

Report of the Directors

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The directors submit their report together with the audited financial statements for the period from 1 April 2003 to 31 December 2003.

Change of Financial Year-end

The financial year-end of the Group has been changed from 31 March to 31 December.

Principal Activities

The principal activity of the Company is investment holding. The activities of the subsidiaries are property development; design, manufacturing and marketing of consumer packaged electronics; and provision of electronic manufacturing services.

Geographical Analysis of Operations

An analysis of the Group's turnover and contribution to operating loss/profit for the period by principal activities and markets is set out in note 5 to the financial statements.

Results and Appropriations

The results of the Group for the period are set out in the consolidated income statement on page 24.

The directors do not recommend the declaration of the payment of a final dividend for the period from 1 April 2003 to 31 December 2003 (Year ended 31 March 2003: Nil).

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years/ periods is set out as follows:

| | Nine months ended 31 December 2003 HK\$'000 | Year ended 31 March | | Fifteen months ended 31 March 2001 HK\$'000 | Year ended 31 December 1999 HK\$'000 |
|---|--|---------------------|------------------|--|---|
| | | 2003 HK\$'000 | 2002 HK\$'000 | | |
| Turnover | 11,708 | 100,576 | 215,338 | 675,396 | 571,539 |
| Profit/(Loss) after taxation | 63,545 | 190 | 52,152 | (630,461) | (75,225) |
| Interest of minority shareholders | — | — | — | 2,000 | — |
| Profit/(Loss) attributable to the shareholders | 63,545 | 190 | 52,152 | (628,461) | (75,225) |
| Total assets | 3,815,885 | 3,664,720 | 3,742,806 | 325,479 | 359,365 |
| Total liabilities | (1,401,700) | (1,300,529) | (1,387,303) | (351,982) | (387,647) |
| | 2,414,185 | 2,364,191 | 2,355,503 | (26,503) | (28,282) |

Property, Plant & Equipment

Details of the movements in property, plant & equipment of the Group are set out in note 12 to the financial statements.

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Subsidiaries

The activities of the subsidiaries are set out in note 14 to the financial statements.

Bank Loans, Overdrafts and Other Borrowings

The Group's bank loans, overdrafts and other borrowings as at 31 December 2003 are set out in notes 25 and 26 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 29 to the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the period are set out in note 30 to the financial statements.

Distributable Reserves

As at 31 December 2003, the contributed surplus of the Company amounting to HK\$1,971,857,000 (At 31 March 2003: HK\$1,971,857,000), is a distributable reserve.

Major Customers And Suppliers

| | 31 December 2003 | 31 March 2003 |
|-----------------------------------|------------------|---------------|
| Sales | | |
| – the largest customer | 51% | 52% |
| – five largest customers combined | 83% | 81% |
| Purchases | | |
| – the largest supplier | 60% | 26% |
| – five largest suppliers combined | 75% | 65% |

None of the directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) were interested in the above customers at any time in the period.

Directors' Emoluments

Details of directors' emoluments in respect of the period are shown in note 34 to the financial statements.

Directors' Interest in Competing Business

None of the directors of the Company has an interest in a business which compete or may compete with the business of the Group.

Pension Costs

Details of pension costs in respect of the period are shown in note 33 to the financial statements.

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Directors

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

Mr. YU Pun Hoi (*Chairman*)
Mr. ZHANG Hong Ren
Dr. ZHAO Liang
Mr. YU Lin Hoi #
Mr. LAM Bing Kwan #
Mr. CHAN Lap Stanley*
Mr. Francisco Paredes ACOSTA *

non-executive Directors

* *independent non-executive Directors*

In accordance with Bye-laws 99 and 102 of the Company, Mr. Zhang Hong Ren and Dr. Zhao Liang retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Biographical Details of Directors

Executive Directors

Mr. Yu Pun Hoi, aged 45, is the Chairman of the Company. Mr. Yu is the brother of Mr. Yu Lin Hoi. He has extensive experience in media and Internet technology businesses, and in properties investment and development. Mr. Yu has been with the Group since September 2000. Mr. Yu is also the Chairman and a substantial shareholder of Sino-i Technology Limited, the controlling shareholder of the Company.

