

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. Apart from the disposal and discontinuance of the Group's electronic components business, further details of which are set out in note 6 to the financial statements, there were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 71.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 72. This summary does not form part of the audited financial statements.

FIXED ASSETS

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company's reserves available for distribution amounted to approximately HK\$47,853,000. In addition, the Company's share premium account, in the amount of approximately HK\$118,299,000, may be distributed in the form of fully paid bonus shares.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 59% (2001: 56%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 26% (2001: 18%). Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr Zhang Zhao Dong (appointed on 1 August 2002)
Mr Cheung Shuen Lung
Professor Wei Xin
Professor Zou Wei
Mr Yung Richard, Jr.
Mr Lei Hon Sang (resigned on 6 September 2002)

Non-executive directors:

Professor Wang Xuan (resigned on 22 February 2002)
Mr Yung Chih Shin, Richard
Mr Yang Lin, Richard*
Mr Lee Ying Biu, Andrew*

* *Independent non-executive directors*

In accordance with the Company's bye-laws, Mr Cheung Shuen Lung and Mr Lee Ying Biu, Andrew will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 38 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

Save as disclosed in note 38 to the financial statements, no contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, the interests of the directors in the 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 (the "SDI Ordinance"), were as follows:

Company

Name of director	Number of ordinary shares held and nature of interest	
	Corporate	Personal
Mr Yung Chih Shin, Richard (<i>Note</i>)	87,680,000	–
Mr Cheung Shuen Lung	–	36,890,100
Mr Zhang Zhao Dong	–	3,956,000
Professor Wei Xin	–	3,956,000
	87,680,000	44,802,100

Subsidiary

Name of director	Subsidiary in which shares are held	Number of shares held	Nature of interest
Mr Yung Chih Shin, Richard (<i>Note</i>)	Management Investment & Technology Company Limited	20,000,000 non-voting deferred shares	Corporate

Note: Mr Yung Chih Shin, Richard is interested in these shares through Ricwinco Investment Limited ("Ricwinco"), a company which is beneficially owned by Mr Yung Chih Shin, Richard.

The interests of the directors in the share options of the Company are separately disclosed in note 32 to the financial statements.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above and as disclosed below under the heading "Directors' rights to acquire shares", 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.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed in the share option scheme disclosures in note 32 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in 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 or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, the detailed disclosures relating to the Company's share option schemes have been moved to note 32 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Notes	Number of ordinary shares held	Percentage of the Company's issued share capital
Peking University Founder Group Corporation ("Peking Founder")	1	323,690,000	39.45
Founder Holdings Limited ("FHL")		323,690,000	39.45
Yahoo! Inc.		93,240,000	11.36
Ricwinco	2	87,680,000	10.69
Mr Yung Chih Shin, Richard	2	87,680,000	10.69

Notes:

1. Peking Founder is deemed to be interested in the 323,690,000 shares of the Company under the SDI Ordinance by virtue of its interest in FHL.
2. Ricwinco is beneficially owned by Mr Yung Chih Shin, Richard. The interests disclosed under Mr Yung Chih Shin, Richard represent his deemed interests in the shares of the Company by virtue of his interest in Ricwinco.

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

The independent non-executive directors of the Company have reviewed the connected transactions as set out in note 38(a) to 38(d) to the financial statements, and have confirmed to the board of directors that, in their opinions, such transactions were conducted in the ordinary course of the Group's business and were fair and reasonable so far as the shareholders of the Company are concerned.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 37 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, throughout the accounting year covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Zhang Zhao Dong
Chairman

Hong Kong
24 April 2003