Chairman's Statement

We have achieved our goal to focus on the high growth media and telecommunications industries despite the last year having been a difficult one for the Group.

We have completed our divestment from the manufacturing business as the OEM manufacturing market was becoming increasingly competitive offering very low profit margins, which would likely cause a significant drain on resources going forward. Faced with this dire circumstance, management disposed of its manufacturing operation resulting in a significant one off loss affecting our results for the year. Our media and communication businesses continue to develop as discussed below. Our high-end audio distribution business continues to expand its presence in Hong Kong and China. In addition, we have cut back on our overheads so that our leaner operation can meet the uncertain market challenges of tomorrow.

Looking forward, the Group is very confident that it can bring together the media and communications industries in Mainland China, and given its current business development, the Group is well placed to capitalize on their growth and opportunities when these markets open up upon China's entry to the World Trade Organisation.

For our digital transmission business, as of 31 March 2001, our Hong Kong listed subsidiary, DVN (Holdings) Limited ("DVN"), has installed altogether 13 digital broadcasting platforms in seven provinces and six municipalities throughout China, providing access to over 34 million existing cable subscribers in Mainland China.

For our communications business, headed by our subsidiary, Smart Asia Limited ("SAL"), which engages in:

- Providing telephone banking and other computer telephony integration ("CTI") solutions in China;
- Providing outsourcing services for management of automated payment systems and services;
- Marketing of Telco services for major carriers in China and overseas;
- Marketing and provision of extensive range of customer centric and proprietary Value Added Services using the latest IP based communication solutions; and
- Marketing and provision of IP Telephony Virtual Private Network (VPN) solutions and services in the Greater China Region and other Asia districts.

Chairman's Statement

Our Group will be well placed to capitalize on the growth of these two industries and the convergence of the media, telecommunications and data industries as we move to the new media era.

Digital Media Transmission Business

Digital broadcasting platforms in China

We are rolling out our digital broadcasting platforms in the Eastern Coastal areas. During the year, DVN has already installed digital broadcasting platforms in four provinces and four municipalities giving us potential access to over 19 million cable TV subscribers. DVN continues to install its platforms in new locations throughout China. As of 31 March 2001, DVN had signed one new contract and was negotiating another to install its systems through long term leases, and had entered into arrangements for the sale of 4 platforms to its strategic partner, giving DVN access to a further 15 million CATV subscribers.

Platform provider

DVN sells or leases its digital broadcasting platforms direct to CATVs (Cable TV operators) enabling them to deliver interactive pay TV services to their subscribers. At the operator level, DVN provides all the system components, including the broadcast control system, conditional access system, subscriber management system software and the hardware that enable CATVs to inexpensively upgrade their broadcast network from one way analogue systems to digital interactive systems. In addition, DVN sells the STBs (set top boxes) to CATV subscribers via CATV operators. DVN's set top boxes are one of the only three that have received full regulatory approval in Mainland China.

When DVN sells the system outright, in addition to the sales price of the platform, it receives an annual maintenance fee over the contractual period, normally ten years. When systems are leased, DVN receives a percentage of the subscription fees collected for digital broadcasts over the contractual period in return for the lease of its platform, continuous platform maintenance and application software upgrades.

Premium content

DVN recognizes that, to attract sufficient users, operators need to provide premium content. As part of its package for CATVs, DVN provides premium Chinese language content ie. video, data and text, much of it on exclusive basis. This raises additional royalty and commission revenue for the Group in addition to the revenues earned from equipment sales. DVN has a 30-year exclusive licensing contract with China Star Entertainment Limited, a Hong Kong listed film producing company, to broadcast their titles over the DVN platform in the PRC. DVN also has license rights to a library of over 1,000 movies and educational titles, plus over 1,000 hours of documentaries from content providers. Through its strategic partner, DVN is also able to introduce content from Discovery Channel, the Fashion Channel and MTV. DVN also receives commission revenues from on-line news and financial information it provides to the CATVs.

Value added interactive services

DVN's system overcomes many of the barriers to on-line trading in the PRC. Its set top boxes are equipped with a Smart Card system providing a readily available low risk point of sale device to all subscribers. The system's open architecture enables DVN to develop multiple interactive applications including on-line trading, on-line shopping, and home banking. As well as providing premium services to its users, DVN will also benefit from receiving fee revenues from organisations generating sales transacted over its platforms. DVN is already developing the applications for a major PRC brokerage firm to enable stock trading over the interactive TV platform. This is an area where we believe we will see strong growth with the opening up of China's stock markets and continued improvement in the China economy. In addition, negotiations are also underway to provide interactive TV subscribers with a home shopping service.

Exciting market potential

At the end of 2000, DVN had entered into contracts to gain potential access to over 19 million of China's 80 million cable TV households. In the first quarter of 2001, DVN is negotiating a further six contracts which will increase its potential reach by a further 15 million cable TV households. With the number of cable TV households in China increasing by over 10% per annum, we believe that the

Chairman's Statement

revenue growth potential is enormous. Even capturing just 10% of the growth currently in our coverage area would increase our subscribers by over 3 million per annum.