Mr. Zhang Hong Ren, aged 51, has been in senior and management positions in economic research, media and computer technology industries since 1991. Mr. Zhang holds a master's degree in Economics. He has been with the Group since September 2000. Mr. Zhang is also a director of Sino-i Technology Limited, the controlling shareholder of the Company.

Dr. Zhao Liang, aged 46, has over 10 years of extensive management experience in banking sector. He holds a Doctorate degree in Economics and an MBA degree. Dr. Zhao has been with the Group since September 2000.

Non-executive Directors

Mr. Yu Lin Hoi, aged 60, the brother of Mr. Yu Pun Hoi, has extensive experience in marketing, management on manufacture and administration on transportation. He holds a master's degree in Marine. Mr. Yu has been appointed as non-executive director of the Company since January 2002.

Mr. Lam Bing Kwan, aged 54, has been in senior management positions in the banking and financial industry for more than 10 years. Mr. Lam joined the Board in September 2000 and has been re-designated as non-executive director since April 2002. Mr. Lam is also a non-executive director of Sino-i Technology Limited, the controlling shareholder of the Company.

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Independent Non-executive Directors

Mr. Chan Lap Stanley, aged 49, is an Assistant Professor in Zhejiang University in the People's Republic of China, and a researcher and chief secretary of a Research Centre for Taiwan, Macau and Hong Kong in Zhejiang University. He is also a business consultant in Ningbo Free Trade Zone in Zhejiang. Mr. Chan graduated from medical school and holds a master's degree in Psychology. He has been appointed as an independent non-executive director of the Company since January 2003.

Mr. Francisco Paredes Acosta, aged 57, is a senior partner of Acosta & Fernandez Law Firm in the Philippines, and has pursued his legal profession in the Philippines for over thirty years. He has been appointed as an independent non-executive director of the Company since September 2000. Mr. Acosta is also an independent non-executive director of Sino-i Technology Limited, the controlling shareholder of the Company.

Directors' Interests and Short Positions

As at 31 December 2003, the interests and short positions of the directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) as recorded in the register required to be kept 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 ("Model Code") were as follows:

The Company

(i) Interests in shares in issue

| Name of director | Number of shares of HK\$0.01 each | Nature of interest | Approximate percentage holding |
|------------------|--------------------------------------|--------------------|-----------------------------------|
| Yu Pun Hoi | 20,266,720,000 | Corporate | 67.71% |

Note: Mr. Yu Pun Hoi ("Mr. Yu"), together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of Sino-i Technology Limited ("Sino-i"). These 20,266,720,000 shares are collectively held by Victorious Limited, Robina Profits Limited and Ko Tact Limited which are all wholly-owned subsidiaries of Sino-i. As such, Mr. Yu is taken to be interested in these shares for the purposes of Part XV of the SFO.

(ii) Interests in underlying shares

| Name of Director | Notes | Number of underlying shares |
|------------------|-------|--------------------------------|
| Yu Pun Hoi | 1 | 11,111,111,111 |
| | 2 | 18,761,668,837 |

Notes:

1. Pursuant to the agreement (the "Subscription Agreement") entered into on 29 December 2003 between Robina Profits Limited ("Robina") and the Company relating to the subscription of convertible loan notes in an aggregate principal amount of HK\$200,000,000 (the "South Sea Notes"), the Company agreed to issue and Robina agreed to subscribe for the South Sea Notes in an aggregate principal amount of HK\$200,000,000. The South Sea Notes are convertible into a total of 11,111,111,111 shares of the Company at an initial conversion price of HK\$0.018 each (subject to adjustments). Robina is a wholly owned subsidiary of Sino-i. As such, Mr. Yu is taken to be interested in these shares for the purposes of Part XV of the SFO.

