospectus.
- (c) Basic Concept International Limited, Manifest Power Limited and Top Hunter Investments Limited (collectively referred to as the "Pre-IPO Investors") subscribed for 1,014,000 shares at the consideration of HK\$6,000,000 which was paid by the Pre-IPO Investors in September 2002. On 19th October 2002, the Company accordingly allotted and issued such number of shares to the Pre-IPO Investors.
- (d) On 8th November 2002, 80,000,000 shares of HK\$0.01 each were issued by way of placing at a price of HK\$0.25 per share (the "Placing") for a total cash consideration of HK\$20,000,000. The excess over the par value of the shares issued was credited to the share premium account. At the same date, 431,200,000 shares credited as fully paid, were allotted and issued at par to the shareholders whose names appeared on the register of members of the Company on 28th October 2002 in their existing holdings by way of capitalisation of a total sum of HK\$4,312,000 out of the share premium account of the Company arising from the Placing.

As the Company was incorporated on 27th June 2002, there were no issued share capital of the Company as at 31st March 2002.

All the shares which were issued during the period rank pari passu in all respects.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

22. SHARE OPTION SCHEME

The Company's share option scheme was adopted pursuant to written resolutions passed on 19th October 2002 (the "Scheme") for the primary purpose of providing incentives to directors, eligible employees and participants who have contributed to the Group, and will expire in 12th November 2012. Under the Scheme, the board of directors of the Company may grant options to full-time or part-time employees, including directors (executive and non-executive) and any advisor, consultant, supplier, distributor, contractor, agent, business partner, promoter, service provider or customer of the Company or any of its subsidiaries, to subscribe for shares in the Company.

Subject to the condition that the total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time, the total number of shares in respect of which options may be granted under the Scheme when aggregated with any shares subject to any other schemes is not permitted to exceed 10% of the shares of the Company immediately upon the listing of the shares on the Stock Exchange ("Scheme Mandate Limit"), without prior approval from the Company's shareholders. Options lapsed in accordance with the terms of the share option scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. The number of shares in respect of which options may be granted to any individual in aggregate within any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors or any of his, her or its associates in the 12-month period up to and including the date of offer of the option exceeding the higher of 0.1% of the Company's shares in issue and with a value in excess of HK\$5 million must be approved by the Company's shareholders.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price is determined by the board of directors of the Company and will not be less than the highest of the closing price of the Company's shares on the date of grant, the average closing prices of the shares for the five business days immediately preceding the date of grant and the nominal value of the Company's shares.

No option has been granted by the Company since the adoption of the Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

23. RESERVES

(a) The Company

	Share premium (note c) HK\$'000	Accumu- lated profits HK\$'000	Total HK\$'000
Pursuant to Group Reorganisation Premium arising from issue of shares for cash to Pre-IPO Investors	1,988	–	1,988
Capitalisation on issue of shares Premium arising from issue of shares for cash by means of placing	5,990	–	5,990
	(4,312)	–	(4,312)
Expenses incurred in connection with the issue of shares	19,200	–	19,200
Net profit for the year	(6,992)	–	(6,992)
	–	20	20
At 31st March 2003	15,874	20	15,894

- (b) The share premium account of the Group includes (i) the premium arising from the issue of shares of the Company during the year; and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group Reorganisation, as set out in note 1 to the financial statements, over the nominal value of the shares of the Company issued in exchange therefor.
- (c) The share premium account of the Company includes (i) the premium arising from the issue of shares of the Company during the year; and (ii) the difference between the then combined net assets value of the subsidiaries acquired pursuant to the Group Reorganisation, as set out in note 1 to the financial statements, over the nominal value of the shares of the Company issued in exchange therefor.
- (d) The Company's reserves available for distribution to shareholders as at 31st March 2003 represent the aggregate of share premium and accumulated profits, and amount to HK\$15,894,000.

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31st March 2003***24. ACQUISITION OF A SUBSIDIARY**

During the year, the Group acquired 100% equity interest in Everyday Investments Limited. The fair value of assets acquired and liabilities assumed were as follows:

	2003 HK\$'000
Net assets acquired	
Non-trading securities	4,000
Other liabilities	(1,000)
Amount due to a shareholder	(1,992)
Cash outflow on acquisition of subsidiary	1,008
Satisfied by:	
Cash consideration	(1,008)

The subsidiary acquired during the year had no material effect on the cash flows of the Group for the year.

25. MAJOR NON-CASH TRANSACTIONS

- (a) On 19th October 2002, the Company issued an aggregate of 7,785,999 new shares of HK\$0.01 each as consideration for the exchange of investment in a subsidiary held by substantial shareholders of the Company for the purpose of listing of its shares on the GEM.
- (b) On 8th November 2002, 431,200,000 shares credited as fully paid, were allotted and issued at par to the shareholders whose names appeared on the register of members of the Company on 28th October 2002 in their existing holdings by way of capitalisation of a total sum of HK\$4,312,000 out of the share premium account of the Company arising from the Placing.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

26. OPERATING LEASE COMMITMENTS

At the balance sheet date, the commitments under non-cancellable operating leases in respect of premises are as follows:

	2003 HK\$'000	2002 HK\$'000
Amounts payable:		
Within one year	30	64

27. CONTINGENT LIABILITIES

As at 31st March 2003, the Company executed a corporate guarantee as part of the security for general banking facilities granted to a subsidiary to the extent of HK\$10,000,000.

