

•Report of the Directors

The directors of Sky Hawk Computer Group Holdings Limited (the “Company”) have pleasure in submitting their first annual report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2001.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 27 July 2001 as an exempted company with limited liabilities under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation to rationalize the Group structure in preparation for the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (“SEHK”), the Company became the holding company of the Group on 28 December 2001. Details of the Group reorganisation and the basis of presentation of the financial statements are set out in notes 1 and 2 to the financial statements and in the Company’s prospectus dated 8 January 2002.

On 17 January 2002 the shares of the Company were listed on the SEHK.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principle activities and other particulars of the subsidiaries of the Company are set out in note 15 to the financial statements. There were no changes in the nature of the Group’s principal activities during the year.

The analysis of the Group’s turnover and results by the principal activities and geographical locations of customers for the financial year are set out in notes 4 and 25 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group’s sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group’s total	
	Sales	Purchases
The largest customer	8%	—
Five largest customers in aggregate	32%	—
The largest supplier	—	5%
Five largest suppliers in aggregate	—	19%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company’s share capital) had any interest in the Group’s five largest customers or suppliers.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2001 and the state of the Company’s and the Group’s affairs as at that date are set out in the financial statements on pages 25 to 54.

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DIVIDENDS

The directors recommended the payment of a final dividend of 0.7 Hong Kong cents per share in respect of the year ended 31 December 2001 to the shareholders on the register of members of the Company on 17 June 2002.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 21 to the financial statements. Shares were issued during the year to broaden the capital base of the Company.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 22 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company did not have any distributable reserves.

DIRECTORS

The directors of the Company since its incorporation on 27 July 2001 and up to the date of this report were:

Executive directors

Mr. Wang Chia Chin, Chairman (*appointed on 27 July 2001*)

Mr. Wang Chia Chun (*appointed on 26 October 2001*)

Mr. Chen Ho Fa (*appointed on 28 December 2001*)

Mr. Ko Wen Jui (*appointed on 28 December 2001*)

Mr. Chen Fang Yu (*appointed on 28 December 2001*)

Mr. Ko Su Mei (*appointed on 27 July 2001 and resigned on 26 October 2001*)

Independent non-executive directors

Mr. Chen Chin Ming (*appointed on 28 December 2001*)

Mr. Lui Cho Tak (*appointed on 28 December 2001*)

In accordance with article 108A of the Company's articles of association, each of Messrs Wang Chia Chun and Chen Ho Fa will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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DIRECTORS' SERVICE CONTRACTS

Each of Messrs Wang Chia Chin, Wang Chia Chun, Chen Ho Fa, Chen Fang Yu and Ko Wen Jui, being all the executive Directors, has entered into a service contract with the Company for an initial fixed term of three years commencing from 1 January 2002, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

Subsequent to the balance sheet date, on 17 January 2002, the Company was listed on the SEHK. Accordingly, as at the date of this report, the interests of the directors in the listed share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were set out below:

(i) Interests in the Company

	Ordinary shares of HK\$0.1 each				
	Personal interests	Family interests	Corporate interests	Other interests	Total
<i>Beneficial Interests</i>					
Mr. Wang Chia Chin	136,300,000	123,000,000 (<i>Note</i>)	—	—	259,300,000
Mr. Wang Chia Chun	29,400,000	—	—	—	29,400,000
Mr. Chen Ho Fa	524,000	—	—	—	524,000
Mr. Ko Wen Jui	600,000	—	—	—	600,000
Mr. Chen Fang Yu	1,980,000	—	—	—	1,980,000

Note: These shares are held by Ms. Ko Su Mei, the spouse of Mr. Wang Chia Chin.

(ii) Interests in the subsidiaries of the Company

Each of Messr. Wang Chia Chin and Wang Chia Chun has beneficial interests in his personal capacity in 4,920 and 980 non-voting deferred shares of HK\$1 each in Eagle Lord Development Limited respectively.