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2. Pursuant to the agreement (the "Sale and Purchase Agreement") entered into on 29 December 2003 between the Company as purchaser and First Best Assets Limited, Rosewood Assets Limited, Phippen Limited, Staverley Assets Limited, 中信信息科技投资有限公司 (CITIC Information Technology Investment Company Limited), Macro Resources Limited and Empire Gate Industrial Limited (collectively, the "Vendors") as vendors relating to the acquisition by the Company of a total of 12,515,795,316 shares (the "Sales Shares") in Sino-i, the Company agreed to acquire from the Vendors the Sale Shares (of which 8,658,325,316 Sale Shares are held by companies controlled by Mr. Yu) at a consideration of HK\$976,334,238, representing a price of approximately HK\$0.078 each. Half of the consideration will be satisfied by an issue of a total of 27,120,395,500 shares in the Company (the "Consideration Shares") at a price of HK\$0.018 each to the Vendors upon completion. Those Vendors which are companies controlled by Mr. Yu are entitled to a total of 18,761,668,837 Consideration Shares under the Sale and Purchase Agreement. As such, Mr. Yu is taken to be interested in these 18,761,668,837 Consideration Shares for the purposes of Part XV of the SFO.

(iii) *Interests in debentures*

Pursuant to the Subscription Agreement, the Company agreed to issue and Robina agreed to subscribe for the South Sea Notes in an aggregate principal amount of HK\$200,000,000. Robina is a wholly owned subsidiary of Sino-i. As such, Mr. Yu is taken to be interested in the South Sea Notes for the purposes of Part XV of the SFO.

Associated Corporation

As disclosed above, Mr. Yu, together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of Sino-i and Sino-i is the holding company of the Company. As such, Mr. Yu is taken to be interested in the shares that the Company holds in its associated corporations within the meaning of Part XV of the SFO. Sino-i is a company the shares of which are listed on the Stock Exchange which is also an associated corporation of the Company within the meaning of Part XV of the SFO. As at 31 December 2003, the interests and short positions of the directors of the Company in shares and underlying shares were as follows:

(i) *Interests in shares (excluding interests in underlying shares)*

| Name of director | Number of shares of HK\$0.10 each | | | Total interest |
|------------------|-----------------------------------|--------------------|-----------------|----------------|
| | Personal interest | Corporate interest | Family interest | |
| Yu Pun Hoi | – | 6,658,325,316 | 50,000,000 | 6,708,325,316 |
| Zhang Hong Ren | 504,000 | – | – | 504,000 |

(ii) *Interests in underlying shares held through debentures*

| Name of director | Number of underlying shares | Nature of Interest |
|------------------|-----------------------------|--------------------|
| Yu Pun Hoi | 2,000,000,000 | Corporate |

(iii) *Short positions in shares*

| Name of director | Number of shares | Nature of Interest |
|------------------|------------------|--------------------|
| Yu Pun Hoi | 8,658,325,316 | Corporate |

Save as disclosed above, as at 31 December 2003, none of the directors and chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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Share Option Scheme

On 29 August 2002, the Company adopted a share option scheme (the “Scheme”). Under the Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the Board. The Company has not granted any share options under the Scheme since its adoption. A summary of the Scheme is as follows:

(1) Purpose

The purpose of the Scheme is to provide incentives or rewards to participants for their contribution or would-be contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which any member of the Group holds any equity interests (the “Invested Entity”).

(2) Participants

The participants include:

- a. any employee (whether full time or part time employee, including any executive director but not any non-executive director) of the Company, any of its subsidiaries or any Invested Entity;
- b. any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries or any Invested Entity;
- c. any supplier of goods or services to any member of the Group or any Invested Entity;
- d. any customer of the Group or any Invested Entity;
- e. any person or entity that provides research, development or other technological support or other services to the Group or any Invested Entity;
- f. any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and
- g. any ex-employee who has contributed or may contribute to the development and growth of the Group and any Invested Entity.

(3) Maximum number of shares available for subscription

The maximum number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Company must not in aggregate exceed 30 per cent. of the issued share capital of the Company from time to time.

(4) Maximum entitlement of each participant

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each participant in any 12-month period shall not exceed 1 percent of the issued share capital of the Company in issue.

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(5) Time of Acceptance

An offer of grant of an option may be accepted by a participant within 28 days from the date of the offer of grant of the option. A consideration of HK\$1 is payable on acceptance of the offer of grant of an option.

