

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts of the Company and its subsidiaries (together the “Group”) for the year ended 31st December 2002.

On 23rd October 2002, pursuant to a reorganization scheme (the “Reorganization”) the Company became the holding company of the companies now comprising the Group. This was accomplished by acquiring the entire issued share capital of Universal Appliances Limited (“UAL”), the intermediate holding company of the other subsidiaries set out in note 36 to the accounts. In consideration of the acquisition, the Company allotted and issued 240,760,000 preference shares of HK\$0.01 each and approximately 2,774,293,000 ordinary shares of HK\$0.01 each to the then shareholders of UAL. Further details of the Reorganization are set out in notes 27 and 28 to the accounts and in UAL’s circular dated 31st July 2002.

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 21.

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, based on the audited accounts and restated/reclassified as appropriate, are summarised below:

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Results

	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Turnover					
Continuing operations	51,791	128,875	89,753	32,451	21,121
Discontinued operations	—	—	29,522	695,275	747,659
	51,791	128,875	119,275	727,726	768,780
Loss before taxation	(171,355)	(165,710)	(587,456)	(11,461)	(122,448)
Taxation	—	—	645	1,164	—
Minority interests	76,252	27,306	93,081	79,874	2,292
(Loss)/profit attributable to shareholders	(95,103)	(138,404)	(493,730)	69,577	(120,156)

Assets and liabilities

	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Fixed assets	6,030	83,520	43,213	69,597	165,885
Intangible assets	2,249	59,453	64,606	129,442	131,693
Interests in a jointly controlled entity and associated companies	39,742	10,901	26,155	19,859	—
Investment securities	80,508	55,662	58,414	32,055	—
Other assets	6,169	64,353	66,987	74,303	520
Current assets	38,643	304,180	342,536	737,014	549,884
Total assets	173,341	578,069	601,911	1,062,270	847,982
Current liabilities	32,803	190,851	95,869	238,586	465,418
Long-term liabilities	21,216	50,715	45,119	756	220
Total liabilities	54,019	241,566	140,988	239,342	465,638
Minority interests	—	120,752	107,821	205,009	33,243
Net assets	119,322	215,751	353,102	617,919	349,101

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The net (loss)/profit attributable to shareholders for each of the three years ended 31st December 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 in 2001. Loss before taxation and taxation for each of the three years ended 31st December 2000 have not been restated for the continuing and discontinued operations as the directors consider this would involve extra costs and time to do so.

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 27 to the accounts.

Share options

A new share option scheme (the "New Scheme") was adopted by the Company on 30th July 2002. The purpose of the New Scheme is to recognize and acknowledge the contributions of the Qualified Persons (as defined in the New Scheme, including but not limit to, the directors, employees, partners and associates of the Group) to the Group.

Pursuant to this 10-year term New Scheme, the Company can grant options to Qualified Persons for a consideration of HK\$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise options granted to each Qualified Person (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Unless with shareholders' approval, the maximum number of shares options can be granted under the New Scheme shall not exceed 277,429,315 shares, representing 10% of the total number of shares in issue at the time the New Scheme was adopted.

Subscription price in relation to each option pursuant to the New Scheme shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date on which the option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the directors of the Company.

There were no share options granted under the New Scheme during the year and at 31st December 2002 there were no share options outstanding under the New Scheme.

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The Company's Hong Kong former listed subsidiaries, Universal Appliances Limited ("UAL") and DVN (Holdings) Limited ("DVN") also adopted share option schemes on 4th August 1999 and 12th May 1999, respectively, both with details substantially the same as the New Scheme of the Company, except for the subscription price which was determined at the higher of the nominal value of the subject company's shares and 80% of the average of the closing prices of the subject company on The Stock Exchange of Hong Kong Limited ("SEHK") for the five trading days immediately preceding the offer of the option. Both schemes were terminated during the year. DVN then adopted a new share option scheme which complies to the existing Rules Governing the Listing of Securities on the SEHK ("Listing Rules") on 26th June 2002. Such scheme has substantially the same terms as the New Scheme of the Company.

