

The directors present their report and the audited financial statements for the year ended 31st March, 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries 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.

RESULTS

The results of the Group for the year ended 31st March, 2003 are set out in the consolidated income statement on page 21.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the each of the last five financial years is set out on page 80.

PROPERTY, PLANT AND EQUIPMENT

Details of movement in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL, CONVERTIBLE BONDS AND CONVERTIBLE NOTES

Details of movements in the Company's share capital, convertible bonds and convertible notes, are set out in notes 28, 30 and 31 to the financial statements respectively.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 29 to the financial statements and consolidated statement of changes in equity on pages 25 to 26.

DISTRIBUTABLE RESERVES

As at 31st March, 2003, the Company had no reserves available for cash distribution and/or distribution in specie, as calculated in accordance with the Companies Act 1981.

DIRECTORS

The directors of the Company for the year ended 31st March, 2003 and up to date of this report were as follows:

Executive directors

Dr. Li Zhong Yuan

Mr. Wong Chong Kwong, Derek

Mr. Lam Yat Keung

Mr. Ni Aimin

(appointed on 11th September, 2002)

Mr. Mok Shau Chuen

(resigned on 19th April, 2002)

Mr. Kwon Sang Hun

(resigned on 17th September, 2002)

Mr. Yun Jong Suk

(resigned on 17th September, 2002)

Independent non-executive directors

Mr. Li Xiao Ru

Dr. Ma Yin Ming

(appointed on 11th September, 2002)

Mr. Yuen Wai

(resigned on 11th September, 2002)

In accordance with the Company's bye-law 87, Messrs. Wong Chong Kwong, Derek and Dr. Ma Yin Ming will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Mr. Ni Aimin has entered into a service contract with the Company for an initial term of two years commencing from the date upon which the employment visa is granted to him.

The other executive directors of the Company have entered into a service contract with the Company for an initial term of five years commencing from the date of appointment with the first two years under a fixed term and the remaining three years being terminable by not less than a six-months' notice in writing served by either party.

Independent non-executive directors are not appointed for a specific term.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment other than statutory compensation.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 31st March, 2003, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") of the Company were as follows:

Name of director	Type of interest	Number of shares held (as adjusted for consolidation of shares)
Dr. Li Zhong Yuan	Corporate (Note (a))	13,147,000
	Personal	4,635,000
Mr. Wong Chong Kwong, Derek	Corporate (Note (a))	13,147,000
	Personal	1,245,000
	Family (Note (b))	450,000
Mr. Lam Yat Keung	Personal	16,000
	Family (Note (c))	2,062,500

Notes:

- (a) These shares are held by Pacific Annex Capital Limited which is beneficially owned by Dr. Li Zhong Yuan and Mr. Wong Chong Kwong, Derek, as to 66.7% and 33.3% respectively.
- (b) These shares are held by Ms. Wong Kit Wai, Peggy, the wife of Mr. Wong Chong Kwong, Derek.
- (c) These shares are held by Ms. Lam Pik Wah, the wife of Mr. Lam Yat Keung, personally and a company controlled by her.

Save as disclosed above, as at 31st March, 2003, none of the directors of the Company, nor their associates, had any personal, family, corporate or other interest in the share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

At 31st March, 2003, the following individual had an interest of 10% or more of the share capital of the Company as recorded in the register of interest in shares required to be kept by the Company pursuant Section 16(1) of the SDI Ordinance.

Name	Number of shares held (as adjusted for consolidation of shares)	Percentage of issued shares
Pacific Annex Capital Limited	13,147,000	13.12%

SUBSTANTIAL SHAREHOLDERS *(continued)*

Save as disclosed above, no person, other than the director, Dr. Li Zhong Yuan and Mr. Wong Chong Kwong, Derek, whose interests are set out under the section headed the "Directors' interests in share capital" above, had registered as having an interest of 10% or more of the share capital of the Company that is required to be recorded under Section 16(1) of the SDI Ordinance.

SHARE OPTIONS

Particulars of the Company's share options schemes are set out in note 36 to the financial statements.

