

# CHIEF EXECUTIVE OFFICER'S REPORT

## BUSINESS REVIEW

The Group's results for the year was encouraging as there have been a number of positive changes in terms of establishing the platform for material and positive growth in 2005. As continued from the prior year, the Group significantly reduced its operating costs as a part of its business strategy and costs savings initiatives to return the Group to operating profit position in 2004. However, this operating profit was not sufficient to offset our portion of the loss incurred by our associated company DVN (Holdings) Limited ("DVN"), a listed company in Hong Kong. In February 2005, the Board refocused the Group's strategy to enter the high growth media business in China through the proposed acquisition of the Anglo Alliance Group. This acquisition provides the Group the platform to expand its media business in China. While the Board and management of UHL is not satisfied with the overall results in 2004, significant benefits from the Company's efforts have been generated which is expected to lead to a positive results in 2005.

For 2004, there has been a substantial reduction in the losses as reported by the Group. The Group's turnover for the year was HK\$38,630,000 as compared to HK\$30,011,000 in the prior year. Net loss attributable to shareholders amounted to HK\$9,931,000 as compared against a net loss of HK\$70,046,000 in 2003.

Below is the operational review of each division.

## DIGITAL BROADCASTING INVESTMENT

One of the Group's significant investments includes DVN which is now working with Motorola to become China's leading supplier of digital equipment and services. To date, Motorola has agreed to invest US\$15 million for a 20% equity stake in DVN. With this investment, DVN gained a strategic partner who is the world's leading provider of digital cable technology; and ensures that DVN remains a technology market leader in China. Motorola is involved in all aspects of digital broadband technology, from headend system solutions to consumer terminal products, and is the market leader for set-top terminals in the United States. With Motorola, DVN will now have a strategic partner with the requisite experience and expertise to help ensure that its digital cable deployments are successful.

According to the State Administration of Radio, Film and Television ("SARFT") of China, switching to digital has become the paramount opportunity for the radio and television industry. Many cable operators compete with telecom operators which offer interactivity through their fibre telecom network and could someday launch internet protocol TV ("IPTV") services. Therefore, SARFT realizes that it must make the transition to digital as quickly as possible, and has set 2015 as the date when the analog service is to be completely cut off. More urgently, SARFT would like to have a significant portion of the population receive digital signals in time for the Beijing Olympics in 2008. Given these urgencies, DVN expects cable operators to become increasingly more aggressive in promoting digital cable.

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Despite the potential competition from IPTV, DVN believes that digital cable will remain the most cost effective means to reach most viewers for the near future. However, DVN is prepared to also provide hardware and services for the IPTV industry should growth in this market segment also begin to grow rapidly. Already, DVN has prepared a dual mode set top box that can work on both cable and IPTV. Overall, DVN has taken positive steps in preparing itself to reap the rewards of China's push towards digitalization.

### Communication Division

The Group's communication division suffered a set back in 2004 due to the intense competitive environment. Management is reviewing the business operation to determine the long term strategy, and refocusing this business to be aligned with our new core media business.

### Audio and Video Trading Division

There was a marginal increase in the trading in the audio and video division. However due to competition in the market place, the profit margin was further squeezed. The Group will continue to seek new business products with higher profit margins.

### Settlement of Legal Dispute

In January 2004, the Group entered into an agreement with a customer to settle all existing and potential claims arising between certain subsidiaries of the Group and the customer in consideration of a total payment of the Group of US\$2.1 million over 18 months. The last installment will be settled in August of 2005.

### Acquisition of Anglo Alliance Co., Limited

In February 2005, the Group entered into an agreement to acquire the entire issued share capital of Anglo Alliance for HK\$550.0 million. Details of the transaction are disclosed in the Company's announcement dated 2nd February 2005. Anglo Alliance is in the media business providing content and advertising services. Anglo Alliance also involves in operating a "Travel" TV channel in China.

## CHIEF EXECUTIVE OFFICER'S REPORT

### Future Prospects

The Group will seek to refocus the Company in the high growth media business. It will seek to build on the acquisition of Anglo Alliance to enter into the media industry with lucrative advertising revenue growth. The Group will also explore other opportunities in the media industry to expand its core media business and to develop a total value chain platform.

The Group's other significant investment in DVN is engaged in the digital broadcasting industry in China will enjoy significant potential in revenue and profits. The Group looks forward to the push for the digitalization of broadcasting in China and DVN's leading position in delivering digital solutions to the market place.

Lastly, the Group will seek to diversify its businesses and implement strategies to strengthen its revenue and asset base. The Group will continue to explore business opportunities in strategic acquisition in Hong Kong or abroad. In addition, the Group will look for opportunities to expand its capital base in the equity and capital markets.

**Shen Ka Yip, Timothy**

*Acting Chief Executive Officer*

Hong Kong, 15th April 2005