

Report of the Directors

The directors present their report together with the audited accounts of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and associated companies of the Company are set out in notes 13 and 14 to the accounts.

An analysis of the Group’s turnover and contribution to the operating loss for the year ended 31 December 2003 by business and geographical segments is set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2003 are set out in the Consolidated Profit and Loss Account on page 25 and the state of affairs of the Company and of the Group at 31 December 2003 are set out in the accounts on pages 25 to 67.

No interim dividend was declared (2002: Nil) and the directors do not recommend the payment of a final dividend for the year ended 31 December 2003 (2002: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited accounts, is set out on page 68. This summary does not form part of the audited accounts.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Company and of the Group during the year are set out in note 12 to the accounts.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital of the Company during the year and details of share options are set out in notes 24 and 25 to the accounts.

RESERVES

Details of the movements in the reserves of the Company and of the Group during the year are set out in note 26 to the accounts and in the Consolidated Statement of Changes in Equity on page 29.

MAJOR SUPPLIERS AND CUSTOMERS

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

Sales

– the largest customer	44.68%
– five largest customers combined	93.22%

During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers.

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

DIRECTORS

The directors of the Company during the year and up to the date of this report are as follows:

Executive directors:

Mr. Lo Lin Shing, Simon (*Chairman*)
Mr. Chan Ki (*Vice Chairman*)
Mr. Chan Wai Keung, Ringo (*Chief Executive Officer*)
Mr. Yu Ansheng, Ben
Mr. Lo Lin Kwong
Mr. Zhao Rui

Non-executive directors:

Dr. Cheng Kar Shun, Henry
Mr. Ho Hau Chong, Norman

Independent non-executive directors:

Mr. To Hin Tsun, Gerald
Mr. Wei Chi Kuan, Kenny

In accordance with article 116 of the articles of association of the Company, Messrs. Lo Lin Kwong, To Hin Tsun, Gerald and Wei Chi Kuan, Kenny will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. The non-executive directors do not have specific terms of appointment, but are subject to the retirement provisions contained in the articles of association of the Company.

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DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 12 and 13.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has 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 OF SIGNIFICANCE

Save as disclosed in note 30 to the accounts, no contracts of significance in relation to the Group's businesses 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.

MANAGEMENT CONTRACTS

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

As at 31 December 2003, the interests and short position of the directors and chief executive of the Company 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 kept 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 were as follows:

(1) Long positions in the shares of the Company

Name of director	Number of shares			Percentage of shareholding
	Corporate interests	Family interests	Total	
Mr. Lo Lin Shing, Simon	1,129,758,000 <i>(Note a)</i>	–	1,129,758,000	30.11%
Mr. Chan Ki	225,400,000 <i>(Note b)</i>	40,650,000 <i>(Note c)</i>	266,050,000	7.09%

Notes:

- (a) These shares are held by Golden Infinity Co., Ltd. which is wholly owned by Mr. Lo Lin Shing, Simon. Accordingly, Mr. Lo Lin Shing, Simon is deemed to be interested in 1,129,758,000 shares held by Golden Infinity Co., Ltd. under the SFO.
- (b) These shares are held by Silver Valley Limited which is wholly owned by Mr. Chan Ki. Accordingly, Mr. Chan Ki is deemed to be interested in 225,400,000 shares held by Silver Valley Limited under the SFO.
- (c) These shares are held by Full Smart Development Limited which is wholly owned by Ms. Fong Wai Na, the spouse of Mr. Chai Ki. Accordingly, Mr. Chan Ki is deemed to be interested in 40,650,000 shares held by Full Smart Development Limited under the SFO.