Both the Company and UAL (2001: nil) did not grant any option to eligible employees or Qualified Persons during the year, therefore, it is not necessary to disclose value of share options granted. For the share option granted by DVN, the directors do not consider it is appropriate to disclose a theoretical value of the share options granted during the year to the directors and employees because a number of factors crucial for the valuation cannot be determined. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful, but would be misleading to the shareholders of the Company.

All the share options granted under the old share option scheme of UAL was cancelled before termination of such scheme on 22nd October 2002.

(A) The Company

There were no share options granted during the year and as at 31st December 2002 there were no share options outstanding under the New Scheme.

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(B) UAL

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 2002	Options exercised during the year	Options cancelled during the year	Outstanding options at 31st December 2002
Held by directors:				
<i>Mr. Ko Chun Shun, Johnson</i>	18,000,000	—	(18,000,000)	—
<i>Mr. Lui Pan, Terry</i>	9,000,000	—	(9,000,000)	—
Held by employees	44,200,000	—	(44,200,000)	—
Total	71,200,000	—	(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 2002	Options exercised during the year	Options cancelled during the year	Outstanding options at 31st December 2002
Held by director:				
<i>Mr. Lui Pan, Terry</i>	25,000,000	—	(25,000,000)	—
Held by employees	—	—	—	—
Total	25,000,000	—	(25,000,000)	—

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(C) 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 2002	Options exercised during the year	Options lapsed during the year	Outstanding options at 13th December 2002 [#]
Held by directors:				
<i>Mr. Ko Chun Shun, Johnson</i>	2,450,000	—	(2,450,000)	—
<i>Mr. Lui Pan, Terry</i>	2,750,000	—	(2,750,000)	—
Held by employees	5,134,000	—	(5,134,000)	—
Total	10,334,000	—	(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 2002	Options exercised during the year	Options cancelled during the year	Outstanding options at 13th December 2002 [#]
Held by director:				
<i>Mr. Lui Pan, Terry</i>	2,500,000	—	(2,500,000)	—
Held by employees	—	—	—	—
Total	2,500,000	—	(2,500,000)	—

[#] Date when DVN became an associated company of the Company.

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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 2002	Options exercised during the year	Options lapsed during the year	Outstanding options at 13th December 2002[#]
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 2002	Options exercised during the year	Options lapsed during the year	Outstanding options at 13th December 2002[#]
Held by directors	—	—	—	—
Held by employees	5,900,000	—	—	5,900,000
Total	5,900,000	—	—	5,900,000

[#] Date when DVN became an associated company of the Company.

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Date of share options granted	23rd July 2002
Exercise price	HK\$1.47
Exercise period	24th July 2002 — 23rd July 2005

	Options granted on 23rd July 2002	Options exercise during the year	Options lapsed during the year	Outstanding options as at 13th December 2002 [#]
Held by directors				
<i>Mr. Ko Chun Shun, Johnson</i>	3,000,000	—	—	3,000,000
<i>Mr. Lui Pan, Terry</i>	3,000,000	—	—	3,000,000
Held by Qualified Persons	8,575,000	—	—	8,575,000
Total	14,575,000	—	—	14,575,000

[#] Date when DVN became an associated company of the Company

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 28 to the accounts.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31st December 2002, calculated under the Companies Law (2002 Revision)(Cap. 22) of the Cayman Islands and the Company's by-laws, amounted in total to HK\$88,682,000 (2001: Nil), mainly represents the share premium of HK\$162,789,000. The Company may make distributions to its members out of the share premium in certain circumstances.

MAJOR SUPPLIERS AND MAJOR CUSTOMERS

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

Purchases	
— the largest supplier	12.00%
— five largest suppliers combined	32.40%
Sales	
— the largest customer	26.37%
— five largest customers combined	46.07%

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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 customers noted above.

