

# 10 DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31st March, 2004.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 13 and 15 to the financial statements respectively.

## SUBSIDIARIES AND ASSOCIATES

Details of the Company's subsidiaries and of the Group's associates at 31st March, 2004 are set out in notes 13 and 15 to the financial statements respectively.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover during the year attributable to the Group's five largest customers accounted for 91.4% of the Group's turnover, of which 59.9% was attributable to the largest customer.

The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 89.5% of the Group's total purchases, of which 64.1% was attributable to the largest supplier.

Other than as disclosed above, at no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers or suppliers.

## RESULTS

The results of the Group for the year ended 31st March, 2004 are set out in the consolidated income statement on page 24.

## DIVIDEND

The Directors do not recommend the payment of a final dividend in respect of the year ended 31st March, 2004.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 68.

## DIRECTORS' REPORT

**PROPERTY, PLANT AND EQUIPMENT**

During the year, the Group spent approximately HK\$1,728,000 on the acquisition of vehicles, furniture and equipment.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 10 to the financial statements.

**SHARE CAPITAL, WARRANTS AND SHARE OPTIONS**

Details of movements during the year in the share capital and details of warrants and the share option scheme of the Company are set out in notes 22, 23 and 24 to the financial statements respectively.

**DIRECTORS**

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

**Executive Directors:**

Mr. Cheung Wai Tung (*Chairman*)  
Mr. Chu Bong Foo (*Vice-Chairman*)  
Mr. Cheung Kam Shing, Terry (*Managing Director*)  
Mr. Henry Chang Manayan  
Mr. Wan Xiaolin

**Independent Non-Executive Directors:**

Mr. Lai Man To  
Mr. Wang Tiao Chun  
Ms. Juliet Wu

In accordance with Clauses 110(A) and 190(v) of the Company's Bye-Laws, Messrs. Chu Bong Foo and Henry Chang Manayan will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Chu Bong Foo has entered into a service contract with the Company on 26th May, 1999 for a term of five years and would continued automatically for successive term of one year thereafter.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### Executive Directors

**Mr. Cheung Wai Tung**, aged 46, was appointed as the Chairman and Executive Director of the Company in December 1998 and is responsible for the corporate strategic planning and business development of the Group. Mr. Cheung holds a Bachelor of Arts degree in Accounts and Finance from Shanghai Maritime College, Shanghai, the PRC. Prior to joining the Group, he was representative and deputy chief executive officer of COSCO Group in Singapore and Hong Kong respectively.

**Mr. Chu Bong Foo**, aged 66, was appointed as Vice-Chairman and Executive Director of the Company in May 1999 and is responsible for the design and development of Chinese information infrastructure of the Group. Mr. Chu is the inventor of Changjie Index System and has been engaging in the development of Chinese character generating technology over 20 years.

**Mr. Cheung Kam Shing, Terry**, aged 41, was appointed as the Managing Director of the Company in April 2000 and is responsible for the Group's investment planning and corporate development. Mr. Cheung holds degree of a Bachelor and Master degree in Economics from University of Hong Kong and University of London respectively.

**Mr. Henry Chang Manayan**, aged 48, was appointed as Executive Director of the Company in September 1999. He was the Mayor of Milpitas, California, the USA and is the first Mayor of Asian ancestry ever elected in the City of Milpitas. He is also an attorney and business owner of a management consultancy firm. He was educated at Syracuse University, Oxford University (Great Britain), Yale-in-China College, Golden Gate University Graduate College of Banking and Finance and the University of Santa Clara School of Law, where he received his Juris Doctor. Mr. Manayan is the president and general counsel of Transpacific Capital Corporation, a finance and investment company. He also served as a board director, officer and legal counsel to several companies and organisation.

**Mr. Wan Xiaolin**, aged 46, joined the Group as General Manager in January 2000 and is responsible for the group administration, human resources and training, accounts and finance and information technology related management activities. Mr. Wan holds a Bachelor of Arts in Economics from Shanghai Maritime University, Shanghai, the PRC. Prior to joining the Group, he was general manager of China Merchants Transportation Group for finance and accounting division. Mr. Wan was appointed as Executive Director of the Company in July 2002.