(6) Maximum period for exercising an option

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date on which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option.

(7) Basis of determining the subscription price

The subscription price for shares under the Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the share.

(8) Remaining life of the Scheme

The Scheme will remain in force for a period of 10 years commencing on 29 August 2002 up to 28 August 2012.

Directors' Service and Management Contracts

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

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

Directors' Interests in Contracts

No contract of significance in relation to the Group's business to which the Company, its subsidiaries, its holding companies or its fellow subsidiaries was a party, and in which any directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the period.

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Substantial Shareholders' Interests and Short Positions

As at the 31 December 2003, those persons (other than directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

| Name of persons holding an interest in shares and underlying shares which has been disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO | Number of shares held | Number of underlying shares held | Approximate percentage of the issued share capital of the Company* | Notes |
|---|-----------------------|----------------------------------|--|-------|
| Kung Ai Ming | 20,266,720,000 | 11,111,111,111 | 67.71 | 1 |
| | – | 18,761,668,837 | – | 1 |
| Sino-i Technology Limited | 20,266,720,000 | 11,111,111,111 | 67.71 | 2 |
| Victorious Limited | 11,976,270,000 | – | 40.01 | 2 |
| Ko Tact Limited | 7,890,450,000 | – | 26.36 | 2 |
| Robina Profits Limited | 400,000,000 | 11,111,111,111 | 1.34 | 2 |
| Perfect Union Overseas Inc. | 2,100,000,000 | – | 7.02 | 3 |
| Fu Liang | 2,100,000,000 | – | 7.02 | 3 |
| First Best Assets Limited | – | 4,333,786,998 | – | 4 |
| Rosewood Assets Limited | – | 3,680,106,736 | – | 4 |
| Actinna Development Limited | – | 8,580,881,605 | – | 4 |
| Righteous International Limited | – | 2,166,893,498 | – | 4 |
| CITIC Group | 15,265,220,133 | 6,191,833,164 | 50.99 | 5 |
| CITIC Capital Markets Holdings Limited | 15,265,220,133 | – | 50.99 | 5 |
| CITIC Pacific Limited | 15,265,220,133 | – | 50.99 | 5 |
| Golden Gateway Enterprises Inc. | 15,265,220,133 | – | 50.99 | 5 |
| Forever Glory Holdings Ltd. | 15,265,220,133 | – | 50.99 | 5 |
| Macro Resources Limited | – | 2,166,893,498 | – | 4 & 5 |
| Empire Gate Industrial Limited | – | 4,333,786,997 | – | 6 |
| Yiu Kin Wai | – | 4,333,786,997 | – | 6 |

* For the avoidance of doubt, interests in underlying shares have not been taken into account when calculating the percentages set out above since these underlying shares have not been issued as at 31 December 2003.

Notes:

- Ms. Kung Ai Ming is the spouse of Mr. Yu and is taken to be interested in the shares in which Mr. Yu is taken to have an interest as disclosed above.
- Victorious Limited, Ko Tact Limited and Robina are wholly-owned subsidiaries of Sino-i and the interests held by them in the Company are included as the interest of Sino-i. Pursuant to the Subscription Agreement, the Company agreed to issue and Robina agreed to subscribe for the South Sea Notes in an aggregate principal amount of HK\$200,000,000. The South Sea Notes are convertible into a total of 11,111,111,111 shares at an initial conversion price of HK\$0.018 each (subject to adjustments). Robina is taken to be interested in these 11,111,111,111 shares for the purposes of Part XV of the SFO.
- Perfect Union Overseas Inc. is wholly-owned by Mr. Fu Liang. As such, Mr. Fu Liang is taken to be interested in the 2,100,000,000 shares directly held by Perfect Union Overseas Inc.