Unlike other significant markets, China's near 100% TV penetration rate as compared with less than 0.5% for in-home computers makes the television sets the most likely vehicle for on line commerce in the future. There is already a solid potential and growing subscriber base of some 80 million cable TV households. China's cable networks that are mainly fibre-optic and hybrid fiber coaxial ("HFC"), providing broadband transmission speeds of over 2 megabytes per second ("mbps"). This compares with speeds for personal computer modems of 56 kilobytes per second, Integrated Service Digital Networks ("ISDN") of 128 kilobytes per second and Asymmetric Digital Subscriber Line ("ADSL") of between 1.5 mbps and 8 mbps within 5 kilometers of the telephone company's local exchange. In general, on line access via the Internet is considerably more expensive than our proposed subscription charges for cable TV.

Cable subscribers in DVN's Territory

Province/ Municipality	**Number of Cable Households** *(millions)*	**Sale or Lease**
Suzhou	0.3	Lease
Shandong	6.0	Lease
Hebei	3.0	Lease
Zhongshan*	0.8	Lease
Zhejiang**	4.0	Lease
Shengli Oil Field	0.1	Sale
Shanghai	3.4	Sale
Foshan	0.6	Sale
Henan^	4.0	Sale
Shaanxi^	2.5	Sale
Hunan**	3.8	Sale
Hubei**	4.5	Sale
Tianjin**	1.5	Sale
Guangzhou***	1.2	Sale
Total	35.7	

* *Signed in 2001*
** *Systems installed pending finalisation*
*** *under negotiation*
^ *Installed in 2000 but to be commissioned in 2001*

Risk Management

DVN's exposure to China's broadcasting industry brings about a degree of uncertainty. Due to the newness of digital broadcasting technology and its capabilities, the broadcasting industry's structure and regulations are evolving. However, the trend in China, as promoted by the State Administration of Radio, Film and Television, is to upgrade China's broadcasting industry from analogue to digital. DVN's technology supports this switch. Furthermore, as DVN's business model is in accordance to China's current rules and regulations, it has minimized the inherent risk. However, DVN will closely monitor changes in the market and adopt a prudent and adaptive approach in order to maximize shareholder's value.

Communication Business

Telecommunications in China

SAL operates in Mainland China through its jointly-controlled entity Beijing Jiya Telecommunications Engineering Co. Limited ("Jiya") and subsidiary Beijing E-Pay Net Technology Co. Limited ("Epay").

Jiya was formed in 1994 and has since established a name in the market as a well-respected CTI systems integrator. Its wide range of customers includes banks, telecommunication companies, insurance companies, and airport authorities. Jiya is now developing modular telephone banking system providing rapid and cost effective deployment of new applications and enhancements while maintaining a high quality standard.

Continuing on the success and network established by Jiya, we formed another sino-foreign joint venture, Epay. Epay manages the daily operation and customer database of "299" telephone bill pay-by-phone service jointly provided by Bank of China and Beijing Telecom in Beijing. The system for this was originally built

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by Jiya, demonstrating our expertise at all stages in payment systems implementation. Epay, through its local partner, markets and collects fees for Beijing Telecom's IP and traditional long distance calls, and other value added telecommunication services.

Our Chinese partner has an eight-year exclusive contract with Beijing Telecom Development Corporation, the business arm of Beijing Telecom, to market its IP telephony, as well as traditional IDD and other services. Epay receives a percentage of revenue from call charges as agency fees within this agreement.

Our Chinese Partner is also negotiating a partnership agreement with a Beijing Telecom subsidiary and Bank of China to jointly operate "299" service. There are over four million telephone subscribers in Beijing, providing a huge potential customer base for SAL services.

Epay is also negotiating market agency arrangements with other major carriers. Basic groundwork has been laid in Shanghai, Guangzhou and Shenzhen to replicate SAL's Beijing business model. We are within weeks of signing a contract to be the nationwide marketing agent for one of China's leading telecom company's IP and traditional IDD services. These new regional businesses would be able to commence operations in relatively short time once all aspects of the business are confirmed, including funding.

Services beyond China

For the markets outside of China and beyond, the Group has acquired a controlling interest in a next generation Integrated Communication Service Provider, Webway Communications Holdings Inc. ("Webway"). The business mission of Webway is to be the premier service provider of IP based telecom services for enterprises and a full range of value added individual communication services. Our strategic investors include VocalTec Communication Limited, a NASDAQ listed company based in Israel, known to be the founder of VoIP.

Aiming to enhance the reach and extending the connectivity of frequent executive travelers and mobile roamers, Webway will be launching a new suite of customer centric and personalized IP based integrated communication services in Greater China. This new service will allow our subscribers to stay in-touch and achieve substantial savings in communication expenses.