## DIRECTORS' REPORT

## Independent Non-Executive Directors

**Mr. Lai Man To**, aged 74, was appointed as an Independent Non-Executive Director of the Company in March 1999. Mr. Lai is a mechanical engineering specialist and has over 30 years of experience in finance and securities industry. Before his retirement in 1998, he has held various senior positions including senior manager of Sun Hung Kai Securities and chief executive officer of Cheerful (Holdings) Limited.

**Mr. Wang Tiao Chun**, aged 48, was appointed as an Independent Non-Executive Director of the Company in August 1999. Mr. Wang is currently holding various senior management positions in various companies in Taiwan.

**Ms. Juliet Wu**, aged 47, was appointed as an Independent Non-Executive Director of the Company in May 2001. Ms. Wu was the Managing Director & Vice President of TCL Holdings Co., Ltd. and General Manager of TCL Information Technology Industrial (Group) Company Ltd.

## Senior Management

**Dr. Chen Tzyh Trong**, aged 46, joined the Company as Vice President and Executive Assistant to Chairman in May 2003. Dr. Chen graduated from the National Taiwan University with LL.B degree and earned his Ph.D. degree in Law from the University of London. He is well experienced in the fields of legal affairs, market development, and corporate management, with previous senior executive appointments at Hong Kong's Horizon Structured Finance Ltd., the CNT Groups Ltd., the New China Hong Kong Group Ltd., and Taiwan's Taiwan Cement Group Ltd.. Dr. Chen is a respected commentator and writer for national economic and legal affairs. Dr. Chen had served as Secretary General for the Association of Taiwan Business Association in Hong Kong and Director for the Association of Chinese Traders and he is currently a counselor for Taipei City Government.

**Mr. Lai Hoi Fai**, aged 49, joined the Group as Vice President, Business Strategy and Development in March 2003. Mr. Lai is a Telecom and IT business development professional, with the bulk of his over 20 years of professional experience gained from leading multinational corporations including Digital Equipment Corporation, National Semiconductor, Mitel, and Sonera where he had served as senior regional executive for the Asia Pacific market. He holds a Bachelor degree in Electrical Engineering from McGill University (Canada) and MBA from the University of Hong Kong.

**Mr. Chen Man Lung**, age 38, joined the Group as a Vice President in December 1998 and is responsible for publishing business and corporate development of the Group. Mr. Chen is also non-executive director of Mobile Telecom Network (Holdings) Limited, a listed company on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited; and Chief Financial Officer and Company Secretary of ViaGOLD Capital Limited, a listed company on the Australian Stock Exchange Limited. Mr. Chen graduated with an Honour Diploma in sociology from Hong Kong Baptist College in 1989 and a Master degree of arts in Chinese studies from The Hong Kong University of Science and Technology in 1994. Mr. Chen has worked as an economist in a consultant firm and a bank and has over 8 years of experience in investment industry.

**Senior Management** (Continued)

**Mr. Feng Chia Chi**, aged 39, joined the Group as Chief Engineer in May 1999 and is responsible for the design and development of the Chinese character embedded CPU project. Mr. Feng is one of Mr. Chu Bong Foo's dedicated disciples and has extensive experience in the field of hardware development.

**Mr. Tang U Fai**, aged 31, joined the Group as Technical Officer in May 2001 and is responsible for the design and development of V-Dragon CPU and COL-eTown project. Mr. Tang is one of Mr. Chu Bong Foo's dedicated disciples.

**Mr. Lee Kin Chung, Michael**, aged 49, joined the Group as Vice President in June 1999 and is responsible for development and marketing of the Group's publishing business. Mr. Lee has over 20 years of experience in publication field and had involved in publication operation of various newspaper and magazine in Hong Kong.

**Mr. Chan Chung Shing, Ricardo**, aged 43, joined the Group as General Manager in June 2000 and is responsible for the overall development and operation of the Chinese 2000 Linux-based software business. Mr. Chan holds a Bachelor of Engineering Science degree from the University of Western Ontario, Canada.

**Ms. Lau Tien May**, aged 50, joined the Group as Vice President in April 1999 and is responsible for the Group's corporate development and development of electronic publishing business. Ms. Lau has over 20 years of experience in publishing, advertising, public relations and corporate development.

**Mr. Cheung Wai Keung, Cecil**, aged 36, joined the Group in December 1998. He is the Group's Financial Controller and Company Secretary. He is a fellow member of the Chartered Association of Certified Accountants.

