

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st December 2003.

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 34 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 20.

The directors do not recommend the payment of a dividend in respect of the year ended 31st December 2003.

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 audited accounts and restated/reclassified as appropriate, are summarised below.

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FIVE YEAR FINANCIAL SUMMARY (Continued)

Results

	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover					
Continuing operations	30,011	51,791	128,875	89,753	32,451
Discontinued operations	—	—	—	29,522	695,275
	30,011	51,791	128,875	119,275	727,726
Loss before tax	(69,851)	(171,355)	(165,710)	(587,456)	(11,461)
Taxation	(195)	—	—	645	1,164
Minority interests	—	76,252	27,306	93,081	79,874
(Loss)/profit attributable to shareholders	(70,046)	(95,103)	(138,404)	(493,730)	69,577

Assets and liabilities

	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Fixed assets	2,560	6,030	83,520	43,213	69,597
Intangible assets	1,685	2,249	59,453	64,606	129,442
Interests in a jointly controlled entity and associated companies	15,837	39,742	10,901	26,155	19,859
Investment securities	36,000	80,508	55,662	58,414	32,055
Other assets	4,533	6,169	64,353	66,987	74,303
Current assets	72,653	38,643	304,180	342,536	737,014
Total assets	133,268	173,341	578,069	601,911	1,062,270
Current liabilities	59,428	32,803	190,851	95,869	238,586
Long-term liabilities	10,000	21,216	50,715	45,119	756
Total liabilities	69,428	54,019	241,566	140,988	239,342
Minority interests	—	—	120,752	107,821	205,009
Net assets	63,840	119,322	215,751	353,102	617,919

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FIVE YEAR FINANCIAL SUMMARY *(Continued)*

Assets and liabilities *(Continued)*

The net (loss)/profit attributable to shareholders for each of the three years ended 31st December 1999, 2000 and 2001, 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 two 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 25 to the accounts.

SHARE OPTIONS

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

Pursuant to this 10-year term Option 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 options shares can be granted under the Option Scheme shall not exceed 277,429,315 shares, representing 10% of the total number of shares in issue at the time the Option Scheme was adopted.

Subscription price in relation to each option pursuant the Option Scheme shall be not 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 an 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. 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 Board of directors of the Company.

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SHARE OPTIONS *(Continued)*

There was no share option granted under the Option Scheme during the years ended 31st December 2003 and 2002, and there was no share option outstanding as at 31st December 2003 and 2002.

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 distributable reserves of the Company as at 31st December 2003, calculated under the Companies Law (2002 Revision) (Cap. 22) of the Cayman Islands and the Company's Articles of Association, amounted in total to HK\$26,309,000 (2002: HK\$88,682,000), representing the amount standing to the credit of the share premium of HK\$172,353,000 (2002: HK\$162,789,000) less the accumulated losses as at the date of HK\$146,044,000 (2002: HK\$74,107,000). 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	48%
— five largest suppliers combined	62%

Sales

— the largest customer	58%
— five largest customers combined	60%

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.

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DIRECTORS

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

Executive directors

Mr. Ko Chun Shun, Johnson

Non-executive director

Mr. Cheong Chow Yin

Independent non-executive directors

Mr. Wilton Timothy Carr Ingram

Dr. Wong Yau Kar, David

In accordance with Article 87(1) of the Company's Articles of Association, Dr. Wong Yau Kar, David will retire, and being eligible, 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	52	Chairman and Executive Director	10	International trading, direct investment and financial services
Mr. Cheong Chow Yin	48	Non-executive Director	4	Manufacturing
Mr. Wilton Timothy Carr Ingram	56	Independent Non-executive Director	8	Investment, brokerage and direct investment
Dr. Wong Yau Kar, David	46	Independent Non-executive Director	4	Manufacturing, international trade and corporate finance

Senior management staff

Mr. Wong Siu Kang	52	Managing Director of Netbroad Communication Limited	4	Telecommunication services, engineering and management
Mr. Zhang Bin	38	Managing Director of Beijing Jiya Telecommunication Engineering Co. Limited	9	Telecommunication services, engineering and management
Mr. Ho Te Hwai, Cecil	43	Group Financial Controller	10	Finance and accounting
Mr. Chan Kan Kwan, Jason	31	Company Secretary	4	Accounting and corporate finance

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DIRECTORS' SERVICE CONTRACTS

