

# Report of the Directors

The directors present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2006.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in Note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 29.

The directors do not recommend the payment of any dividend in respect of the year.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 93 of the Annual Report. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Company and the Group during the year are set out in Note 15 to the financial statements.

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 27 to the financial statements.

## SHARE OPTIONS

Details of the movements in the share options of the Company during the year are set out in Note 28 to the financial statements.

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## RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in Note 29 to the financial statements.

## DISTRIBUTABLE RESERVES

The Company has no distributable reserves as at 31 December 2006 (2005: Nil).

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or there is no restriction against such rights under the laws of Bermuda.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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.

## DIRECTORS

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

### Executive directors

Mr Ko Chun Shun, Johnson

Mr Lui Pan, Terry

Mr Luo Ning *(appointed on 18 October 2006)*

Mr Qiu Yiyong *(appointed on 18 October 2006)*

Mr Jin Wei *(appointed on 18 October 2006)*

Mr Wang Daoyi *(appointed on 18 October 2006)*

Mr Hu Qinggang *(appointed on 18 October 2006)*

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## Non-executive directors

Mr Shaw Sun Kan, Gordon

Mr Jerry Sze

Mr Itzhak Shenberg

Ms Cheung Sum Yu, Fiona *(retired and not offered for re-election on 29 June 2006)*

## Independent non-executive directors

Mr Chu Hon Pong

Mr Liu Tsun Kie

Mr Yap Fat Suan, Henry

In accordance with Bye-laws 98 and 104 of the Company's Bye-laws, Mr Jerry Sze, Mr Itzhak Shenberg, Mr Chu Hon Pong and Mr Liu Tsun Kie will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr Chu Hon Pong, Mr Liu Tsun Kie and Mr Yap Fat Suan, Henry and considers them to be independent. Under the terms of their appointment, the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Bye-laws.

## 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

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries 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.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 17 to 18 of the Annual Report.

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## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2006, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations, as defined in Part XV of Securities and Futures Ordinance (the "SFO") and as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

### Long positions in shares and underlying shares of the Company

#### Ordinary shares of HK\$0.10 each in the Company

Name of director	Notes	Number of ordinary shares held			Total	% of the issued share capital of the Company
		Personal interests	Family interests	Corporate interests		
Mr Ko Chun Shun, Johnson ("Mr Ko")	(i)&(ii)	—	2,040,816	1,976,719	4,017,535	0.37%
Mr Lui Pan, Terry		2,500,000	2,300,000	198,000	4,998,000	0.46%
Mr Shaw Sun Kan, Gordon		550,000	—	—	550,000	0.05%
Mr Jerry Sze		366,666	—	—	366,666	0.03%
Mr Chu Hon Pong		450,000	—	—	450,000	0.04%

#### Notes:

- (i) Mr Ko was deemed to be interested in the 1,976,719 ordinary shares of the Company held by Techral Holdings Limited under the SFO as Techral Holdings Limited is 96.4% owned by him.
- (ii) In addition to 4,017,535 ordinary shares, Mr Ko was also deemed to be interested in the following underlying shares of the Company under the SFO:
- (a) A share subscription agreement was entered into between Mr Ko and the Company for the subscription of 50,000,000 ordinary shares of the Company on 14 December 2006. Subsequent to the balance sheet date on 5 March 2007, 50,000,000 ordinary shares of the Company were issued to Mr Ko.
- (b) Million Way Enterprises Limited, a wholly-owned subsidiary of Asian Union New Media (Group) Limited, formerly known as Universal Holdings Limited, a listed company in Hong Kong in which Mr Ko had 34.79% interest as at 31 December 2006, holds preference shares of face value of US\$15,000,000 issued by DVN (Group) Limited, a wholly-owned subsidiary of the Company. These preference shares are exchangeable into 31,250,000 ordinary shares of the Company at a conversion price of HK\$3.72 per share, subject to adjustment.

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The interests of the directors in the share options of the Company are disclosed in Note 28 to the financial statements.