**Mr. Wong Shu Pui**, aged 37, joined the Group as General Counsel in November 2000 and is responsible for all the legal matters of the Group.

## DIRECTORS' REPORT

## SHARE OPTION SCHEME

The Company has terminated its share option scheme adopted on 15th June, 1993 (the "1993 Scheme") and adopted a new share option scheme (the "2002 Scheme") on its 2002 Annual General Meeting held on 21st August, 2002.

Subsequent to the termination of the 1993 Scheme, no further share options can be granted thereunder but in all other respects, the provisions of the 1993 Scheme shall remain in force and all share options granted prior to such termination shall continue to be valid and exercisable in accordance therewith. The number of shares available for issue under the 1993 Scheme and 2002 Scheme as at the date of the Annual Report is 47,100,000 and 95,900,000 respectively, totalling 143,000,000 shares which in aggregate representing approximately 4.29% of the issued share capital of the Company as of that date.

Particulars of the Company's share option schemes are set out in note 24 to the financial statements.

Details of the movement of the share options granted to the Directors and employees of the Company under the 1993 Scheme during the year are as follows:

	Date of Grant	At 1st April, 2003	Number of share options Granted/ Exercised/ Cancelled during the year	Lapsed during the year	At 31st March, 2004	Exercise price per share HK\$	Exercisable Period	
(a)	<b>Directors</b>							
	Mr. Cheung Wai Tung	3rd March, 2000	4,565,000	-	-	4,565,000	1.680	3rd March, 2000 to 2nd March, 2010
	Mr. Chu Bong Foo	(i) 27th August, 1999	10,000,000	-	-	10,000,000	0.264	27th August, 1999 to 26th August, 2009
		(ii) 3rd March, 2000	2,000,000	-	-	2,000,000	1.680	3rd March, 2000 to 2nd March, 2010
	Mr. Cheung Kam Shing, Terry	3rd March, 2000	3,000,000	-	-	3,000,000	1.680	3rd March, 2000 to 2nd March, 2010
	Mr. Henry Chang Manayan	(i) 27th August, 1999	2,000,000	-	-	2,000,000	0.264	27th August, 1999 to 26th August, 2009
		(ii) 3rd March, 2000	500,000	-	-	500,000	1.680	3rd March, 2000 to 2nd March, 2010
	Mr. Wan Xiaolin	3rd March, 2000	1,000,000	-	-	1,000,000	1.680	3rd March, 2000 to 2nd March, 2010
(b)	<b>Employees</b>	3rd March, 2000	27,535,000	-	(2,500,000) <i>(note)</i>	25,035,000	1.680	3rd March, 2000 to 2nd March, 2010

Note: These share options lapsed during the year due to staff resignation or death.

**SHARE OPTION SCHEME (Continued)**

Details of the movement of the share options granted under the 2002 Scheme during the year are as follows:

	Date of Grant	Number of share options				At 31st March, 2004	Exercise price per share	Exercisable Period	Price of the Company's shares (note)	
		At 1st April, 2003	Granted during the year	Exercised during the year	Lapsed/Cancelled during the year				At immediately preceding the grant date of share options	At immediately preceding the exercise date of share options
							HK\$		HK\$	HK\$
<b>(a) Directors</b>										
Mr. Cheung Wai Tung	19th December, 2003	-	4,000,000	-	-	4,000,000	0.265	19th December, 2003 to 18th December, 2013	0.260	N/A
Mr. Cheung Kam Shing, Terry	19th December, 2003	-	3,000,000	-	-	3,000,000	0.265	19th December, 2003 to 18th December, 2013	0.260	N/A
Mr. Henry Chang Manayan	19th December, 2003	-	1,000,000	-	-	1,000,000	0.265	19th December, 2003 to 18th December, 2013	0.260	N/A
Mr. Wan Xiaolin	19th December, 2003	-	3,000,000	-	-	3,000,000	0.265	19th December, 2003 to 18th December, 2013	0.260	N/A
<b>(b) Employees</b>	19th December, 2003	-	173,000,000	(124,800,000)	-	48,200,000	0.265	19th December, 2003 to 18th December, 2013	0.260	0.578
<b>(c) Others</b>	19th December, 2003	-	116,000,000	(75,000,000)	-	41,000,000	0.265	19th December, 2003 to 18th December, 2013	0.260	0.578

The share options granted are not recognized in the financial statements until they are exercised. The Directors consider that it is not appropriate to disclose the value of share options granted during the year, since any valuation of the above share options would be subject to a number of assumptions that would be subjective and uncertain.

