

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st December 2003. The name of the Company has been changed to Sun Innovation Holdings Limited on 30th May 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in (i) property investment business; (ii) telecommunication business; (iii) fire prevention and suppression business; and (iv) media and content business.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 23.

The directors do not recommend the payment of a dividend for the year ended 31st December 2003 (2002: Nil).

FIVE YEARS FINANCIAL SUMMARY

The consolidated results, assets and liabilities of the Group for the last five financial years as extracted from the audited accounts of the Group are summarised below:

	Year ended 31st December										
	2003			2002			2001			2000	1999
	Continuing operations	Discontinuing operations	Total	Continuing operations	Discontinuing operations	Total	Continuing operations	Discontinuing operations	Total		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Turnover	4,905	39,248	44,153	4,788	61,864	66,652	4,311	71,662	75,973	71,910	117,535
Profit/(loss) attributable to shareholders	(22,099)	(24,628)	(46,727)	(15,743)	11,785	(3,958)	(5,113)	(6,191)	(11,304)	(58,617)	(60,838)

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FIVE YEAR FINANCIAL SUMMARY (*Continued*)

	Year ended 31st December										
	2003			2002			2001			2000	1999
	Continuing operations	Discontinuing operations	Total	Continuing operations	Discontinuing operations	Total	Continuing operations	Discontinuing operations	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Total assets	237,178	24,982	262,160	144,953	59,985	204,938	184,374	51,756	236,130	263,318	206,617
Total liabilities	114,400	10,078	124,518	22,027	17,928	39,955	26,111	50,303	76,414	106,298	101,527

The comparative figures for the two years ended 31st December 2002 and 2001 have been restated to reflect the adoption of Statement of Standard Accounting Practice No 33 "Discontinuing Operations" which is effective for accounting periods commencing on or after 1st January 2002. The comparative figures for the years ended 31st December 2000 and 1999 have not been restated as the directors are of the opinion that it would involve substantial costs.

Total assets and total liabilities as at 31st December 2003, 2002 and 2001 are stated after elimination of balances between continuing operations and discontinuing operations.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 21 to the accounts.

In view of the losses maintained by the Company, the directors are of the view that the Company had no reserves available for distribution as at 31st December 2003.

DONATIONS

Charitable and other donations made by the Group during the year amounted to Nil (2002: Nil).

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 12 to the accounts.

PROPERTIES

Details of the Group's properties are set out on page 72.

SHARE CAPITAL AND OPTIONS

Details of the movements in the Company's issued share capital and options and during the year and outstanding as at 31st December 2003 are set out in note 20 to the accounts.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and the laws in Bermuda.

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

The Company has not redeemed any of its securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the year.

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December 2003 are set out in note 13 to the accounts.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Michele Matsuda	(appointed on 14th March 2003)
Yiu Ying Fai	
Leung To Kwong, Valiant	(appointed on 14th March 2003)
Cheung Chi Fai, Frank	(appointed on 25th March 2004)
Kyota Yamada	(resigned on 14th March 2003)
Hong Cheong Fye	(resigned on 14th March 2003)
Masahiro Funayama	(resigned on 14th March 2003)
Hiroshi Higashiomori	(resigned on 14th March 2003)

Independent non-executive directors

Zhou Ji, Jason
To King Yan, Adam

In accordance with clauses 91 and 99(B) of the Company's bye-laws, Messrs. Cheung Chi Fai, Frank, Leung To Kwong, Valiant and Yiu Ying Fai will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors and senior management are as shown below:

Executive directors

Michele Matsuda, aged 40, was appointed as Chairman, Chief Executive Officer and Executive Managing Director on 14th March 2003. He has more than 15 years experience in the technology sector and is expertise in technical solutions, technical management and business operational management. Mr. Matsuda has been appointed as a director of Technology Administration Division of Nomura Securities International, Inc from 1986 to 1996. He is one of the founders and a director of Trans Pacific Telecom Group, which has various telecommunication licences in UK, USA, Japan and Hong Kong.

Yiu Ying Fai, aged 45, was appointed as Executive Director on 20th September 2000 and Vice-Chairman on 15th January 2001. He holds a Bachelor of Commerce degree from University of Melbourne and a Postgraduate Diploma in Hotel Management in Switzerland. He is a qualified accountant and members of both the Hong Kong Society of Accountants and CPA Australia. He has over 5 years professional experience with one of the big four accountancy firms specialising in corporate recovery and restructuring, liquidation and receivership. Prior to joining the Group, Mr. Yiu has over 10 years senior management experience with an international group of companies with business interests in garment trading and manufacturing, hotel management, property development and investment.

Leung To Kwong, Valiant, aged 42, was appointed as Executive Director on 14th March 2003. Mr. Leung was graduated from the City University of New York with a Bachelor's degree in Electrical Engineering in 1986 and a master degree in business administration in 1988. He has extensive experience in telecommunication industry for more than 14 years. Mr. Leung has been appointed as senior management positions in various international companies, ranging from international network service provider, equipment vendor and Telecom Type 1 Carrier.

Cheung Chi Fai, Frank, aged 41, joined the Board on 25th March 2004. Mr. Cheung holds an MBA degree from University of Technology, Sydney and is a qualified accountant and member of both the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants with a lot of experience in corporate finance exercises. He is also a veteran in the telecommunication value added services industry and was a director of New Media Corporation, a leader in the international VAS industry and involved in telecommunication's VAS business for more than 9 years.