In addition to the above, Mr Lui Pan, Terry has non-beneficial personal equity interests in a subsidiary held on trust for the benefits of the Company.

Save as mentioned above, as at 31 December 2006, none of the directors had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations which had been recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the section "Directors' interests and short positions in shares and underlying shares of the Company or any associated corporations" above and in the share option scheme disclosures in Note 28 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions:

Name	Notes	Number of ordinary shares held		Total	% of the issued share capital of the Company
		Directly beneficially owned	Through controlled corporations		
Easy Flow Investments Limited		237,592,607	—	237,592,607	21.97%
CITIC United Asia Investments Limited	(i)	—	237,592,607	237,592,607	21.97%
CITIC Group	(ii)	—	241,724,607	241,724,607	22.35%
Motorola-Dragon Investment, Inc.		175,500,000	—	175,500,000	16.22%
Motorola, Inc.	(iii)	—	175,500,000	175,500,000	16.22%

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## Notes:

- (i) CITIC United Asia Investments Limited was deemed to be interested in the 237,592,607 ordinary shares of the Company held by Easy Flow Investments Limited under the SFO by virtue of its interest in Easy Flow Investments Limited.
- (ii) CITIC Group was deemed to be interested in the 241,724,607 ordinary shares of the Company held by certain subsidiaries, including Easy Flow Investments Limited, under the SFO by virtue of its interest in CITIC United Asia Investments Limited and those subsidiaries.
- (iii) Motorola, Inc. was deemed to be interested in the 175,500,000 ordinary shares of the Company held by Motorola-Dragon Investment, Inc. under the SFO by virtue of its interest in Motorola-Dragon Investment, Inc..

Save as disclosed above, as at 31 December 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares of the Company or any associated corporations" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 80% (2005: 53%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 50% (2005: 12%). Purchases from the Group's five largest suppliers accounted for approximately 76% (2005: 61%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 40% (2005: 21%).

The Group's five largest suppliers include a group company of Motorola-Dragon Investment, Inc., a substantial shareholder of the Company.

Saved as disclosed above, none of the directors of the Company or any of their associates or any shareholders (which to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers or suppliers.

## CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in Note 34 to the financial statements also constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and are required to be disclosed in accordance with Chapter 14A of the Listing Rules as below.

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During the year, the Group purchased set top boxes and headend equipment amounting to approximately HK\$79,258,000 from group companies of Motorola-Dragon Investment, Inc., a substantial shareholder of the Company. The independent non-executive directors of the Company have reviewed these continuing connected transactions and have confirmed that:

- a) These transactions were executed in the ordinary and usual course of business of the Group;
- b) These transactions were executed on normal commercial terms or on terms not less favourable than those given to independent third parties (if no comparable transaction could be referred to judge whether the transactions were executed on normal commercial terms);
- c) The purchases were executed in accordance with the Non-exclusive Distributor Agreement entered into between General Instrument Corporation, the holding company of Motorola-Dragon Investment, Inc. and Digital Video Networks Company Limited, a wholly-owned subsidiary of the Group, on 18 December 2003 and were in the interests of the shareholders of the Company as a whole; and
- d) The annual aggregate amount of the purchases has not exceeded the cap of HK\$336 million for the year ended 31 December 2006 as approved by the independent shareholders of the Company in a special general meeting held on 8 July 2004.

On 16 October 2006, the Group obtained the independent shareholders' approval for the non-exempt continuing connected transactions in relation to the sale of set top boxes and the provision of systems integration services by the Group to Easy Flow Investments Limited, a substantial shareholder of the Company, and its associates (as defined under the Listing Rules). The independent non-executive directors of the Company have reviewed these continuing connected transactions and have confirmed that there were no such transactions executed during the period from 18 October 2006 (the date when Easy Flow Investments Limited became a substantial shareholder of the Company) to 31 December 2006.

### SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirmed that the Company has maintained the amount of public float as required under the Listing Rules during the year.

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## AUDITORS

The financial statements 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, 26 April 2007