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4. First Best Assets Limited and Rosewood Assets Limited are taken to be interested in 4,333,786,998 and 3,680,106,736 Consideration Shares respectively under the Sale and Purchase Agreement. First Best Assets Limited, Rosewood Assets Limited and Actinna Development Limited are wholly-owned by Mr. Yu. Phippen Limited is wholly owned by Actinna Development Limited. As such, Actinna Development Limited is taken to be interested in the 8,580,881,605 Consideration Shares in which Phippen Limited holds an interest. Macro Resources Limited is owned as to 60% by Righteous International Limited and Righteous International Limited is wholly-owned by Mr. Yu. Righteous International Limited is taken to be interested in the 2,166,893,498 Consideration Shares in which Macro Resources Limited holds an interest. The interests of First Best Assets Limited, Rosewood Assets Limited, Actinna Development Limited and Righteous International Limited in the Company are included as part of the interest held by Mr. Yu.
5. Macro Resources Limited is owned as to 40% by Staverley Assets Limited. As such, Staverley Assets Limited is taken to be interested in the 2,166,893,498 Consideration Shares in which Macro Resources Limited holds an interest under the Sale and Purchase Agreement. In addition, Staverley Assets Limited itself is taken to be interested in 2,833,148,242 Consideration Shares and CITIC Information Technology Investment Company Limited is taken to be interested in 1,191,791,424 Consideration Shares under the Sale and Purchase Agreement. Both CITIC Information Technology Investment Company Limited and Staverley Assets Limited are indirectly wholly owned by CITIC Group. Their interests are included as part of the interest of CITIC Group.

CITIC Capital Market Holdings Limited is indirectly held as to 50% by CITIC Pacific Limited, as to 25% by CITIC International Financial Holdings Limited and as to the remaining 25% directly held by CITIC Group. Both CITIC International Financial Holdings Limited and CITIC Pacific Limited are companies the shares of which are listed on The Stock Exchange of Hong Kong Limited and in which CITIC Group controls a 53.84% and 28.88% interests respectively. Both Forever Glory Holdings Ltd. and Golden Gateway Enterprises Inc. are wholly owned subsidiaries of CITIC Pacific Limited. The interest held by CITIC Capital Market Holdings Limited is included as part of the interests of Forever Glory Holdings Ltd., Golden Gateway Enterprises Inc., CITIC Pacific Limited and CITIC Group respectively.

6. Empire Gate Industrial Limited is wholly-owned by Mr. Yiu Kin Wai and its interest in the 4,333,786,997 Consideration Shares is included as part of the interest held by Mr. Yiu Kin Wai.

Save as disclosed above, as at 31 December 2003, no other person (other than a director or chief executive of the Company) had notified to the Company any interest or short position in the shares or underlying shares of the Company which was required to be recorded in the register kept by the Company under Section 336 of the SFO.

Related Party Transactions and Connected Transactions

Details of related party transactions and connected transactions of the Company and the Group are set out in notes 37 and 40(a) to the financial statements.

Purchase, Sale or Redemption of Shares

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

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Bye-laws or the law in Bermuda.

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Code of Best Practice

All of the recommendations and guidelines under the Code of Best Practice as set out in the Listing Rules (“the Code”) have been complied with the Company for the period ended 31 December 2003 except that non-executive directors are not appointed for a specific term as recommended under the Code. All directors, including the non-executive directors, are subject to the retirement and rotation requirements in accordance with the Company’s Bye-Laws.

Audit Committee

The Company has set up an Audit Committee, of which the members comprise Messrs Chan Lap Stanley and Francisco Paredes Acosta, the two independent non-executive directors of the Company.

The objectives of the Audit Committee are to maintain an open line of communication between the Board, management and external auditors; to oversee and appraise the quality of the audits conducted by the external auditors; and to provide assistance to the Board in fulfilling its fiduciary responsibilities relating to the Company’s administration, operating and accounting controls.

Auditors

On 27 September 2001, Messrs PricewaterhouseCoopers retired and Messrs Grant Thornton appointed auditors of the Company at the annual general meeting held. There have been no other changes of auditors in the past three years.

The financial statements have been audited by Messrs Grant Thornton who retire and, being eligible, offer themselves for reappointment. A resolution will be proposed at the forthcoming annual general meeting for the reappointment of auditors of the Company.

On behalf of the Board

Zhang Hong Ren

Director

Hong Kong, 29 April 2004