CCT TELECOM

CCT Telecom Holdings Limited
中建電訊集團有限公司

ANNUAL REPORT 2002
二零零二年年報

CONTENTS

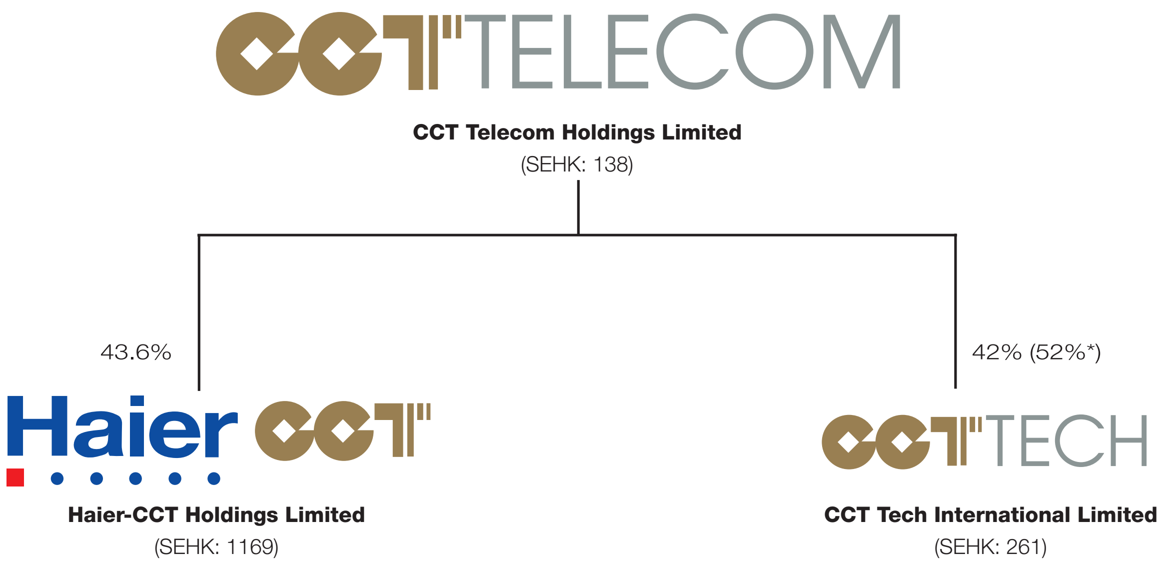
MISSION

CCT Telecom is one of the world's leading cordless phone manufacturers. We believe technology is the way of the future and are committed to delivering advanced telecom products to our customers. With an extensive business network and state-of-the-art manufacturing capabilities underpinned by a strong research and development team, we look forward to seizing the advantage and becoming a leading telecom product player in the hi-tech world of tomorrow.

Our mission -

To be a creator of winning communications technology in the new era

GROUP STRUCTURE



Total market capitalisation of CCT Telecom Group, including a listed subsidiary and a listed associate, as at 31 March 2003 is HK$3.1 billion.

* % of shareholding if all convertible notes of CCT Tech International have been converted

HIGHLIGHTS OF THE YEAR

May 2002	-	successfully acquired CCT Tech International Limited (formerly known as Wireless InterNetworks Limited), a listed company in Hong Kong
July 2002	-	the Group was awarded the "2001 Best Product of the Year Award" by ATLINKS, one of the Group's major customers
October 2002	-	Haier-CCT Holdings Limited, a listed associate of the Group, completed an acceleration agreement in respect of Pegasus Qingdao, a PRC joint venture engaged in the manufacture and distribution of mobile phones, and successfully acquired a 64.5% interest in Pegasus Qingdao. Since then, the shareholding of Haier Group Company in Haier-CCT has increased to 29.9%.

The year 2002 continued to be a year of consolidation for the Group, with revenue of HK$3,130 million.

Gross profit increased by 11% to HK$434 million. The telecom products business continued to perform well and contributed HK$167 million in operating profit, up 19% from last year.

