

# Report of the Directors

The directors ("Directors") of Sky Hawk Computer Group Holdings Limited ("Company"), submit herewith their annual report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2002.

## 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 reorganization to rationalize the group structure in preparation for the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), the Company became the holding company of the Group on 28 December 2001. Details of the Group reorganization and the basis of presentation of the financial statements are set out in notes 1 and 2 on 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 Stock Exchange.

## 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 on the financial statements.

The analysis of the Group's principal activities and geographical locations of customers of the Group during the financial year are set out in notes 4 and 27 on 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	26%	—
The largest supplier	—	7%
Five largest suppliers in aggregate	—	13%

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 these major customers or suppliers.

## FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2002 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 22 to 51.

## DIVIDENDS

The Directors do not recommend the payment of a final dividend (2001: 0.7 Hong Kong cents per share) in respect of the year ended 31 December 2002.

# Report of the Directors

## **FIXED ASSETS**

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

## **SHARE CAPITAL**

Details of the movements in share capital of the Company during the year are set out in note 22 on 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 23 on the financial statements.

## **DIRECTORS**

The directors of the Company during the financial year were:

### **Executive Directors**

Mr. Wang Chia Chin, Chairman  
Mr. Wang Chia Chun  
Mr. Chen Ho Fa  
Mr. Ko Wen Jui  
Mr. Chen Fang Yu

### **Independent non-executive Directors**

Mr. Chen Chin Ming  
Mr. Lui Cho Tak

In accordance with article 108A of the Company's articles of association, Messrs Ko Wen Jui and Chen Fang Yu will retire and, being eligible, Mr. Chen Fang Yu offers himself for re-election at the forthcoming annual general meeting.

## **DIRECTORS' SERVICE CONTRACTS**

Each of Messrs Wang Chia Chin, Wang Chia Chun, Chen Ho Fa, Chen Fang Yu and Ko Wen Jui, being all 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.

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

The Directors and chief executive of the Company who held office at 31 December 2002 had the following interests in the issued share capital of the Company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) at that date as recorded in the register of directors' interests required to be kept under section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

### (i) Interests in the Company

	Ordinary shares of HK\$0.1 each			Total
	Personal interests	Family interests	Corporate interests	
<i>Beneficial Interests</i>				
Mr. Wang Chia Chin	117,151,000	126,252,000 (Note)	—	243,403,000
Mr. Wang Chia Chun	27,700,000	—	—	27,700,000
Mr. Chen Ho Fa	2,804,000	—	—	2,804,000
Mr. Ko Wen Jui	600,000	—	—	600,000
Mr. Chen Fang Yu	3,436,000	580,000 (Note)	—	4,016,000

Note: These 126,252,000 and 580,000 shares are held by Ms. Ko Su Mei, the spouse of Mr. Wang Chia Chin and Ms. Wang Li Hui, the spouse of Mr. Chen Fang Yu, respectively. Mr. Wang Chia Chin and Mr. Chen Fang Yu were taken to be interested in these 126,252,000 shares and 580,000 shares respectively for the propose of the SDI Ordinance.

### (ii) Interests in the subsidiaries of the Company

Each of Mr. Wang Chia Chin and Mr. 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' 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 chief executive of the Company 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.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or its subsidiaries was a party, in which a Director or his associates and spouse had a material interest, subsisted at the end of the year or at any time during the year.

## 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.

# Report of the Directors

## CONNECTED TRANSACTIONS

Save as disclosed in note 26 to the financial statements, there were no transactions which need to be disclosed as connected transactions in accordance with the requirements under Chapter 14 of the Rules (“Listing Rules”) Governing the Listing of Securities on the Stock Exchange.

## 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”), 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.

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 option to be granted under the Share Option Scheme 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 option 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.

## Report of the Directors

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 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 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.

### SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2002, the following interests of 10% or more of the share capital of the Company in issue were recorded in the register of interests maintained 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> )	117,151,000	28.23%
Ko Su Mei ( <i>Note</i> )	125,160,000	30.16%

*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 58.39% interests in the Company.

Save as disclosed above, no person, other than the Directors, 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 provisions 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.

# Report of the Directors

## **PURCHASES, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES**

There were no purchases, sales or redemptions of the Company's listed shares 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 2002 are set out in note 19 on the financial statements.

## **FIVE YEARS SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 52.

## **RETIREMENT SCHEMES**

The Group's subsidiary in the People's Republic of China (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 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.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The Company has complied throughout the year with the Code of Best Practice as set out by the Stock Exchange in Appendix 14 to the Listing Rules.

## **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.

By order of the board

**Wang Chia Chin**  
*Chairman*

Hong Kong, 22 May 2003