BIOGRAPHICAL DETAILS OF DIRECTORS *(Continued)*

Independent non-executive directors

Zhou Ji, Jason, aged 40, was appointed as Independent Non-executive Director on 16th May 2002. Mr. Zhou studied at the Medical School of Beijing University for the period from 1982 to 1985. He holds a Bachelor's degree in Electrical Engineering from Washington State University and a Master's Degree in Biomedical Engineering from Drexel University, Philadelphia, USA. In addition to Mr. Zhou's expertise on electrical and biomedical engineering, he also has extensive experience in finance and assets management field since 1994. Mr. Zhou has acted as senior management of various finance companies in USA, Hong Kong and PRC. He now acts as the General Manager of the Investment Banking Division of China Galaxy Securities Company in Beijing, PRC.

To King Yan, Adam, aged 44, was appointed as Independent Non-executive Director on 30th December 2002. Mr. To was graduated from the University of London with a Bachelor of Laws degree in 1983. He is a solicitor by profession in Hong Kong and England since 1986 and 1990 respectively. Mr. To worked in the Legal Department of Hong Kong in 1984 and then joined Messrs. K.B. Chau & Co. as an assistant solicitor in 1987. He was admitted as a partner of Messrs. K.B. Chau & Co. in 1989. He is now the managing partner of Messrs. K.B. Chau & Co.

SHARE OPTIONS SCHEME

The Company adopted a share option scheme on 18th May 2001 ("the 2001 Option Scheme") and had granted options in August 2001 to the Group's employees (including executive directors) to subscribe for shares in the Company with option period expiring after 2nd August 2003.

Furthermore, the Company adopted another share option scheme on 16th May 2002 ("the 2002 Option Scheme"), to adopt the changes in the Chapter 17 of the Listing Rules, under which the Company may grant options to any executive or non-executive directors, any executives and employees and those persons who have contributed or will contribute to the Group as incentive schemes and rewards.

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SHARE OPTIONS SCHEME (Continued)

Details of the share options outstanding as at 31st December 2003 which have been granted under the 2001 Option Scheme and 2002 Option Scheme are as follows:

2001 Option Scheme

	Number of options					Exercise price HK\$
	held at	granted	exercised	lapsed	held at 31st	
	1st January	during the	during the	during the	December	
	2003	year	year	year	2003	
	'000	'000	'000	'000	'000	
Former directors	250,000	–	–	250,000	–	0.10
Yiu Ying Fai	100,000	–	–	100,000	–	0.10
Employees	4,930	–	–	4,930	–	0.10

2002 Option Scheme

	Number of options					Exercise price HK\$
	held at	granted	exercised	lapsed	held at 31st	
	1st January	during the	during the	during the	December	
	2003	year	year	year	2003	
	'000	'000	'000	'000	'000	
Leung To Kwong, Valient*	–	43,800	–	–	43,800	0.02
Yiu Ying Fai*	–	43,800	–	–	43,800	0.02
Employees	–	33,350	–	11,900	21,450	0.02
Customer	–	5,000	–	–	5,000	0.02

* Messers Leung To Kwong, Valient and Yiu Ying Fai exercised their share options of 11,000,000 options and 12,800,000 options on 11th March 2004 and 2nd April 2004 respectively.

The directors consider it inappropriate to value the options as a number of factors that are crucial for the valuation cannot be determined accurately. Accordingly, such information is not disclosed in the annual report.

DIRECTORS' SERVICE CONTRACTS

None of the directors, including those directors who are proposed for re-election at the forthcoming annual general meeting, has a service contract with the Company, which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company or 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' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 31st December 2003, the interests and short positions of the directors and chief executive of the Company and their associates in the shares and underlying shares of the Company as recorded in the register to be kept under Section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

Name of director	<i>Note</i>	Nature of interests	Number of shares
Michele Matsuda	(1)	Corporate	805,570,000

Note:

- (1) 805,570,000 shares in the Company are held by e-Compact Limited, a company wholly owned by Anglo Japan Enterprises Limited and beneficially owned by Mr. Michele Matsuda.

Certain executive directors of the Company have been granted share options under the Company's share option schemes (details are set out under the section of Share Option Schemes above). These constitute interests in underlying share of the Company under the SFO.

Save as disclosed above, as at 31st December 2003, no interests and short position in the shares or underlying shares were held or deemed or taken to be held under Part XV of the SFO by any director or chief executive of the Company or any of their respective associates which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein.

At no time during the year was the Company, its fellow subsidiaries or its holding company 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.

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SUBSTANTIAL SHAREHOLDERS

As at 31st December 2003, the interests and short positions of the persons in the shares and underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO were as follows:

Name of shareholder	Number of shareholding	Shares percentage
e-Compact Limited	805,570,000	18.38%
e-Lux Corporation	390,000,000	8.90%

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

- the largest supplier 14%
- five largest suppliers combined 44%

Sales

- the largest customer 31%
- five largest customers combined 48%

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31st December 2003, which do not constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, are disclosed in notes 2, 3 and 13(b) to the accounts.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

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

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit 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 Audit Committee provides an important link between the board and the Company's auditors in matters coming within the scope of the Group's audit. The Committee comprises two independent non-executive directors, namely Zhou Ji, Jason and To King Yan, Adam. Two meetings were held by the Audit Committee during the current financial year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

There is no information required to be disclosed pursuant to the Listing Rules.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Details of significant events after balance sheet date are set out in note 28 to the accounts.

AUDITORS

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

On behalf of the Board

Michele Matsuda

Chairman

Hong Kong, 23rd April 2004