During the year, the Group continued to dispose of non-core investments or businesses, or to write down their value to recoverable amounts against under-performed investments in respect of high-tech related business. Having thoroughly reviewed the Group's remaining investments at the year end, it is considered that sufficient provision has been properly made. As a result, the Group recorded a loss attributable to shareholders of HK$257 million. This loss was reduced by 62% from the loss of HK$685 million last year.

Cordless phone operation

The success of our cordless phone operation was largely attributable to the outstanding performance of our telecom manufacturing business. This business continues to grow and expand despite the general economic recession. The market response to the 2.4 GHz cordless phones in particular is encouraging. During the year, the Group entered into additional new ODM (original design manufacturing) contracts with other well-known international cordless phone distributors, further validating our successful operating strategy. With a strong research and development team, we are now, and will continue to be, one of the leading cordless phone manufacturers in the world.

Plastic product operation

Another stable revenue stream came from our plastic products business. The plastic business grows steadily in line with growth of the telecom business as most of the plastic products are supplied internally for production of telecom products. As I last reported, the Group acquired back the baby care products business from our listed associate, Haier-CCT Holdings Limited ("Haier-CCT", SEHK code: 1169), in early 2002 with a view to adding synergy to the existing plastic products business. The decision has proved to be a desirable one. With the consolidation of the baby care products business, our plastic products group has now developed its own solid customer base for horizontal integration and expansion.

Electric component operation

During the year, we successfully acquired CCT Tech International Limited ("CCT Tech International", SEHK code: 261, then known as Wireless InterNetworks Limited, "WIN"). During the acquisition process, we injected our power supply product business into CCT Tech International. Since the completion of the acquisition, we enjoy not only the expansion and profitable growth of the power supply product business through our interest in this company, but also a broadening of our customer base and business connections through the ownership of another listed company.

Mobile phone operation

The Group's mobile phone business, conducted in cooperation with Haier Group Company ("Haier"), is operated through its listed associate, Haier-CCT.

I am pleased to report that pursuant to an acceleration agreement, which was completed in October 2002, CCT Telecom and Haier have accelerated the transfer of their interest in Pegasus Qingdao (a joint venture in the PRC engaged in the manufacture and distribution of mobile phones, as defined under the heading "Principal Activities" in the Report of the Directors) into Haier-CCT. Currently, Haier-CCT effectively holds 64.5% of Pegasus Qingdao.

According to Euromonitor, a leading market research institute in Europe, Haier is the largest white goods manufacturer in China and the fifth largest globally. It is also the largest global manufacturer in terms of refrigerators and is well known and recognised internationally. The "Haier" brand name is ranked the first in China and had a brand value of RMB48.9 billion in 2002, as assessed by Beijing Famous-Brand Evaluation Co. Ltd.

The acceleration has streamlined the mobile phone operation as a whole and further improved the efficiency and management control of Haier-CCT group. With the strength of both CCT Telecom and Haier, the future of Haier-CCT is promising.

In February 2003, Haier-CCT announced Haier's intention to further inject assets into Haier-CCT, which may include part or all of the white goods domestic appliances business of the Haier group. Among other things, the possible asset injection will depend on regulatory matters and approvals in Mainland China and Hong Kong. As a major shareholder of Haier-CCT, we are very pleased and excited about the possible injection which, if it proceeds, will enlarge the asset and revenue bases of Haier-CCT.

Outlook

We are an integrated telecommunications product enterprise. It is our business strategy to continue to focus on our core ODM business which has already proved to be a great success. We are now the supplier for a range of famous brands including GE, Alcatel and others, and will work with other recognised brands in the future in order to increase our market share in the manufacturing business.

Our manufacturing plant in Huiyang has the largest and most advanced facilities of its kind in the PRC. To satisfy increasing sales demand, the Group has also started to expand its production facilities in Dongguan, Guangdong Province. Due to the expanding size of the Group, demand for production materials is increasing. We have very strong sourcing and procurement power in the market through our long-standing relationship with our suppliers, and thus we are able to consistently maintain and even improve the operating profit margins of the Group.

