

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st December 2001.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 36 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the accounts.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated profit and loss account on page 24.

The directors do not recommend the payment of a dividend.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the 2000 published annual report and restated/reclassified as appropriate, are summarised below.

Results

	2001	2000	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover					
Continuing operations	128,875	89,753	32,451	21,121	22,870
Discontinued operations	—	29,522	695,275	747,659	766,171
	128,875	119,275	727,726	768,780	789,041
(Loss)/profit before tax	(165,710)	(587,456)	(11,461)	(122,448)	8,179
Taxation	—	645	1,164	—	(2,980)
Minority interests	27,306	93,081	79,874	2,292	—
(Loss)/profit attributable to shareholders	(138,404)	(493,730)	69,577	(120,156)	5,199

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FIVE YEAR FINANCIAL SUMMARY (Continued)

Assets and liabilities

	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Fixed assets	83,520	43,213	69,597	165,885	335,559
Intangible assets	59,453	64,606	129,442	131,693	139,627
Interests in a jointly-controlled entity and an associated company	10,901	26,155	19,859	—	—
Investment securities	55,662	58,414	32,055	—	—
Other long-term assets	64,353	66,987	74,303	520	520
Current assets	304,180	342,536	737,014	549,884	278,751
Total assets	578,069	601,911	1,062,270	847,982	754,457
Current liabilities	190,851	95,869	238,586	465,418	266,487
Long-term liabilities	50,715	45,119	756	220	17,080
Total liabilities	241,566	140,988	239,342	465,638	283,567
Minority interests	120,752	107,821	205,009	33,243	—
Net assets	215,751	353,102	617,919	349,101	470,890

The net (loss)/profit attributable to shareholders for each of the four years ended 31st December 1997, 1998, 1999 and 2000 and the shareholders' equity as at the respective balance sheet dates have been restated as a result of the change in the accounting policies for pre-operating expenses in 1999 and intangible assets on the adoption of SSAP 29 in 2001.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 25 to the accounts.

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SHARE OPTIONS

Pursuant to a share option scheme adopted on 4th August 1999, the board of directors of the Company may grant options to eligible employees of the Group, including executive directors, to subscribe for shares in the Company. The subscription price is the higher of the nominal value of the Company's shares and 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited ("SEHK") for the five trading days immediately preceding the offer of the option. The maximum number of shares in respect of which options may be granted under the scheme is limited to 10% of the number of issued shares of the Company from time to time. In addition, no eligible employee may be granted an option or options where the number of options would exceed 25% of the aggregate number of total option granted from time to time. The consideration for each grant is HK\$1.00 payable by the eligible employee as acceptance for the grant.

The Company's Hong Kong listed subsidiary, DVN (Holdings) Limited ("DVN") also adopted a share option scheme on 12th May 1999 with details substantially the same to the scheme of the Company.

Both the Company (2000: 25,000,000) and DVN (2000: 10,700,000) did not grant any option to eligible employee during the year, therefore, it is not necessary to disclose value of share option granted.

The exercise in full of the share options pursuant to the share option scheme of the Company would result in issue of an additional 96,200,000 (2000: 145,500,000) ordinary shares in the Company under its capital structure.

The exercise in full of the share options pursuant to the share option scheme of DVN would result in issue of an additional 21,034,000 (2000: 24,784,000) ordinary shares in DVN under its capital structure.

On 23rd August 2001, SEHK announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on the SEHK ("Listing Rules"), which came into effect on 1st September 2001. Under the transitional arrangements stipulated in Chapter 17 as amended of the Listing Rules, options already granted before 1st September 2001 are not affected by the amended rules and the Group may have to alter the terms of the existing share option scheme, or adopt a new share option scheme before further options are granted. To comply with the amendments to the Listing Rules and the announcement of the SEHK, the directors intend to terminate the existing scheme and to adopt a new share option scheme.