(2) Long positions in underlying shares of the Company

Pursuant to the share option scheme adopted by the Company on 11 September 1998, certain directors in the capacity as beneficial owners were granted share options to subscribe for the shares of the Company, details of which were set out under “SHARE OPTION SCHEMES” below.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "SHARE OPTION SCHEMES" below, 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, any of their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to the directors of the Company, as at 31 December 2003, the interests and short positions of the shareholders (other than the directors or chief executive of the Company) in the shares or underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO were as follows:

(1) Long positions in the shares of the Company

Name	Capacity	Number of shares	Percentage of shareholding
Substantial shareholders:			
Golden Infinity Co., Ltd.	Beneficial owner	1,129,758,000 (Note a)	30.11%
Ms. Ku Ming Mei, Rouisa	Interest of spouse	1,129,758,000 (Note b)	30.11%
Other shareholders:			
Silver Valley Limited	Beneficial owner	225,400,000 (Note c)	6.01%
Ms. Fong Wai Na	Interest of a controlled corporation and interest of spouse	266,050,000 (Note d)	7.09%
New World CyberBase Nominee Limited	Beneficial owner	210,000,000	5.60%
New World Telephone Holdings Limited	Interest of a controlled corporation	210,000,000 (Note e)	5.60%
New World Development Company Limited	Interest of a controlled corporation	210,000,000 (Note e)	5.60%
Chow Tai Fook Enterprises Limited	Interest of a controlled corporation	210,000,000 (Note e)	5.60%

Notes:

- (a) Golden Infinity Co., Ltd. is wholly owned by Mr. Lo Lin Shing, Simon, a director of the Company.
- (b) These shares represent the interests held by Golden Infinity Co., Ltd.. Ms. Ku Ming Mei, Rouisa is the spouse of Mr. Lo Lin Shing, Simon, a director of the Company and accordingly, she is deemed to be interested in 1,129,758,000 shares held by Golden Infinity Co., Ltd. under SFO.
- (c) Silver Valley Limited is wholly owned by Mr. Chan Ki, a director of the Company.
- (d) These shares represent the aggregate interests in 225,400,000 shares held by Silver Valley Limited and 40,650,000 shares held by Full Smart Development Limited. Ms. Fong Wai Na is the spouse of Mr. Chan Ki and the beneficial owner of the entire issued share capital of Full Smart Development Limited. Accordingly, Ms. Fong Wai Na is deemed to be interested in 225,400,000 shares held by Silver Valley Limited and 40,650,000 shares held by Full Smart Development Limited under the SFO.
- (e) New World CyberBase Nominee Limited is a wholly-owned subsidiary of New World Telephone Holdings Limited which is in turn a wholly-owned subsidiary of New Word Development Company Limited. Chow Tai Fook Enterprises Limited and its subsidiaries owned a total of 35.26% equity interests in New World Development Company Limited. Accordingly, New Word Telephone Holdings Limited, New World Development Company Limited and Chow Tai Fook Enterprises Limited are deemed to be interested in 210,000,000 shares held by New World CyberBase Nominee Limited under the SFO.

(2) Long positions in the underlying shares of the Company

Name	Capacity	Category of equity derivatives	Number of underlying shares
Ms. Ku Ming Mei, Rouisa	Interest of spouse	Unlisted, physically settled	20,000,000 <i>(Note a)</i>
New World CyberBase Nominee Limited	Beneficial owner	Unlisted, physically settled	282,860,000
New World Telephone Holdings Limited	Interest of a controlled corporation	Unlisted, physically settled	282,860,000 <i>(Note b)</i>
New World Development Company Limited	Interest of a controlled corporation	Unlisted, physically settled	282,860,000 <i>(Note b)</i>
Chow Tai Fook Enterprises Limited	Interest of a controlled corporation	Unlisted, physically settled	282,860,000 <i>(Note b)</i>

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Notes:

- (a) This represents the interest of Mr. Lo Lin Shing, Simon, who is a director of the Company and the spouse of Ms. Ku Ming Mei, Rouisa, in the share options granted by the Company under the share option scheme of the Company.
- (b) New World CyberBase Nominee Limited is a wholly-owned subsidiary of New World Telephone Holdings Limited which is in turn a wholly-owned subsidiary of New World Development Company Limited. Chow Tai Fook Enterprises Limited and its subsidiaries owned a total of 35.26% equity interests in New World Development Company Limited. Accordingly, New World Telephone Holdings Limited, New World Development Company Limited and Chow Tai Fook Enterprises Limited are deemed to be interested in 282,860,000 underlying shares held by New World CyberBase Nominee Limited under the SFO.

