Chairman's Statement

The year 2001 was a trying year for the Group. However, we substantially reduced our trading losses and write-offs. We now expect that our listed subsidiary, DVN (Holdings) Limited ("DVN") will continue to expand in its high margin digital broadcasting business, leading to overall improvement of the Group's financial position.

OUR BUSINESS

Digital TV Services Division

During the year under review, DVN has continued to strengthen and consolidate its position as one of the leading media technology providers in China. DVN has focused on the roll out of digital TV services in locations where its platforms have been installed. As of year end, digital services were commercially operable in ten locations over DVN's digital broadcasting platforms of which five only became operable in December 2001. DVN receives a percentage of subscription fees collected for five of the ten new digital services on offer. In the other locations, the platforms were sold outright and as such DVN will only receive ongoing income in these locations from the sale of its set top boxes.

DVN has now not only installed digital platforms throughout China but has made digital TV services an option for the analog subscribers that reside in these catchment areas. DVN foresees increasing subscriber numbers as it continues to roll out digital services throughout China. As subscriber numbers grow, DVN's profitability will evolve as its business model enables it to share with the local cable operators the increasing subscription revenues collected from digital services offered over its platforms. With a technology as new and revolutionary as digital broadcasting, it is difficult to predict the exact form of the digital broadcasting industry and its accompanying products in the next five years. However, DVN's business model and technology provides entry into the households of Chinese consumers at a basic level so that it will be well positioned to provide the higher value added, broader range of digital services that will be demanded in the future.

DVN has been able to put in place an extensive network of installed broadcasting platforms, giving it a substantial presence in China and maximum market coverage. By offering a Chinese language digital TV platform tailor-made for the CATV market in the PRC, DVN has successfully installed its digital broadcasting systems in 19 provinces and municipalities throughout the PRC. DVN has local implementation and support service teams throughout China providing the local CATVs a high level of service and support at costs significantly lower than international competitors. Going forward, DVN will leverage this extensive network of installed platforms to further penetrate the Chinese market with digital TV services.

Chairman's Statement

China continues to be the largest CATV market in the world with over 100 million users and is already actively participating in the worldwide migration towards digital interactive TV. Further accelerating the switch from analog to digital is the estimation that by year 2005, all major provincial and municipal CATVs will have to start digital broadcasts. The Chinese cable industry is unique, as its infrastructure was largely put in place by the Chinese government in order for it to communicate with its citizens. As such, the Chinese cable industry is not suffering from the high debt levels that currently encumber the European cable markets and it is relatively modern offering broadband transmission levels. On the other hand though, the Chinese cable industry suffers from lack of content and quality services as until recently it was treated as a government-run utility. Now with digital technology at price points that are acceptable to the Chinese consumer, as offered by DVN, an entire new industry is emerging with the approval of the Chinese regulatory authorities. Despite the digital broadcasting industry being new and fraught with complexities, DVN's business model provides a beneficial solution to both the consumers and the cable operators. It is this solution that has been perfected over the last three years that gives DVN its competitive advantage and market leadership position in a market that boasts 100 million potential subscribers.

DVN's exposure to China's developing broadcasting industry is accompanied by both a degree of uncertainty as well as unlimited potential. Due to the newness of digital broadcasting technology, which merges interactive data, video and audio, resulting in new services and functions over the TV, the broadcasting industry's structure, regulations and services are evolving. DVN has positioned itself to take advantage of this potential while minimizing its risks. It has implemented a flexible business model that permits and rewards both proactive initiative as well as defensive maneuvers to take into account changes in the industry as it matures and changes in the preferences of Chinese consumers. DVN continues to focus on technical research and development in order to continuously upgrade and improve the products it offers and to take advantage of the digital subscriber base to which it has access. DVN is also forging new strategic alliances in order to further strengthen its leading position in the China market and to further its market penetration by offering Chinese consumers high quality products and services suitable to their unique requirements. This dual pronged approach will maintain DVN's market leadership and in turn create long term value for its shareholders as digital subscribers subscribe to a broader range of higher value added services as the digital industry develops. DVN will closely monitor changes in the market and will adopt a prudent and adaptive approach in order to maximize shareholders' value while providing shareholders the ability to participate in the immensely interesting and potentially lucrative digital broadcasting revolution.

The Telecommunication Division

Our telecommunication businesses are mainly operated in China through our jointly controlled entity, Beijing Jiya Telecommunications Engineering Co. Limited ("Jiya") and a subsidiary, Beijing E-Pay Net Technology Co. Limited ("E-Pay").

