

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited accounts for the year ended 31st December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiary companies are set out in note 12 to the accounts.

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

RESULTS AND APPROPRIATIONS

The consolidated results for the year ended 31st December 2003 are set out on page 21.

The Directors do not recommend the payment of a dividend in respect of the year ended 31st December 2003.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 10 to the accounts.

SHARE CAPITAL AND RESERVES

Details of the movements in the share capital and options of the Company are set out in note 20 to the accounts. Details of the movements in the reserves of the Group during the year are set out in note 21 to the accounts.

There is no pre-emptive rights under the Bye-Laws of the Company or the laws of Bermuda in relation to issue of new shares by the Company.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors of the Company during the year and at the date of this report are:

Zhou Yucheng	(appointed on 26th September 2003)
Tong Nai Kan	
Chan Iu Nam John Bosco	(appointed on 18th February 2004)
Fu Weimin	(appointed on 26th September 2003)
Qi Xianchao	(appointed on 18th October 2003)
Leung Wai Kwan	
Wang Yiming *	(appointed on 11th September 2003)
Tang Tin Sek *	
Chen Qiao	(resigned on 1st August 2003)
Cheung Ming Man	(resigned on 31st August 2003)
Cheung Hiu Wai	(resigned on 19th February 2003)
Ng Suen Tak Paul	(appointed on 1st August 2003 and resigned on 5th December 2003)
Ko Ming Tung, Edward *	(resigned on 11th September 2003)

* *Independent Non-executive Directors*

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mr Zhou Yucheng, Mr Chan Iu Nam John Bosco, Mr Fu Weimin, Mr Qi Xianchao and Ms Wang Yiming, retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Bye-law 87 of the Company's Bye-laws, Mr Leung Wai Kwan retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

The current Directors of the Company do not have any service contracts with the Company or any of its subsidiary companies which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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SHARE OPTION SCHEME

Under the Company's share option scheme approved by the shareholders of the Company on 11th March 1997 (the "Old Scheme") and the share option scheme approved by the shareholders of the Company on 26th June 2002 (the "New Scheme"), the Directors of the Company may, at their discretion, invite Executive Directors and key employees of the Company or its subsidiaries to subscribe for shares in the Company subject to terms and conditions stipulated therein. The Old Scheme was terminated on 26th June 2002 such that no further options shall be offered but the options granted shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect. At 31st December 2003, the Directors of the Company had the following interests in the options granted under the Old Scheme and the New Scheme:

Name	Date granted	Period during which options are exercisable	Consideration paid for the options granted HK\$	Price per share to be paid on exercise of option HK\$	Number of shares under options			
					Outstanding at 1st January 2003	Granted during the year	Exercised during the year	Outstanding at 31st December 2003
Tong Nai Kan	29th August 2001	1st March 2002 to 28th February 2005	1.00	0.145	17,500,000	—	—	17,500,000
	3rd January 2003	3rd January 2003 to 2nd January 2008	1.00	0.100	—	9,966,000 ¹	—	9,966,000
Leung Wai Kwan	29th August 2001	1st March 2002 to 28th February 2005	1.00	0.145	12,000,000	—	12,000,000 ³	—
	3rd January 2003	3rd January 2003 to 2nd January 2008	1.00	0.100	—	9,966,000 ¹	9,966,000 ²	—
Chen Qiao (resigned on 1st August 2003)	29th August 2001	1st March 2002 to 28th February 2005	1.00	0.145	2,000,000	—	2,000,000 ²	—
Cheung Ming Man (resigned on 31st August 2003)	29th August 2001	1st March 2002 to 28th February 2005	1.00	0.145	12,000,000	—	12,000,000 ⁴	—
	3rd January 2003	3rd January 2003 to 2nd January 2008	1.00	0.100	—	9,996,000 ¹	9,996,000 ²	—
Ko Ming Tung, Edward (resigned on 11th September 2003)	3rd January 2003	3rd January 2003 to 2nd January 2008	1.00	0.100	—	996,000 ¹	996,000 ²	—
Tang Tin Sek	3rd January 2003	3rd January 2003 to 2nd January 2008	1.00	0.100	—	996,000 ¹	996,000 ³	—

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SHARE OPTION SCHEME (Continued)

Notes:

- 1 At the date before the options were granted, 2nd January 2003, the market value per share was HK\$0.10. The value of the options granted to the respective parties is as follows:

	<i>HK\$'000</i>
Tong Nai Kan	997
Leung Wai Kwan	997
Ko Ming Tung, Edward	100
Tang Tin Sek	100
Cheung Ming Man	997
Continuous employees	<u>5,326</u>

- 2 Exercise date was 7th August 2003. At the date prior to the date of suspension of trading and before the options were exercised, the market value per share was HK\$0.227.
- 3 Exercise date was 15th September 2003. At the date before the options were exercised, the market value per share was HK\$0.58.
- 4 Exercise date was 19th September 2003. At the date before the options were exercised, the market value per share was HK\$0.54.