DIRECTORS

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

Executive directors

Mr. Ko Chun Shun, Johnson	(appointed on 18th June 2002)
Mr. Lui Pan, Terry	(appointed on 18th June 2002 and resigned on 13th December 2002)
Mr. Neil T. Cox	(appointed on 27th May 2002 and resigned on 18th June 2002)

Non-executive director

Mr. Cheong Chow Yin	(appointed on 18th June 2002)
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Independent non-executive directors

Mr. Wilton Timothy Carr Ingram	(appointed on 18th June 2002)
Dr. Wong Yau Kar, David	(appointed on 18th June 2002)

In accordance with Article 86(3) of the Company's articles of association, Mr. Cheong Chow Yin, Mr. Wilton Timothy Carr Ingram and Dr. Wong Yau Kar, David will retire, and being eligible, offer themselves 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	51	Chairman and Executive Director	9	International trading, direct investment and financial services
Mr. Cheong Chow Yin	47	Non-executive Director	3	Manufacturing

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Name	Age	Position held	Number of years of service	Business experience
Mr. Wilton Timothy Carr Ingram	55	Independent Non-executive Director	7	Investment, brokerage and direct investment
Dr. Wong Yau Kar, David	45	Independent Non-executive Director	3	Manufacturing, international trade and corporate finance
Senior management staff				
Mr. Wong Siu Kang	51	Managing Director of Smart Asia Limited	3	Telecommunication services, engineering and management
Mr. Zhang Bin	37	Managing Director of Beijing Jiya Telecommunication Engineering Co. Limited	8	Telecommunication services, engineering and management
Mr. Ho Te Hwai, Cecil	42	Group Financial Controller	9	Finance and accounting
Mr. Chan Kam Kwan, Jason	29	Company Secretary	3	Accounting, corporate finance

DIRECTORS' SERVICE CONTRACTS

No director 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.

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DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31st December 2002, 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\$0.01 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 (Holdings) Limited (“DVN”), an associated corporation

Name	Notes	Number of shares		
		Personal interests	Family interests	Corporate interests
Mr. Ko Chun Shun, Johnson	(ii)	343,000	2,040,816	158,357,940

Notes:

- (i) Kwan Wing Holdings Limited (“Kwan Wing”), a company incorporated in the British Virgin Islands and 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 Universal Appliances Limited, which is wholly-owned 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.
- 2,040,816 ordinary shares in DVN are held by Ms. Cheung Yat Kwan, who is the spouse of Mr. Ko.
- (iii) 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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Save as disclosed, at no time during the year was the Company, its subsidiaries, fellow subsidiaries or its holding company a party to any arrangement to enable the Company's directors to acquire benefit by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31st December 2002, 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 disclosed under section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

A related party transaction, which also constitutes connected transaction under the Listing Rules, required to be disclosed in accordance with Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited of the SEHK ("Listing Rules"), is as follows:

During the year, a wholly-owned subsidiary of Kwan Wing had made advances to the maximum amount of approximately HK\$43 million (2001:HK\$42 million) to the Group (notes 23 and 26).

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 payable for the year ended 31st December, 2002 on the advances amounted to HK\$2,803,000 (2001:HK\$1,383,000).

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 transaction was carried out in the ordinary and normal course of business of the Group.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's by-laws and there was no restriction against such rights under the laws of the Cayman Islands.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

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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 and are subject to retirement by rotation in the annual general meeting of the Company.

AUDIT COMMITTEE

The Company established an audit committee in 2002 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

There are no significant post balance sheet events of the Group.

AUDITORS

The accounts of Universal Appleaies Limited, the former listed holding company, for the two years ended 31st December 2001 and 31st December 2000 were audited by PricewaterhouseCoopers and Ernst & Young respectively. The accounts for the year ended 31st December 2002 have been audited by PricewaterhouseCoopers who will retire and offer themselves for appointment by shareholders in the forthcoming annual general meeting of the Company.

On behalf of the Board
Ko Chun Shun, Johnson
Chairman

Hong Kong, 25th April 2003