The following table discloses movements in the Company's share options granted during the year:

	Option type	Outstanding at 1.4.2002	Granted	Exercised	Lapsed	Adjustment due to consolidation of shares	Outstanding at 31.3.2003
<i>Directors</i>							
Li Zhong Yuan	A	5,000,000	-	-	-	(4,975,000)	25,000
Wong Chong Kwong, Derek	A	95,000,000	-	-	-	(94,525,000)	475,000
Ni Aimin	D	-	750,000	-	-	-	750,000
Ma Yin Ming	D	-	150,000	-	-	-	150,000
<i>Total Directors</i>		<u>100,000,000</u>	<u>900,000</u>	<u>-</u>	<u>-</u>	<u>(99,500,000)</u>	<u>1,400,000</u>
<i>Employees</i>							
	A	120,000,000	-	-	-	(119,400,000)	600,000
	B	6,000,000	-	-	(6,000,000)	-	-
	C	-	200,000,000	(200,000,000)	-	-	-
	D	-	850,000	-	-	-	850,000
<i>Total Employees</i>		<u>126,000,000</u>	<u>200,850,000</u>	<u>(200,000,000)</u>	<u>(6,000,000)</u>	<u>(119,400,000)</u>	<u>1,450,000</u>
<i>Others</i>							
	C	-	800,000,000	(800,000,000)	-	-	-
	D	-	5,750,000	-	-	-	5,750,000
<i>Total Others</i>		<u>-</u>	<u>805,750,000</u>	<u>(800,000,000)</u>	<u>-</u>	<u>-</u>	<u>5,750,000</u>
<i>Total</i>		<u>226,000,000</u>	<u>1,007,500,000</u>	<u>(1,000,000,000)</u>	<u>(6,000,000)</u>	<u>(218,900,000)</u>	<u>8,600,000</u>

SHARE OPTIONS *(continued)*

Option type	Date of grant	Exercisable period		Exercise price before consolidation	Exercise price as adjusted for consolidation	Closing price immediately before the date of grant as adjusted for consolidation
		From	To	of shares HK\$	of shares HK\$	of shares HK\$
A	31st August, 2001	31st August, 2001	15th May, 2011	0.043	8.6	12.00
B	11th October, 2001	11th October, 2001	15th May, 2011	0.052	10.4	10.40
C	10th April, 2002	10th April, 2002	7th April, 2012	0.051	10.2	10.00
D	27th November, 2002	27th November, 2002	7th April, 2012	N/A	1.0	0.75

The aggregate fair value of the options granted in the current year measured as the dates of grant on 10th April, 2002 and 27th November, 2002 were HK\$45,247,695 and HK\$5,115,063 per option respectively. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

	10th April, 2002	27th November, 2002
Expected life of options	10 years	9.4 years
Expected volatility	103.4%	164.5%
Expected annual dividend yield	Nil	Nil
Hong Kong Exchange Fund Notes rate	6.0%	4.5%

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and neither the directors nor chief executive, nor any of their spouse or children under the age 18, had any right to subscribe for securities of the Company, or exercised any such right.

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 of the Company.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events of the Group are set out in note 39 to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The largest supplier and the five largest suppliers of the Group accounted for approximately 31% and 67%, respectively, of the Group's total purchases during the year.

The largest customer and the five largest customers of the Group accounted for approximately 15% and 34%, respectively, of the Group's total sales for the year.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31st March, 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

DISCLOSURE UNDER PRACTICE NOTE 19 OF THE LISTING RULES

1. As at 31st March, 2003, the Group had an advance of US\$2.7 million (equivalent to HK\$21,026,000) made to Multi-line Digital Co. Ltd, an independent third party, which represents approximately 35.3% of the net asset value of the Group. Details of which are disclosed in note 17 to the financial statements.
2. Up to the date of this report, Pacific Annex Capital Limited, Dr. Li Zhong Yuan and Mr. Wong Chong Kwong, Derek pledged an aggregate of 8,330,000, 1,910,000 and 1,625,000 ordinary shares (as adjusted for consolidation of shares) to independent third parties for short-term financing. The pledged shares represent approximately 8.31%, 1.91% and 1.62% of the total issued share capital of the Company as at date of this report respectively.

AUDITORS

During the year, Messrs. Deloitte Touche Tohmatsu were re-appointed as auditors of the Company. A resolution will be submitted to the annual general meeting to re-appoint the auditors, Messrs. Deloitte Touche Tohmatsu.

ON BEHALF OF THE BOARD

Dr. Li Zhong Yuan

Chairman

Hong Kong

27th August, 2003