The weighted average fair value of the share options granted during the year is estimated at HK\$0.03 using the Black-Scholes option pricing model. Value is estimated based on the risk-free rate of 1.13% per annum with reference to the rate prevailing on the Exchange Fund Notes, a 5-year period historical volatility of HK\$0.35, assuming no dividend and an expected option life of 5 years.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. As the characteristics of the options are significantly different from those of publicly traded options and changes in the subjective inputs may materially affect the fair value estimate, the Black-Scholes pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiary companies a party to any arrangements to enable the Directors of the Company or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiary companies 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31st December 2003, the interests and short positions of each Director and Chief Executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(a) Issued share capital (long position and number of shares held)

	Personal interests	Family interests	Corporate interests	Trusts and similar interests	Persons acting in concert	Other interests	Total	Percentage
Leung Wai Kwan	7,066,000	—	—	—	—	—	7,066,000	0.34
Tang Tin Sek	300,000	—	—	—	—	—	300,000	0.01

(b) Share options

Details of the personal interests of the Directors in the share options to subscribe for shares in the Company are set out in the section headed "Share Option Scheme" above.

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SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31st December 2003, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives.

Corporate interest	Number of shares	Percentage of issued share capital
Choi Hing Enterprises Limited	110,862,000	5.27
China Worldbest Group (Hong Kong) Company Limited ("China Worldbest (HK)") (Note 1)	280,000,000	13.30
China Worldbest Group Company Limited ("China Worldbest") (Note 1)	280,000,000	13.30
Sunberry Investments Limited ("Sunberry") (Note 2)	155,546,482	7.39
U-Cyber Technology Holdings Limited ("U-Cyber") (Note 2)	<u>155,546,482</u>	<u>7.39</u>

Note 1: China Worldbest (HK) is a wholly owned subsidiary company of China Worldbest. In accordance with the SFO Ordinance, the interests of China Worldbest (HK) are deemed to be, and have therefore been included in, the interests of China Worldbest.

Note 2: Sunberry is a wholly owned subsidiary company of U-Cyber. In accordance with the SFO Ordinance, the interests of Sunberry are deemed to be, and have therefore been included in, the interests of U-Cyber.

Save as disclosed above, as at 31st December 2003, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

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CONNECTED TRANSACTION

On 28th June 2002, the Group entered into a tenancy agreement with a wholly owned subsidiary company of U-Cyber, a substantial shareholder of the Company, in respect of the tenancy of the premise situate at Units 901-2, 9th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong for a period of one year commencing from 1st June 2002 at a monthly rental of HK\$80,298 (exclusive of rates and management fees) with two months rent-free period. The tenancy agreement was renewed on 29th July 2003 for a further term of one year from 1st June 2003 to 31st May 2004 at a revised monthly rental of HK\$58,000. This tenancy agreement was terminated on 11th September 2003. The terms and conditions of the tenancy agreement were negotiated on arm's length basis and based on normal commercial terms.

The above transaction constitutes a connected transaction under the Listing Rules. The Board of Directors, including the Independent Non-Executive Directors, has reviewed this transaction and, based on information supplied by the Company concluded that such transaction was conducted in the ordinary and usual course of business of the Group and on normal commercial terms that were fair and reasonable so far as the shareholders of the Company were concerned.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors is interested in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

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

MANAGEMENT CONTRACTS

The Group has appointed Guangdong International Building Enterprises Company Limited ("GIBE") to manage its investment property in Guangzhou. Apart from this property management arrangement, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

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MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover during the year attributable to the Group's five largest customers was 44% of the Group's total turnover, of which 22% was made to the largest customer.

The aggregate purchase of revenue items during the year attributable to the Group's five largest suppliers was 31% of the Group's total purchases of revenue and services, of which 14% was made from the largest supplier, GIBE.

None of the Directors, their associates or any shareholder who to the knowledge of the Directors owns more than 5% of the Company's share capital has an interest in the suppliers or customers disclosed above.

COMPLIANCE WITH CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the financial year except that the Independent Non-executive Directors are not appointed for a specific term as they are subject to retirement by rotation at the Annual General Meeting in accordance with the Bye-laws of the Company.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the audit committee (the "Committee") were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants. The Committee provides an important link between the Board and the Company's auditors on matters coming within the scope of the audit of the Group. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee currently comprises two Independent Non-executive Directors, namely Mr Tang Tin Sek and Ms Wang Yiming.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Zhou Yucheng

Chairman

Hong Kong, 7th April 2004