The Group maintained a very strong cash position throughout the year and had a cash balance of over HK$860 million as at 31 December 2002. This advantage, together with the continued growth of our core business and prudent investment strategies, makes us highly competitive in the current depressed economy.

Acknowledgements

I wish to take this opportunity to thank the management team for its sound leadership, our staff for their hard work and excellent team spirit, and our shareholders, business partners and associates for their continued support. We are committed to maximising your returns in the years ahead.

Mak Shiu Tong, Clement
Chairman

Hong Kong, 22 April 2003

Mr. Mak Shiu Tong, Clement (Chairman)

REVIEW OF OPERATIONS

THE GROUP'S PRINCIPAL OPERATIONS

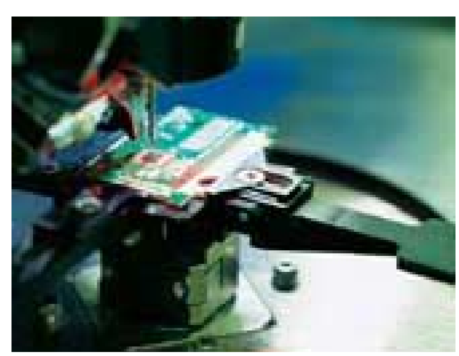
Cordless phone operation
- *CCT Telecom Product Group*

Mobile phone operation
- *Haier-CCT Holdings Limited (SEHK: 1169)*

Electric component operation
- *CCT Tech International Limited (SEHK: 261)*

Plastic product operation
- *CCT Industrial Group*

Multimedia operation
- *CCT Multimedia Group*



CCT Technology Park, our principal manufacturing base in Huiyang, Guangdong Province, the PRC

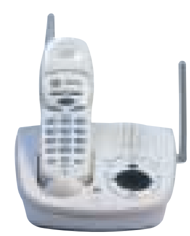
Cordless phone operation

- CCT Telecom Product Group

Principal Manufacturing Base	CCT Technology Park, Huiyang, Guangdong Province, PRC (with expansion in Dongguan, Guangdong Province)
Product Range	2.4 GHz analog cordless phone 2.4 GHz digital (SST) cordless phone 2.4 GHz multi-line, multi-handset cordless phone 900 MHz analog cordless phone 900 MHz digital (SST) cordless phone 5.8 GHz digital (SST) multi-handset product CT0 (US & Europe) cordless phone DECT cordless phone Family radio system (FRS)

The Group's core business, which has marked significant achievements in recent years, continues to be the design and manufacture of original cordless phones, all of which are for export sales to the US and Europe.

We see the improvement of operational efficiency as one of the vital factors leading to our ultimate success. Hence, after the implementation of SAP in 2001, all procurement processes in the unit were automated as a result of the joint effort between Global Exchange Services (formerly GE Global Exchange Services) and our e-procurement team. The new e-procurement process has improved management and control of inventories, increased efficiencies and reduced administrative costs considerably, thus increasing the profit margin of the Group.



In July 2002, the Group was awarded the "2001 Best Product of the Year Award" by ATLINKS, a major customer of the Group. This was the third consecutive year in which we have been presented with such an award by ATLINKS, which is a testament to our excellent product quality and good relationship with our customers.

We have a very strong research and development team and the most advanced production facilities in our Huiyang plant. In order to meet the increasing demands of the cordless phone business in terms of both volume and quality requirements, we continue to upgrade our production facilities, replacing lagging and outdated equipment. We are also expanding our manufacturing plant in Dongguan and recruiting new people so as to further increase our production capacities and workforce. Our notable and encouraging results, especially in the face of a widespread economic downturn, are attributable to our successful business strategy of focusing on our core ODM business. Our ability to provide our customers with a seamless, one-stop service from product inception to mass production by leveraging on our R&D and ODM capabilities, allows our customers to place more focus on their sales and distribution efforts. This strategy will not only help the Group to expand our core ODM business, but will also assist our customers to expand their own businesses and increase their market shares, resulting in a win-win situation.

