

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 2003.

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.

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 principal activities and other particulars of the subsidiaries of the Company are set out in note 16 to 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 | 11% | — |
| Five largest customers in aggregate | 47% | — |
| The largest supplier | — | 10% |
| Five largest suppliers in aggregate | — | 2.5% |

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 year ended 31 December 2003 and the financial position of the Company and the Group as at that date are set out in the financial statements on pages 19 to 43.

DIVIDENDS

The Directors do not recommend any final dividend (2002: nil) in respect of the year ended 31 December 2003.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 23 to 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. Chen Fang Yu

Mr. Ko Wen Jui (ceased to be director from 24 June 2003)

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 Wang Chia Chun and Chen Ho Fa will retire and, being eligible, Mr. Chen Ho Fa offers himself for re-election at the forthcoming annual general meeting.

DIRECTOR'S SERVICE CONTRACTS

Each of Messrs Wang Chia Chin, Wang Chia Chun, Chen Ho Fa and Chen Fang Yu, 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

As at 31 December 2003, the interests and short positions 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 Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the ("SF Ordinance") which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions in which they were deemed or taken to have under such provisions of the SF Ordinance) or which were required pursuant to section 352 of the SF Ordinance, to be entered in the register referred to therein or which were required 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 ("Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

| Name of Director | Company/Name of associated corporation | Capacity | Number and class of shares/securities (<i>Note 3</i>) |
|------------------|--|---|---|
| Wang Chia Chin | The Company | (i) beneficial owner | 117,151,000 ordinary shares of HK\$0.1 each (<i>L</i>) |
| | | (ii) Interest of spouse (<i>Note 1</i>) | 126,252,000 ordinary shares of HK\$0.1 each (<i>L</i>) |
| Wong Chia Chun | Eagle Lord Development Limited | beneficial owner | 4,920 non-voting deferred shares of HK\$1 each (<i>L</i>) |
| | The Company | beneficial owner | 27,700,000 ordinary shares of HK\$0.1 each (<i>L</i>) |
| Chen Fang Yu | Eagle Lord Development Limited | beneficial owner | 980 non-voting deferred shares of HK\$1 each (<i>L</i>) |
| | The Company | (i) beneficial owner | 3,436,000 ordinary shares of HK\$0.1 each (<i>L</i>) |
| Chen Ho Fa | The Company | (ii) Interest of spouse (<i>Note 2</i>) | 580,000 ordinary shares of HK\$0.1 each (<i>L</i>) |
| | | beneficial owner | 2,804,000 ordinary shares of HK\$0.1 each (<i>L</i>) |

Notes:

1. These shares are held by Ms Ko Su Mei, wife of Mr Wang Chia Chin.
2. These shares are held by Ms Wang Li Hui, wife of Mr Chen Fang Yu.
3. The letter "L" denotes the person's long position in the relevant shares.

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 the year under review.

CONNECTED TRANSACTIONS

During the year, there were no transactions which need to be disclosed as connected transactions in accordance with the requirements under Chapter 14 of the Listing Rules.

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-executive directors of the Group; (iii) any supplier or customer of the Group of 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 or 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 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 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 40,000,000 representing 10% of the issued share capital of the Company as at 17 January 2002, being the date dealings of the shares of the Company first commenced on the Stock Exchange. 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 the 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 of the Company or an independent non-executive Director, 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.

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 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 2003, the interests or short positions of every person, other than the Directors and the chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SF Ordinance were as follows:

| Name | Number of Shares | Capacity | Approximate percentage of the Company's share capital |
|-----------|--|---|---|
| Ko So Mei | 125,160,000 (<i>Note 1</i>) (<i>L</i>) | (i) beneficial owner | 30.16% |
| | 117,151,000 (<i>Note 2</i>) (<i>L</i>) | (ii) interest of spouse (<i>Note</i>) | 28.23% |
| | | | 58.39% |

Notes:

1. The letter "L" denotes Ko So Mei's long position in the relevant shares.
2. These 117,151,000 Shares were held and beneficially owned by Mr Wang Chia Chin, the spouse of Ms Ko Su Mei. Ms Ko Su Mei is taken to be interested in these 117,151,000 Shares by virtue of the SF ordinance.

Save as disclosed above, no person had notified the Company that he/she/it has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance as at 31 December 2003.

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.

PURCHASES, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

There were no purchases, sales or redemptions of the Company's listed securities 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 Group as at 31 December 2003 are set out in note 20 to 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 44.

RETIREMENT SCHEMES

The Group's subsidiary in the People's Republic of China (the "PRC") participates in a defined contribution retirement scheme organized 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 have acted as auditors of the Company for the year ended 31 December 2001 and 2002. In March 2004, KPMG resigned and KLL Associates CPA Limited were appointed to fill the vacancy. KLL Associates CPA Limited will retire at the forthcoming annual general meeting of the Company to be held on 24 June 2004 and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KLL Associates CPA Limited as auditors of the Company for the year ending 31 December 2004 is to be proposed at the forthcoming annual general meeting.

By order of the board

Wang Chia Chin
Chairman

Hong Kong, 28 April 2004