SHARE OPTION SCHEMES

At an extraordinary general meeting of the Company held on 28 May 2002, the shareholders of the Company approved the termination of the share option scheme adopted by the Company on 11 September 1998 (the “1998 Share Option Scheme”) and the adoption of a new share option scheme (the “2002 Share Option Scheme”) in compliance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The following is a summary of the terms of the 2002 Share Option Scheme.

1. Purpose

The purpose of the 2002 Share Option Scheme is to enable the Company to grant options to the participants as incentive or rewards for their contributions to the Group.

2. Participants

The participants of the 2002 Share Option Scheme include any director, employee, consultant, agent, supplier, customer or shareholder of the Group or any entity in which the Group holds any equity interest.

3. Number of shares available for issue

The total number of shares available for issue under the 2002 Share Option Scheme is 334,155,570 which represents 8.9% of the issued share capital of the Company as at the date this report.

4. Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue unless separately approved by the shareholders in general meeting.

5. Option period

An option may be exercised in accordance with the terms of the 2002 Share Option Scheme at any time during the period as the board of directors in its absolute discretion determine and in any event such period of time shall not be more than 10 years from the date upon which the offer of the option is made to the grantee.

6. Vesting period

The directors may, if consider appropriate, determine the minimum period for which an option must be held before it can be exercised.

7. Amount payable on acceptance of option

Upon acceptance of the offer for an option, the grantee shall pay HK\$1.00 as consideration for the grant.

8. Exercise price

The subscription price for a share in respect of any option granted shall be a price determined by the board of directors in its absolute discretion but shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share.

9. Remaining life of the scheme

The 2002 Share Option Scheme is valid and effective for a term of 10 years commencing 28 May 2002.

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No share options have been granted under the 2002 Share Option Scheme.

Movements of the share options, which were granted under the 1998 Share Option Scheme, during the year were as follows:

Name or category of participant	Date of grant	Vesting period	Exercise period	Exercise price HK\$	Number of shares subject to options			
					At 1 January 2003	Exercised during the year	Lapsed during the year	At 31 December 2003
Directors:								
Mr. Lo Lin Shing, Simon	14 August 2000	-	15 August 2000 to 14 August 2003	0.284	57,000,000	-	(57,000,000)	-
	8 February 2002	9 February 2002 to 8 August 2003	9 February 2002 to 8 February 2008	0.150	20,000,000	-	-	20,000,000
Mr. Chan Ki	14 August 2000	-	15 August 2000 to 14 August 2003	0.284	57,000,000	-	(57,000,000)	-
Mr. Chan Wai Keung, Ringo	8 February 2002	9 February 2002 to 8 August 2003	9 February 2002 to 8 February 2008	0.150	10,000,000	-	-	10,000,000
Mr. Yu Ansheng, Ben	8 February 2002	9 February 2002 to 8 August 2003	9 February 2002 to 8 February 2008	0.150	10,000,000	-	-	10,000,000
Employees	8 February 2002	9 February 2002 to 8 August 2003	9 February 2002 to 8 February 2008	0.150	5,900,000	-	(900,000)	5,000,000
Total					159,900,000	-	(114,900,000)	45,000,000

Note: The options are vested in tranches during the vesting period.

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

CODE OF BEST PRACTICE

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

AUDIT COMMITTEE

The audit committee of the Company currently comprises Messrs. To Hin Tsun, Gerald and Wei Chi Kuan, Kenny who are independent non-executive directors of the Company and their principal duties include the review and supervision of the Company's financial reporting process and internal controls.

EMPLOYEES SCHEME

As at 31 December 2003, the Group had 85 employees. Apart from salaries, the Group also provides training and other fringe benefits to employees, which includes provident funds, medical insurance and share options. The remuneration policy and packages of the Group are reviewed on periodic basis.

SUBSEQUENT EVENTS

Details of the significant events occurring after the balance sheet date are set out in note 31 to the accounts.

AUDITORS

Ernst & Young were auditors of the Company for the four financial years ended 31 December 2002. During the year, Ernst & Young resigned and PricewaterhouseCoopers have been appointed as auditors of the Company.

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

On behalf of the Board

Lo Lin Shing, Simon

Chairman

Hong Kong, 23 April 2004