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For the marketing of our IP Telephony VPN solution and services, Webway establishes strategic alliances with prominent ISPs in Greater China to focus on the enterprises user market. Target customers are heavy IDD users in Greater China with Internet/Broadband access provided by the ISPs. They are typically multi-location enterprises in Hong Kong and Taiwan with manufacturing and other operations in China where they require to communicate and travel frequently. Our selling proposition is fully integrated VPN services based on IP technology that delivers communications and value added services at a fraction of the cost of the equivalent services delivered on a switched network. Typically these savings are between 45% and 75% of costs, depending on the number of sites.

Webway has completed the development of their solution and already have a number of enterprises using the IP Telephony VPN services, including Asian branches of Fortune 500 companies. Webway has established inter-connection arrangement with leading global carriers, like Concert and ITXC and have established POPs (Points of Presence) in Hong Kong, United States and China.

Future market and prospects

Industry trends indicate the Internet Protocol platform will displace public switched telephone networks, or PSTNs, as the pre-eminent communications platform within 10 years. Yankee Group predicts IP IDD will account for 41% of overall IDD demand as early as 2004. A recent report from International Data Corporation predicted the worldwide IP revenue will amount to US$59 billion by 2004. As an early mover in this market place serving the mass market in China and niche markets in the rest of Greater China, we are well placed to capitalize on this growth.

Challenges ahead

With DVN and SAL and their subsidiaries starting to implement their business plans, we are poised to capitalise on the huge growth in demand for media and communications services in the Greater China region. However, we are not the only players in the market and more competitors are starting to emerge as the opportunity becomes more apparent. We expect further competition as markets liberalise.

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Even so we are well placed to meet that challenge and will also benefit from the increase in demand that greater competition will bring. We are already investing to enhance our technology further with research and development centres in Shanghai, Hong Kong and, most recently, Shenzhen. Our developments to date reflect the talent and commitment of our people.

Management Discussion and Analysis

The year 2000 was a trying year for the Group. Faced with increasing competition and falling margins, the Group divested from its manufacturing operation to refocus in the growth industries of digital media transmission and communications. In addition, the downturn in Internet stock prices negatively affected our remaining interests in a former subsidiary.

Results

During the year under review, the Group recorded a consolidated turnover of HK$119,275,000 as compared to HK$727,726,000 in 1999, and a loss of approximately of HK$492,869,000 as compared to a profit of approximately HK$70,559,000 in 1999. The decrease in turnover was mainly due to the discontinuation of the manufacturing businesses and the loss for the year was mainly attributable to the provision for the unrealized holding loss of approximately HK$294 million (1999: $17 million) on the short-term investments in a former subsidiary as mentioned above, write-off of intangible assets of HK$97 million (1999: $67 million) and loss from closure of manufacturing business of HK$40 million.

Significant Corporate Events

In January 2000, the Group had disposed 50,000,000 existing ordinary shares of netalone.com Limited ("Netalone") at a price of HK$3 per share .

In the same month, the Group entered into a sale and purchase agreement with DII Group (BVI)., Ltd. ("DII") to purchase 15,000,000 convertible preference shares of DVN (Group) Limited from DII at a consideration of US$19,471,233. Such preference shares are exchangeable to 24,218,750 ordinary shares of DVN, subject to adjustment.

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In the same month, in a top-up subscription, the Company and Prime Pacific International Limited ("Prime Pacific") placed an aggregate of 17,014,000 ordinary shares of DVN at HK$6 per share to independent investors. The Company and Prime Pacific then subscribed for an aggregate of 34,700,000 new ordinary shares of DVN at HK$6.

In February 2000, in a top-up subscription, the Company entered into a conditional share subscription agreement under which the Company issued and allotted 390,000,000 ordinary shares at a consideration of HK$0.6 per share to Techral Holdings Limited, raising approximately HK$228 million for the Company.

Liquidity

UAL has financed its growth primarily through the issuance of new shares and internally generated cash. In February, UAL placed 390 million new shares, raising approximately HK$228 million. At the end of year 2000, its cash and cash equivalents amount to HK$61.7 million. The Group had no long term bank loan, no bank overdrafts, nor any material contingent liabilities outstanding as at year end. The Group is exploring opportunities to strengthen the capital base of the Company.

Employees

As at 31 December 2000, the Group employed approximately 400 staff. Remuneration packages are reviewed either annually or by special increment. In addition to the salary payment, other staff benefits include medical subsidies and retirement scheme contributions. Bonuses are made available to the staff of the Group and are based on individual performance.

Appreciation

I would like to thank all the staff of UAL, DVN and SAL for their efforts and dedication in what has proven to be a difficult year. I would also like to extend my appreciation to the other Board members for their invaluable contribution and to our shareholders, customers and business associates for their continued support.

By Order of the Board
Johnson Ko
Chairman

25 April 2001