DIRECTORS' INTERESTS IN CONTRACTS

Other than in connection with the Group's reorganisation in preparation for the Company's initial public offerings no contract of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party, in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

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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 in existence during the year under review.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "Directors' and chief executive's interests in shares" above and "Share option scheme" below, at no time during the year were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

During the year under review, as the shares of the Company had not yet been listed on the Stock Exchange, the transactions between the Company or its subsidiaries on the one part and their related parties on the other only constituted related party transactions, but not connected transactions which are required to be disclosed under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). Details of the related party transactions for the year are set out in note 24 to the financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to date of this report, no director of the Company or any of its subsidiaries is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, pursuant to the Listing Rules, other than those business of which the directors were appointed as directors to represent the interest of the Company and/or the Group.

SHARE OPTION SCHEME

The company operates a share option scheme ("Share Option Scheme"), which was conditionally adopted on 28 December 2001, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Share Option Scheme became effective on 17 January 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Eligible participants of the Share Option Scheme include (i) any employee or proposed employee of the Group or any entity ("Invested Entity") in which any member of the Group holds any equity interest (including any executive director of the Group or any Invested Entity); (ii) any non-executive directors of the Group; (iii) any supplier or customer of the Group or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; (v) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity and (vi) any other group or classes of participants from time to time determined by the directors of the Company as having contributed or may contribute by way of joint venture, business alliances or other business arrangements to the development and growth of the Group.

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The maximum number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the issued share capital of the Company (or the subsidiary) from time to time.

As at the date of this report, the total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group is 41,500,000, representing 10% of the issued share capital of the Company as at the date of this annual report. The maximum number of shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to directors, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares, at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the grantee. The exercise period for the share options granted is determinable by the directors, which may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the option subject to the provisions for early termination under the Share Option Scheme.

The subscription price for share under the Share Option Scheme shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of shares of the Company as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on the date of the offer of the grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares of the Company.

During the year under review and up to the date of this report, no share option was granted or agreed to be granted under the Share Option Scheme.

The directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the date of this report. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The directors of the Company believe that any calculation of the value of options as at the date of this report based on a number of speculative assumptions would not be meaningful.

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SUBSTANTIAL SHAREHOLDERS

As at the date of this report, the following interests of 10% or more in the Company's issued shares were recorded in the register of interests in shares required to be kept by the Company pursuant to section 16(1) of the SDI Ordinance:

	Ordinary Shares held	Percentage of total issued shares
Wang Chia Chin (<i>Note</i>)	136,300,000	32.84%
Ko Su Mei (<i>Note</i>)	123,000,000	29.64%

Note: Under the SDI Ordinance, both Mr. Wang Chia Chin and Ms. Ko Su Mei are taken to be interested in the shares of the Company held by each other. Accordingly, each of the Mr. Wang Chia Chin and Ms. Ko Su Mei is deemed to have approximately 62.48% interest in the Company.

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

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2001 are set out in note 18 on the financial statements.

FOUR YEARS SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on pages 55 and 56 of the annual report.

RETIREMENT SCHEMES

The Group's subsidiary in the PRC participates in a defined contribution retirement scheme organised by the PRC municipal government and is required to make contribution at 8% of the relevant PRC employees salaries to the scheme. The Group's subsidiary in Hong Kong has also participated in a mandatory provident fund scheme for its

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staff based in Hong Kong pursuant to the Mandatory Provident Fund Schemes Ordinance. Save as disclosed the Group was not required to operate any other retirement schemes for its employees and the Group had no other obligation to make payments in respect of retirement benefits of its employees during the year.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 27 to the financial statements.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The company has complied with the Code of Best Practice as set out by the SEHK in Appendix 14 to the Listing Rules since its shares were listed on the SEHK on 17 January 2002.

AUDIT COMMITTEE

The company has established an audit committee on 28 December 2001 with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules. The audit committee comprises Messrs. Chen Chin Ming and Lui Cho Tak, the two independent non-executive directors. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

For and on behalf of the board

Wang Chia Chin

Chairman

Hong Kong, 15 April 2002