

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st December 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the principal 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 21.

The directors do not recommend the payment of a dividend in respect of the year ended 31st December 2004.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 66.

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 recognise and acknowledge the contributions of the Qualified Persons (as defined in the Option Scheme, including but not limited 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.

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SHARE OPTIONS (Continued)

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.

During the year, the Company granted 277,400,000 share options to Qualified Persons of the Group to subscribe for shares in the Company under the Option Scheme at an exercise price of HK\$0.054 during the exercise period from 1st January 2005 to 31st December 2009.

As of the date of this Annual Report, the Company can still grant 29,315 share options, representing less than 0.01% of the existing issued share capital.

The exercise is full of all outstanding share options as at 31st December 2004 would result in the issue of an additional 277,400,000 ordinary shares, representing approximately 8.47% of the issued share capital as at 31st December 2004, or approximately 7.06% of the issued share capital as at 15th April 2005.

Details of the share options outstanding as at 31st December 2004 which have been granted under the scheme are as follows:

	Date of share options granted	Number of share options outstanding as at 1st January 2004	Number of share options granted during the year*	Number of share options cancelled/lapsed during the year	Number of share options exercised during the year	Number of share options outstanding as at 31st December 2004	Exercise period	Exercise price per share HK\$
Qualified Persons (excluding directors)	1/12/2004	—	277,400,000	—	—	277,400,000	1/1/2005 to 31/12/2009	0.054
		—	277,400,000	—	—	277,400,000		

Note:

- * The directors are of the view that the value of the share options granted during the year depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical bases and speculative assumptions. Accordingly, the directors believe that any calculation of the value of the share options will not be meaningful and may be misleading to shareholders in the circumstances.

REPORT OF THE DIRECTORS

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 2004, calculated pursuant to the Companies Law (2002 Revision) (Cap. 22) of the Cayman Islands and the Company's Articles of Association, amounted in total to HK\$24,482,000 (2003: HK\$26,309,000), representing the amount standing to the credit of the share premium of HK\$172,353,000 (2003: HK\$172,353,000) less the accumulated losses as at the date of HK\$147,871,000 (2003: HK\$146,044,000). The Company may make distributions to its members out of the share premium under certain prescribed 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	80%
— five largest suppliers combined	99%

Sales

— the largest customer	40%
— five largest customers combined	52%

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

Mr. Shen Ka Yip, Timothy** (appointed on 14th March 2005)

Non-executive directors

Mr. Cheong Chow Yin

Mr. Tsoi Tong Hoo, Tony* (appointed on 12th October 2004)

Independent non-executive directors

Mr. Wilton Timothy Carr Ingram

Dr. Wong Yau Kar, David

Mr. Yuen Kin (appointed on 23rd September 2004)

* Mr. Tsoi was the Executive Director and Group Managing Director from 12th October 2004 to 14th March 2005.

** Mr. Shen is the Acting Chief Executive Officer.

In accordance with Articles 86(3) and 87(1) of the Company's Articles of Association, Messers. Tsoi Tong Hoo Tony, Shen Ka Yip Timothy, Yuen Kin and Wilton Timothy Carr Ingram will retire, and being eligible, offers themselves for re-election at the forthcoming annual general meeting.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Name	Age	Position held	Number of years of service	Business experience
Mr. Ko Chun Shun, Johnson	53	Chairman and Executive Director	11	Media and direct investment, and financial services
Mr. Tsoi Tong Hoo, Tony	40	Non-executive Director *	1	Media and corporate finance
Mr. Shen Ka Yip, Timothy	43	Acting Chief Executive Officer and Executive Director **	1	Corporate finance, investment, accounting
Mr. Cheong Chow Yin	49	Non-executive Director	5	Manufacturing
Mr. Wilton Timothy Carr Ingram	57	Independent Non-executive Director	9	Investment, brokerage and direct investment
Dr. Wong Yau Kar, David	47	Independent Non-executive Director	5	Manufacturing, international trade and corporate finance
Mr. Yuen Kin	50	Independent Non-executive Director	1	Finance and Accounting

* Mr. Tsoi was the Executive Director and Group Managing Director from 12th October 2004 to 14th March 2005.

** Mr. Shen is the Acting Chief Executive Officer.

REPORT OF THE DIRECTORS

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

Senior management staff

Name	Age	Position held	Number of years of service	Business experience
Mr. Wong Siu Kang	53	Managing Director of Netbroad Communication Limited	5	Telecommunication services, engineering and management
Mr. Zhang Bin	39	Managing Director of Beijing Jiya Telecommunication Engineering Co. Limited	10	Telecommunication services, engineering and management
Mr. Ho Te Hwai, Cecil	44	Group Financial Controller	11	Finance and accounting
Mr. Chan Kam Kwan, Jason	32	Company Secretary	5	Accounting, corporate finance

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.

REPORT OF THE DIRECTORS

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

At 31st December 2004, the interests of each director and chief executive in the shares, underlying shares and debentures of the Company or 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, were 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

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 Pagolda Incorporated ("Gold Pagolda") and Prime Gold International Limited ("Prime Gold"), respectively.

Prime Gold is owned as to 82.45% by Kwan Wing.

Gold Pagolda is an indirect wholly owned subsidiary of the Company which in turn is controlled by Mr. Ko.

REPORT OF THE DIRECTORS

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: *(Continued)*

(ii) *(Continued)*

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 indirectly wholly owned by 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, 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, after current year adjustment, to approximately 26,420,000 ordinary shares of DVN, a listed associated company, to an adjusted conversion price of HK\$4.40 per share, and are subject to adjustment.

(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 2004	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 2004	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
		3,450,000	—	—	3,450,000		

REPORT OF THE DIRECTORS

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

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 2004, none of the directors, the chief executives (including their spouse and children under 18 years of age) or their associates had any other beneficial interests in the shares of the Company or any of its associated corporation (within the meaning of the SFO).

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

As at 31st December 2004, save as disclosed below and under the section "Directors' and chief executives' interest in the shares and underlying shares of the Company or any associated 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, a company beneficially owned by Mr. Leung Chi Yan.

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.

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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, the maximum amount of advances due to a wholly owned subsidiary of Kwan Wing was approximately HK\$34 million (2003: HK\$43 million) (*notes 22 and 24 to the accounts*).

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 2004 on the advances amounted to HK\$2,167,000 (2003: HK\$2,468,000).

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 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.

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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 Institute of Certified Public Accountants.

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 three independent non-executive directors, namely Mr. Wilton Timothy Carr Ingram, Mr. Yuen Kin and Dr. Wong Yau Kar, David. Two meetings were held during the current year.

SUBSEQUENT EVENTS

Significant post balance sheet events of the Group 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, 15th April 2005