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SHARE OPTIONS (Continued)

(A) The Company

Date of share options granted 2nd October 1999

Exercise price HK\$0.26

Exercise period 1st January 2000 - 31st December 2002

	Outstanding options as at 1st January 2001	Options exercised during the year	Options lapsed during the year	Outstanding options as at 31st December 2001	Weighted average closing price (Note)
Held by directors:					
Mr. Ko Chun Shun Johnson	18,000,000	—	—	18,000,000	—
Mr. Lui Pan Terry	9,000,000	—	—	9,000,000	—
Held by employees	93,500,000	—	(49,300,000)	44,200,000	—
Total	120,500,000	—	(49,300,000)	71,200,000	

Date of share options granted 6th March 2000

Exercise price HK\$0.31

Exercise period 7th March 2000 - 6th March 2003

	Outstanding options as at 1st January 2001	Options exercised during the year	Options lapsed during the year	Outstanding options as at 31st December 2001	Weighted average closing price (Note)
Held by director:					
Mr. Lui Pan, Terry	25,000,000	—	—	25,000,000	—
Held by employees	—	—	—	—	—
Total	25,000,000	—	—	25,000,000	

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SHARE OPTIONS (Continued)

(B) DVN

Date of share options granted 10th September 1999

Exercise price HK\$2.25

Exercise period 1st January 2000 - 31st December 2002

	Outstanding options as at 1st January 2001	Options exercised during the year	Options lapsed during the year	Outstanding options as at 31st December 2001	Weighted average closing price (Note)
Held by directors:					
Mr. Ko Chun Shun, Johnson	2,450,000	—	—	2,450,000	—
Mr. Lui Pan, Terry	2,750,000	—	—	2,750,000	—
Held by employees	8,884,000	(200,000)	(3,550,000)	5,134,000	HK\$2.925
Total	14,084,000	(200,000)	(3,550,000)	10,334,000	

Date of share options granted 6th March 2000

Exercise price HK\$9.89

Exercise period 7th March 2000 - 6th March 2003

	Outstanding options as at 1st January 2001	Options exercised during the year	Options lapsed during the year	Outstanding options as at 31st December 2001	Weighted average closing price (Note)
Held by director:					
Mr. Lui Pan, Terry	2,500,000	—	—	2,500,000	—
Held by employees	—	—	—	—	—
Total	2,500,000	—	—	2,500,000	

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SHARE OPTIONS (Continued)

(B) DVN (Continued)

Date of share options granted 1st September 2000

Exercise price HK\$2.62

Exercise period 1st January 2001 - 31st December 2003

	Outstanding options as at 1st January 2001	Options exercised during the year	Options lapsed during the year	Outstanding options as at 31st December 2001	Weighted average closing price (Note)
Held by directors	—	—	—	—	—
Held by employees	2,300,000	—	—	2,300,000	—
Total	2,300,000	—	—	2,300,000	

Date of share options granted 2nd November 2000

Exercise price HK\$1.50

Exercise period 1st January 2001 - 31st December 2003

	Outstanding options as at 1st January 2001	Options exercised during the year	Options lapsed during the year	Outstanding options as at 31st December 2001	Weighted average closing price (Note)
Held by directors	—	—	—	—	—
Held by employees	5,900,000	—	—	5,900,000	—
Total	5,900,000	—	—	5,900,000	

Note: the price represents the weighted average closing price of the securities immediately before the dates on which the options were exercised.

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RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 26 to the accounts.

DISTRIBUTABLE RESERVES

The Company had no reserves available for distribution to shareholders of the Company as at 31st December 2001, as computed under the provisions of section 79B of the Hong Kong Companies Ordinance.

MAJOR SUPPLIERS AND MAJOR CUSTOMERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and major customers are as follows:

Purchases

– the largest supplier	16.59%
– five largest supplier combined	40.04%

Sales

– the largest customer	30.59%
– five largest customers combined	37.77%

As far as the directors are aware, none of the directors, their associates or any shareholders (which to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interests in the major suppliers or major customers noted above.

