

## CHAIRMAN'S STATEMENT

The Group's turnover for the year was HK\$30,011,000 as compared to HK\$51,791,000 in the prior year. Net loss attributable to shareholders amounted to HK\$70,046,000 as compared against a net loss of HK\$95,103,000 in 2002.

Below is the operational review of each significant division.

### DIGITAL BROADCASTING INVESTMENT

One of the Group's significant investments which is accounted for as an associated company in 2003 (was accounted for as a subsidiary in 2002), includes DVN (Holdings) Limited ("DVN"), a listed company in Hong Kong. DVN's business outlook strengthened as the PRC government announced its intention to migrate 30 million analog subscribers to digital by 2005. As a result, as more localities implement their digitalization plans, DVN has recorded sharply higher set-top boxes sales and subscription revenues. The increased revenues were achieved in spite of the impact from SARS, which caused cable television stations to delay their digitalization plans, and to reduce promotional activities.

In January 2003, DVN sold headend equipment to Fujian, and is currently supplying Fujian with set-top boxes. A contract was signed with Shanghai in June to supply the municipality with set-top boxes; while integration contracts were signed with Urumqi, Hangzhou, and Qingdao.

The integration contracts are a new development for DVN in which DVN agrees to supply all the middleware, software, and integration expertise to ensure that a digital platform is up and running for a cable operator. DVN does not supply the actual headend hardware, and therefore does not incur any capital expenses. DVN receives an integration fee, but does not receive any subscription fees in this arrangement. However, in exchange for providing software that enables various value added services, DVN receives 30-50% of the value added service revenues for the next 15-20 years. Value added services include: online gaming, long distance education, television shopping, stock market trading, etc. Through this new business model, DVN does not incur any financial risk, while ensuring that it receives significant financial upside if value added services succeed in China.

This transition from headend sales to set top box and subscription sales is a natural progression as first cable operators must install the headends. Through these headend sales and through its leasing of headends in other localities, DVN is able to establish a base from which it can generate future revenues. After the headends are installed, the cable operator is able to sell set-top boxes and subscriptions to customers. With this transition, DVN expects accelerated revenue growth as it will be able to generate considerably more revenues from set-top boxes and the provision of services as compared to sales of headend equipment.

## CHAIRMAN'S STATEMENT

With the government's continued push towards digitalization, DVN expects sales of STB's and subscription revenues to accelerate. In July 2003, SARFT formally announced a list of 33 cities that should immediately implement plans to go digital. DVN has established relationships with some of these cities already putting it in a position to promote, provide and deliver digital services.

First mover advantages are extremely important in the cable industry as early entrants establish technical standards in the localities, legal commitments, and relationships that make entry for later competitors more difficult. With this first mover advantage, we believe DVN has a unique position in China's cable industry to take advantage of the government's initiative towards digitalization.

### COMMUNICATION DIVISION

The Group's communication division continues to develop its business in an intense competitive environment. We expect that our scalable, cost effective modular system provides an affordable solution for enterprises to improve on customer care. As China moves towards more service oriented operations, our modular call centers will be in greater demand. We are well positioned in the China market to sell this solution and other related services.

### AUDIO AND VIDEO DISTRIBUTION DIVISION

The high audio market was adversely affected by the economic downturn in the first half of the year. With the support of the government to stimulate tourism from China, this will have an effect in the overall retail market for Hong Kong. The Group will move cautiously to seek strategic acquisitions and distribution rights before investing further into this business segment.

### FUTURE

The Group will seek to strengthen the audio and video components and equipment distribution through strategic investment.

As discussed above, the Group's significant investment in DVN is engaged in the exciting and still maturing digital broadcasting industry in China with significant potential in revenue and profits. As the industry evolves, and cable operator's sophistication increases, DVN anticipates that it will need to work with strategic partners that will complement DVN's existing strengths of software development and services. DVN is therefore actively in discussions with potential strategic partners. Our Group will support DVN in its cooperation with strategic partners that have strengths in hardware, manufacturing, and technology; and also with the requisite experience and expertise to help ensure that DVN's digital cable deployments in China are successful.

## CHAIRMAN'S STATEMENT

The Group has rationalized its operations. The Group will seek to diversify its businesses and implement strategies that strengthens its revenue and asset base. The Group will continue to explore any business opportunities in strategic acquisition of equity interests in Hong Kong or abroad. In addition, the Group will look for opportunities to expand its capital base in the equity and capital markets.

### APPRECIATION

With this opportunity, I wish to extend my appreciation to all the directors and employees for their commitment and dedications during the year. I would also like to thank our shareholders, partners and associates for their continuing support.

**Ko Chun Shun, Johnson**  
*Chairman*

Hong Kong, 27th April 2004