28. PARTICULARS OF THE SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31st March 2003 are as follows:

Name	Place of incorporation	Issued and fully paid share capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Dynamic Choice Technology Limited	The British Virgin Islands	US\$1,000	100%	–	Investment holding
Cyclone Technology Limited	Hong Kong	HK\$1,500,000	–	100%	Sales of audio and visual products
Speedweight Technology Limited	The British Virgin Islands	US\$1,000	–	100%	Sales of audio and visual products
Everyday Investments Limited	The British Virgin Islands	US\$1,000	–	100%	Investment in listed securities

The principal place of operations of all the subsidiaries were in Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2003

29. RETIREMENT BENEFITS SCHEMES

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying Hong Kong employees. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme.

During the year, the Group made retirement benefits scheme contributions amounting to HK\$43,000 (2002: HK\$70,000).

30. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date, the board of directors has approved to acquire the plant and machinery from a third party at a total consideration of approximately HK\$5 million.

31. ULTIMATE HOLDING COMPANY

The directors regard Share Able Investments Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25th June 2003.

FINANCIAL SUMMARY*For the year ended 31st March 2003*

The results and assets and liabilities of the Group for the last three financial years are as follows:

	For the year ended 31st March		
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
RESULTS			
Turnover	42,039	15,254	13,395
Profit/(loss) before taxation	3,092	800	(1,046)
Taxation	(206)	–	–
Profit/(loss) attributable to shareholders	2,886	800	(1,046)
Earnings/(loss) per share Basic	0.61 cent	0.18 cent	(0.24) cent
As at 31st March			
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
ASSETS AND LIABILITIES			
Total assets	40,325	3,080	3,876
Total liabilities	(17,057)	(1,706)	(5,802)
Shareholders' funds	23,268	1,374	(1,926)

Notes:

1. The results for the years ended 31st March 2001 and 2002 were extracted from the Prospectus of the Company dated 30th October 2002. The earnings per share for the two years were computed based on 440,000,000 shares that would have been in issue throughout the two years on the assumption that the Group Reorganisation has been completed as at 1st April 2000.
2. Assets and liabilities of the Group as at 31st March 2001 and 2002 were extracted from the Prospectus of the Company dated 30th October 2002.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of the shareholders of Vaso Digital International Holdings Limited (the "Company") will be held at Longchamps Room, 3rd Floor, Regal Kowloon Hotel, 71 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Tuesday, 29th July 2003 at 11:00 a.m. for the following purposes:

1. to receive and to consider the audited financial statements and the reports of the directors and the auditors for the year ended 31st March 2003;
2. to re-elect directors and to authorize the board of directors to fix the directors' remuneration;
3. to re-appoint auditors and to authorize the board of directors to fix their remuneration;

and by way of special business, to consider and, if thought fit, to pass with or without alterations, the following resolutions as ordinary resolutions:

4. **That**

- (a) subject to paragraph (c) of this Resolution the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares) which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorize the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (where pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the grant or exercise of any option under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed the aggregate of:
 - (i) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and

NOTICE OF ANNUAL GENERAL MEETING

(ii) (if the directors of the Company are so authorized by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution), and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(d) for the purpose of this Resolution:

“Relevant Period” means the period from the date of the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual meeting of the Company is required by the articles of association of the Company, the Companies Law (Revised) of the Cayman Islands or any other applicable law of the Cayman Islands to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution.

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for share open for a period fixed by the directors of the Company to holders of shares in the Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to overseas shareholders or fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognized regulatory body or any stock exchange outside Hong Kong).

NOTICE OF ANNUAL GENERAL MEETING

5. That

- (a) the exercise by the directors of the Company during the Relevant Period of all powers of the Company to purchase its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission of Hong Kong, the Stock Exchange, the memorandum and articles of association of the Company, the Companies Law (Revised) of the Cayman Islands and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company which may be purchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

- (c) for the purpose of this Resolution:

"Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law (Revised) of the Cayman Islands or any other applicable law of the Cayman Islands to be held; and
 - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution.
6. **That** the directors of the Company be and are hereby authorized to exercise the authority referred to in paragraph (a) of Resolution no. 4 above in respect of the share capital of the Company referred to in sub-paragraph (ii) of paragraph (c) of such Resolution.

By order of the Board
Yasukawa Yoshihiro
Chairman

30th June 2003

NOTICE OF ANNUAL GENERAL MEETING

Registered office:

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

Head office and principal place of business:

Unit 4, 4th Floor
Nan Fung Commercial Centre
19 Lam Lok Street
Kowloon Bay
Kowloon
Hong Kong

Notes:

- (a) A shareholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not to be a shareholder of the Company.
- (b) To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's branch share registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the meeting or at any adjournment thereof.
- (c) In relation to proposed resolution no. 4 above, approval is being sought from the shareholders of the Company for the grant to the directors of the Company of a general mandate to authorize the allotment and issue of Shares under the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange. The directors of the Company have no immediate plans to issue any new shares of the Company other than shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by shareholders of the Company.