DIRECTORS

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

Executive directors

Mr. Ko Chun Shun, Johnson

Mr. Lui Pan, Terry

Non-executive director

Mr. Cheong Chow Yin

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DIRECTORS *(Continued)*

Independent non-executive directors

Mr. Wilton Timothy Carr Ingram

Dr. Wong Yau Kar, David

In accordance with Articles 77 of the Company's articles of association, Mr. Lui Pan, Terry will retire by rotation, and being eligible, will offers himself for re-election at the forthcoming annual general meeting.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Name	Age	Position held	Number of years of service	Business experience
Mr. Ko Chun Shun, Johnson	50	Chairman and Executive Director	8	International trading, direct investment and financial services
Mr. Lui Pan, Terry	47	Chief Executive Officer and Executive Director	3	Engineering and marketing
Mr. Cheong Chow Yin	46	Non-executive Director	2	Manufacturing
Mr. Wilton Timothy Carr Ingram	54	Independent Non-executive Director	6	Investment, brokerage and direct investment
Dr. Wong Yau Kar, David	44	Independent Non-executive Director	2	Manufacturing, international trade and corporate finance

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Senior Management Staff

Name	Age	Position held	Number of years of service	Business experience
Ms. Chiu Lai Kuen, Susanna	41	Chief Operating Officer of DVN	2	Information technology, media and operations management
Mr. Samuel Lui	47	Managing Director of Telequote Data International Limited	7	Brokerage, direct investment and financial services
Mr. Wong Siu Kang	50	Managing Director of Smart Asia Limited	2	Telecommunication services, engineering and management
Mr. Zhang Bin	36	Managing Director of Beijing Jiya Telecommunication Engineering Co. Limited	7	Telecommunication services, engineering and management
Mr. Sam Wong	41	Chief Financial Officer of DVN	2	Information technology, media and operations management
Mr. Dominic Yuen	42	Group Financial Controller	3	Finance and accounting
Mr. Ho Te Hwai, Cecil	41	Company Secretary	8	Finance and accounting

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DIRECTORS' SERVICE CONTRACTS

No directors who is proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed in the sections "Directors' interests in equity or debt securities" and "Connected transactions" below, no contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding companies 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.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31st December 2001, the interests of the directors and chief executive in the shares and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI ordinance")), as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance or as notified to the Company were as follows:

(a) Ordinary shares of HK\$0.18 each in the Company

Name	Notes	Number of shares		
		Personal interests	Family interests	Corporate interests
Mr. Ko Chun Shun, Johnson	(i)	18,640,000	—	1,000,437,150

(b) Ordinary shares of HK\$0.10 each in DVN

Name	Notes	Personal interests	Family interests	Corporate interests
Mr. Ko Chun Shun, Johnson	(ii)	343,000	—	158,357,940
Mr. Lui Pan, Terry		198,000	—	—

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DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES (Continued)

(c) Convertible non-voting cumulative preference shares of HK\$1.50 each in DVN

Name	Notes	Number of shares		
		Personal interests	Family interests	Corporate interests
Mr. Ko Chun Shun, Johnson	(iii)	—	2,000,000	—

Notes:

- (i) Kwan Wing Holdings Limited ("Kwan Wing"), a company incorporated in the British Virgin Islands ("BVI") and is wholly-owned by Mr. Ko Chun Shun, Johnson ("Mr. Ko"), and Techral Holdings Limited ("Techral") beneficially owned 360,399,000 and 640,038,150 ordinary shares in the Company, respectively. Kwan Wing has 96% beneficial interest in Techral.
- (ii) 118,403,418 ordinary shares in DVN are directly held by Prime Pacific International Limited ("Prime Pacific"), which is owned as to 67% and 33% by Gold Pagoda Incorporated ("Gold Pagoda") and Prime Gold International Limited ("Prime Gold"), respectively.
- Prime Gold is owned as to 82.45% by Kwan Wing.
- Gold Pagoda is a wholly-owned subsidiary of the Company which in turn is controlled by Mr. Ko.
- 31,032,522 ordinary shares in DVN are held directly by the Company.
- 2,956,000 ordinary shares in DVN are held by All Mark Limited, which is wholly owned by the Company.
- 1,600,000 ordinary shares in DVN are held by Peninsula Resources Limited, which is wholly-owned by Mr. Ko.
- 3,144,000 ordinary shares in DVN are held by Kwan Wing.
- 1,222,000 ordinary shares in DVN are held by First Gain International Limited, which is wholly-owned by Mr. Ko.
- (iii) 2,000,000 non-voting cumulative preference shares of DVN are held by Ms. Cheung Yat Kwan, who is the spouse of Mr. Ko.
- (iv) Million Way Enterprises Limited, a wholly-owned subsidiary of the Company, also holds US\$15,000,000 preference shares issued by DVN (Group) Limited, a wholly-owned subsidiary of DVN. These preference shares are exchangeable to approximately 24,786,780 ordinary shares of DVN upon conversion and are subject to adjustments.

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DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES *(Continued)*

Save as disclosed, at no time during the year was the Company, its subsidiaries and fellow subsidiaries, and its holding company a party to any arrangement to enable the Company's directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31st December 2001, save as disclosed in "Directors' interests in equity or debt securities" above, no other person had registered an interest of 10% or more in the issued share capital of the Company that would be required to be recorded under section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31st December 2001, which do not constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited of the SEHK ("Listing Rules"), are disclosed in note 29 (d) to the accounts.

Other related party transactions, which also constitute connected transactions under the Listing Rules, required to be disclosed in accordance with Chapter 14 of the Listing Rules, are as follows:

- (a) During the year, a wholly-owned subsidiary of Kwan Wing made advances to the maximum amount of approximately HK\$42 million (2000:HK\$28 million) to the Group (note 21).

The balance due to the above-mentioned fellow subsidiary is unsecured, bears interest at Hong Kong dollar prime lending rate plus 2.5% per annum and has no fixed terms of repayment. The total interest paid on the advances during the year amounted to HK\$1,383,000 (2000:HK\$1,379,000).

- (b) During the year, the Group received advances amounting to HK\$10 million (2000:HK\$28 million) in aggregate from a fellow subsidiary. The balance is unsecured, interest-free and repayable beyond one year (note 24).
- (c) During the year, a compensation fee of HK\$11,912,000 (2000: Nil) was paid to DVN in relation to the sale of a former subsidiary to DVN. Details of the transaction have been set out in the Company's Circular of "Discloseable and Connected Transactions" dated 12th July 1999.

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CONNECTED TRANSACTIONS *(Continued)*

The directors, including the independent non-executive directors, of the Company are of the opinion and have confirmed to the Company that the above connected transactions were carried out in the ordinary and normal course of business of the Group.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Company has not redeemed any of its shares during the year.

Neither the Company, nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules, except that the independent non-executive directors are not appointed for a specific term as all of the directors, excluding the executive Chairman and the managing director, and without limitation to non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association of the Company.

AUDIT COMMITTEE

The Company has established an audit committee in accordance with paragraph 14 of the Code of Best Practice. The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the audit of the Group. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Mr. Wilton Timothy Carr Ingram and Dr. Wong Yau Kar David. Two meetings were held during the current year.

SUBSEQUENT EVENTS

Details of the significant post balance sheet events of the Group are set out in note 33 to the accounts.

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AUDITORS

Ernst & Young retired and PricewaterhouseCoopers were appointed as auditors of the Company at the Annual General Meeting held on 27th June 2001. Apart from this there have been no other changes of auditors in the past three years. The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Ko Chun Shun, Johnson

Chairman

Hong Kong,

26th April 2002