*Note:* The price of the Company's shares disclosed as at immediately preceding the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options. The price of the Company's shares disclosed as at immediately preceding the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of share options prior to their respective exercise dates within the disclosure line.



## DIRECTORS' REPORT

**ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

Other than the share option holdings disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements 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.

**DISCLOSURE OF INTERESTS****(a) Interests of the Directors**

As at 31st March, 2004, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange:

***Interests in the shares of the Company***

Name of Director	Capacity	Nature of interests	Number of shares held	Approximate percentage of issued share capital
Mr. Cheung Wai Tung	Beneficial owner	Personal interest	10,000,000	0.30%
Mr. Chu Bong Foo	(i) Beneficial owner (ii) Interest of a controlled corporation	Personal interest Corporate interest	220,180,000 122,872,000 (note 1)	10.32%
Mr. Henry Chang Manayan	Beneficial owner	Personal interest	1,000,000	0.03%
Mr. Wan Xiaolin	Beneficial owner	Personal interest	500,000	0.02%

*Note:*

- 122,872,000 shares are held by Bay-Club Enterprises Inc., the entire issued share capital of which is beneficially owned by Mr. Chu Bong Foo.

*All interests stated above represent long positions.*



**DISCLOSURE OF INTERESTS (Continued)*****Interests in share options of the Company***

Name of Director	Capacity	Nature of interests	Number of share options	Exercise price per share	Exercisable period	Approximate percentage of issued share capital	
				HK\$			
Mr. Cheung Wai Tung	(i)	Beneficial owner	Personal interest (note 1)	4,565,000	1.680	3rd March, 2000 to 2nd March, 2010	0.26%
	(ii)	Beneficial owner	Personal interest (note 1)	4,000,000	0.265	19th December, 2003 to 18th December, 2013	
Mr. Chu Bong Foo	(i)	Beneficial owner	Personal interest (note 2)	10,000,000	0.264	27th August, 1999 to 26th August, 2009	0.36%
	(ii)	Beneficial owner	Personal interest (note 2)	2,000,000	1.680	3rd March, 2000 to 2nd March, 2010	
Mr. Cheung Kam Shing, Terry	(i)	Beneficial owner	Personal interest (note 3)	3,000,000	1.680	3rd March, 2000 to 2nd March, 2010	0.18%
	(ii)	Beneficial owner	Personal interest (note 3)	3,000,000	0.265	19th December, 2003 to 18th December, 2013	
Mr. Henry Chang Manayan	(i)	Beneficial owner	Personal interest (note 4)	2,000,000	0.264	27th August, 1999 to 26th August, 2009	0.11%
	(ii)	Beneficial owner	Personal interest (note 4)	500,000	1.680	3rd March, 2000 to 2nd March, 2010	
	(iii)	Beneficial owner	Personal interest (note 4)	1,000,000	0.265	19th December, 2003 to 18th December, 2013	
Mr. Wan Xiaolin	(i)	Beneficial owner	Personal interest (note 5)	1,000,000	1.680	3rd March, 2000 to 2nd March, 2010	0.12%
	(ii)	Beneficial owner	Personal interest (note 5)	3,000,000	0.265	19th December, 2003 to 18th December, 2013	