Jiya's phone banking and other computer telephony integration solutions were well accepted by the major banks including our major customer, the Bank of China. During the year, Jiya developed a new modular telephone banking system. This cost effective system not only provides a cheaper solution for the banks, its highly compatible design also encouraged the users to adopt more value added applications and features into their systems. In view of this, Jiya will place more effort in designing new applications to cope with the increasing demand of the banks and their customers for cost-saving and convenient phone banking services.

Based in Beijing, E-Pay and its partner, Beijing Telecom Development Corporation (the business arm of Beijing Telecom), continues to operate the "2855" IP long distance call services, of which E-Pay provides marketing and technical support to China Telecom's and China Unicom's IP long distance services and, in return, receives a percentage of revenue from the total call charges. Despite the intense competition in the long distance call market, E-Pay is able to grow at a steady pace with the support from the two China telecom giants.

Outside China, our calling card business has also recorded encouraging sales after launching the service in April 2001. Besides the existing sales channels, we are exploring other feasible ways to expand our market share and to reduce costs.

The High-end Audio Distribution Division

Our high-end audio distribution business has been affected dramatically by the global economic downturn. The luxury market is in a period of consolidation as overall consumer spending has been curtailed in this difficult environment. However, the Group is currently looking forward to distribution opportunities in the growing markets in China, where foreign brand awareness is ripe for business expansion.

FUTURE

Without exception, the Group's businesses were affected by current economic and market conditions. The Group has taken measures to reduce costs and to dispose of or close, loss-making operations. The Group is confident that our existing China focused business portfolio will achieve high growth with the accession of China to the World Trade Organization. In order to capitalize on our unique position as digital media and telecommunication integrators in China, we will constantly seek investment and acquisition opportunities, especially those that bring synergy to the Group.

Looking ahead, the Group will need to strengthen its capital base and liquidity for future expansion and working capital needs. In this regard, the directors will continue to seek opportunities to enhance the Group's financial and capital structure, so that it will be in a position to compete for capital in the financial and debt markets.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's results continued to be negatively affected by the downturn in the economic environment. During the year, the Group recorded a consolidated turnover of HK$128,875,000 as compared to HK$119,275,000 in 2000, and a loss of approximately of HK$138,404,000 as compared to a loss of approximately HK$493,730,000 in 2000. The loss is mainly due to the net bad and doubtful debts provision and the written-off of HK$30,894,000; the provision made in listed investment securities of HK$23,032,000; the unrealised loss of a short-term listed investment of HK$8,134,000; and the write-off of fixed assets of HK$5,663,000.

Liquidity and financial resources

As at 31st December 2001, the Group held cash deposits including pledged deposits totaling HK$120,822,000, an increase of HK$46,644,000 compared to 31st December 2000. A decrease in the current ratio from 3.57 at the prior year end to 1.59 as at 31st December 2001 and an increase in the gearing ratio, representing long term liabilities to net worth, from 0.13 at 31st December 2000 to 0.24 at 31st December 2001.

In addition to the internal generated cash flows, the Group also made use of import banking facilities to finance its operations during the year. There were no significant exposures to foreign currency fluctuations. All borrowings were based on current market interest rate. The Group had no long term bank loan, no bank overdrafts outstanding as at year end.

Significant investments held

There was no significant change in investments held during the year. As the Group values short-term investment in listed shares at market value in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities", the Group is exposed to fluctuation in the equity value of the companies in which it has invested. In addition, the value of the Group's short-term investments may be impacted by sentiment towards the equity market as well as the stock itself.

Contingent liabilities

The Group had no any material contingent liabilities outstanding as at the year end.

Pending litigation

Details of pending litigation are set out in note 31 to the accounts.

Number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes

Including the directors of the Group, as at 31st December 2001, the Group employed a total of 460 full-time employees. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel including engineering and product development are offered discretionary year-end bonuses based on individual merit. The Group also provides in-house training programs for all staff. Details of share option schemes were disclosed in the Report of the Directors in the Annual Report.

APPRECIATION

I wish to take this opportunity to extend my appreciation to all the directors and employees for their commitment and dedications that the Group will continue to rely on. I would also like to thank our shareholders, customers, suppliers and business associates for their continuing support and confidence in the Group.

Ko Chun Shun, Johnson

Chairman

Hong Kong,

26th April 2002