None of the directors who are 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' and Chief Executives' Interests in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" 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' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31st December 2003, the interests of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations, as defined in Part XV of Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company under Section 352 of SFO or as notified to the Company, are as follows:

(A) The Company

Names	Notes	Number of ordinary shares of HK\$0.01 each		
		Personal interests	Family interests	Corporate interests
Mr. Ko Chun Shun, Johnson ("Mr. Ko")	(i)	18,640,000	—	1,000,437,150

(B) DVN (Holdings) Limited ("DVN")

Names	Notes	Number of ordinary shares of HK\$0.10 each		
		Personal interests	Family interests	Corporate interests
Mr. Ko	(ii)	343,000	2,040,816	158,357,940

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)*

(B) DVN (Holdings) Limited ("DVN") *(Continued)*

Notes:

- (i) Kwan Wing Holdings Limited ("Kwan Wing") and Techral Holdings Limited ("Techral"), a subsidiary of Kwan Wing, beneficially owned 360,399,000 and 640,038,150 ordinary shares in the Company, respectively. Mr. Ko has 100% direct interest in Kwan Wing and approximately 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 an indirect 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 subsidiary of the Company.

2,956,000 ordinary shares in DVN are held by All Mark Limited, which is an indirect wholly-owned subsidiary of the Company.

2,822,000 ordinary shares in DVN are held by First Gain International Limited, which is wholly owned by Mr. Ko.

3,144,000 ordinary shares in DVN are held by Kwan Wing.

2,040,816 ordinary shares in DVN are held by the spouse of Mr. Ko.

- (iii) Million Way Enterprises Limited, an indirect 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 exchange and are subject to adjustments.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (Continued)

(C) Rights to acquire ordinary shares of DVN

Movements of the share options of DVN granted to a director of the Company are as follows:

Directors	Date of share options granted	Number of share options outstanding as at 1st January 2003	Number of share options granted during the year	Number of share options cancelled/ lapsed during the year	Number of share options outstanding as at 31st December 2003	Exercise period	Exercise price per share HK\$
Mr. Ko	23/7/2002	3,000,000	—	—	3,000,000	24/7/2002 — 23/7/2005	1.470
	10/12/2003	—	450,000	—	450,000	1/1/2004 — 31/12/2006	0.824
		3,000,000	450,000	—	3,450,000		

Save as disclosed above and other than certain nominee shares in subsidiaries held by Mr. Ko in trust for the Company, as at 31st December 2003, none of the directors, the chief executive (including their spouse and children under 18 years of age) or their associates had any other beneficial interests in the shares of the Company and its associated corporation (within the meaning of the SFO).

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SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

As at 31st December 2003, save as disclosed below and under the section "Directors' and Chief Executives' Interests in Shares, Underlying Shares and Debentures of the Company or any Associate Corporation" above, no other person had registered any substantial shareholders' interests, being 5% or more of the Company's issued share capital under Section 336 of the SFO:

a. Ordinary shares of HK\$0.01 each in the Company

Name	Number of shares	
	Direct interests	Indirect interests
Blue World Investments Limited	82,654,000	—
Leung Chi Yan	(note)	82,654,000

Note: The interests are held by Blue World Investments Limited.

b. Convertible preference shares of HK\$0.01 each in the Company

Name	Number of shares	
	Direct interests	Indirect interests
Blue World Investments Limited	240,760,000	—
Leung Chi Yan	(note)	240,760,000

Note: The interests are held by Blue World Investments Limited. These shares are convertible to 240,760,000 ordinary shares of the Company, subject to adjustments.

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:

As at 31st December 2003, there were outstanding advances made by a wholly-owned subsidiary of Kwan Wing in previous year of approximately HK\$26 million (2002: HK\$43 million) to the Group (notes 22 and 24). The maximum amount due during the year was HK\$43 million (2002: HK\$43 million).

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CONNECTED TRANSACTIONS *(Continued)*

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 2003 on the advances amounted to HK\$2,468,000 (2002: HK\$2,803,000).

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 Articles of Association and there was no restriction against such rights under the laws of the Cayman Islands.

PURCHASE, REDEMPTION OR SALE OF 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed 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 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 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.

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AUDIT COMMITTEE *(Continued)*

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. 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 settlement of the pending litigation after the balance sheet date are set out in note 31 to the accounts.

AUDITORS

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, 27th April 2004