## DIRECTORS' REPORT

**DISCLOSURE OF INTERESTS (Continued)***Notes:*

1. Pursuant to the 1993 Scheme, Mr. Cheung Wai Tung was granted share options by the Company on 3rd March, 2000 to subscribe for 4,565,000 shares at the exercise price of HK\$1.680 per share for the exercisable period from 3rd March, 2000 to 2nd March, 2010. On 19th December, 2003, Mr. Cheung was further granted share options by the Company to subscribe for 4,000,000 shares at the exercise price of HK\$0.265 for the exercisable period from 19th December, 2003 to 18th December, 2013 under the 2002 Scheme.
2. Pursuant to the 1993 Scheme, Mr. Chu Bong Foo was granted share options by the Company (i) on 27th August, 1999 to subscribe for 10,000,000 shares at the exercise price of HK\$0.264 per share for the exercisable period from 27th August, 1999 to 26th August, 2009; and (ii) on 3rd March, 2000 to subscribe for 2,000,000 shares at the exercise price of HK\$1.680 per share for the exercisable period from 3rd March, 2000 to 2nd March, 2010.
3. Pursuant to the 1993 Scheme, Mr. Cheung Kam Shing, Terry was granted share options by the Company to subscribe for 3,000,000 shares at the exercise price of HK\$1.680 per share for the exercisable period from 3rd March, 2000 to 2nd March, 2010 upon his appointment as Managing Director of the Company on 1st April, 2000. On 19th December, 2003, Mr. Cheung was further granted share options by the Company to subscribe for 3,000,000 shares at the exercise price of HK\$0.265 for the exercisable period from 19th December, 2003 to 18th December, 2013 under the 2002 Scheme.
4. Pursuant to the 1993 Scheme, Mr. Henry Chang Manayan was granted share options by the Company (i) on 27th August, 1999 to subscribe for 3,000,000 shares at the exercise price of HK\$0.264 per share for the exercisable period from 27th August, 1999 to 26th August, 2009; and (ii) on 3rd March, 2000 to subscribe for 500,000 shares at the exercise price of HK\$1.680 per share for the exercisable period from 3rd March, 2000 to 2nd March, 2010. Mr. Henry Chang Manayan exercised his share options to subscribe for 1,000,000 shares at the exercise price of HK\$0.264 on 18th February, 2000. On 19th December, 2003, he was further granted share options by the Company to subscribe for 1,000,000 shares at the exercise price of HK\$0.265 for the exercisable period from 19th December, 2003 to 18th December, 2013 under the 2002 Scheme.
5. Pursuant to the 1993 Scheme, Mr. Wan Xiaolin was granted share options by the Company on 3rd March, 2000 to subscribe for 1,000,000 shares at the exercise price of HK\$1.680 per share for the exercisable period from 3rd March, 2000 to 2nd March, 2010. On 19th December, 2003, Mr. Wan was further granted share options by the Company to subscribe for 3,000,000 shares at the exercise price of HK\$0.265 for the exercisable period from 19th December, 2003 to 18th December, 2013 under the 2002 Scheme.

*All interests stated above represent long positions.*

## DISCLOSURE OF INTERESTS (Continued)

Save as disclosed above, as at 31st March, 2004, none of the Directors nor chief executive of the Company had interests or short positions in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

### (b) Interests of Substantial Shareholder

As at 31st March, 2004, so far as is known to any Director or chief executive of the Company, the following person had an interest or short position in the shares or 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 SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO:

#### *Interests in the shares of the Company*

Name	Capacity	Nature of interests	Number of shares held	Approximate percentage of issued share capital
Mr. Chu Bong Foo	(i) Beneficial owner	Personal interest	220,180,000	10.32%
	(ii) Interest of a controlled corporation	Corporate interest	122,872,000 (note 1)	

*Note:*

- 122,872,000 shares are held by Bay-Club Enterprises Inc., the entire issued share capital of which is beneficially owned by Mr. Chu Bong Foo.

*All interests stated above represent long positions.*

## DIRECTORS' REPORT

**DISCLOSURE OF INTERESTS (Continued)*****Interests in share options of the Company***

<b>Name of Director</b>	<b>Capacity</b>	<b>Nature of interest</b>	<b>Number of share options</b>	<b>Approximate percentage of issued share capital</b>
Mr. Chu Bong Foo	Beneficial owner	Personal interest	12,000,000	0.36%

*The interest stated above represents long position.*

Save as disclosed above, as at 31st March, 2004, the Directors and the chief executive of the Company were not aware of any person who had an interest or short position in the shares or 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 SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO.

**CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS**

No contracts of significance 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.

**PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, 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 throughout the year ended 31st March, 2004 with those paragraphs of the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that the Independent Non-Executive Directors of the Company were appointed without specific term as they were subject to retirement by rotation in accordance with the Bye-laws of the Company.

**AUDIT COMMITTEE**

To comply with the revised Code of Best Practice, an audit committee was formed in March 1999 comprising two members, namely Messrs. Lai Man To and Wang Tiao Chun (the Independent Non-Executive Directors of the Company) to review the Group's financial reports and internal control.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

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

### **AUDITORS**

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board



**Cheung Wai Tung**

*Chairman*

Hong Kong, 22nd July, 2004