Outlook

In 2002, the achievements of the cordless phone operation unit were encouraging, with aggressive targets being met. In the near future, we will further strengthen our R&D team in order to design and produce more innovative products using advanced technology, helping us to maintain industry leadership while exploring new markets in the PRC.

Mobile phone operation

- Haier-CCT Holdings Limited (SEHK: 1169)

Manufacturing Base	Haier Hi-tech Zone, Qingdao, PRC
Product Range	Dual band GSM mobile phone WAP phone CDMA mobile phone Internet Mobile WAP / GPRS with colour display

Back in early 2001, we cooperated with Haier and started our mobile phone manufacturing and distribution business through joint ventures in both Hong Kong and the PRC. Pegasus Qingdao, the PRC joint venture, is based in the manufacturing plant within the Haier Hi-tech Zone in Qingdao, the PRC.

At the end of 2001, Pegasus HK (as defined under the heading "Connected Transactions" in the Report of the Directors), the Hong Kong joint venture, was injected into Haier-CCT, a listed associate of the Group, thereby transforming the core business of Haier-CCT into that of a mobile phone business, which was the first step in the restructuring of the Group's mobile phone business. We believe the restructuring has enhanced the business strength of Haier-CCT and will benefit CCT Telecom as its major shareholder.

In August 2002, we accelerated the second step of the restructuring, which involved the transfer of Haier's and CCT Telecom's interest in Pegasus Qingdao into Haier-CCT. This was completed in October 2002, and Haier-CCT now effectively owns 64.5% of Pegasus Qingdao, with an option to acquire the remaining 35.5% interest in Pegasus Qingdao in future (up to 31 July 2004).

Outlook

The mobile phone market in the PRC presents a wealth of business opportunities and potential. The PRC has already surpassed the US to become the world's largest mobile phone market.

The MII (Ministry of Information Industry of the PRC) has projected that total subscribers will reach approximately 300 million in 2005, representing an annualised compound growth rate of 26% over the period from 2001 to 2005. Compared with many other developed countries and locations, a penetration rate of less than 20% in China is low and has plenty of room for growth in the years ahead.

Due to the largely untapped opportunities within the mobile phone market in the PRC, domestic brands of mobile phone makers came into the arena a few years ago and have scrambled and managed to gain a market share of more than 20% by the end of 2002. The MII has estimated that in 2003, domestic brands will have a market share of more than 35%. It is strongly believed that domestic brands will capture a greater share of a growing market in the years ahead.

The increase in penetration rate coupled with the increase in market share by domestic brands is expected to enable Haier-CCT to enjoy a "compound growth" in its business in the coming years. With an experienced R&D team, unique design and technology, an extensive distribution network and Haier's prestige brand name, we are confident that the Group will enjoy attractive returns from Haier-CCT's mobile phone business.

Currently, the shareholding of Haier-CCT is owned as to 43.6% by CCT Telecom, as to 29.9% by Haier, as to 1.5% by directors of the Company and as to 25% by public shareholders. The strong support from Haier-CCT's two major shareholders will ensure that the mobile phone operation will expand and grow more rapidly.

Electric component operation

- CCT Tech International Limited (SEHK: 261)

Principal Manufacturing Base	Dongguan, Guangdong Province, PRC
Product Range	Power supply - Linear and switching power supply - Power transformer / AC adaptor Antennae - Coil assembly

In May 2002, the electric component business of the Group, comprised of the manufacture of power supply products, was injected into CCT Tech International (then WIN) under a restructuring exercise. Following the completion of the restructuring exercise, the Group owns a 42% equity interest, together with convertible notes of HK$45 million in the company. On a fully diluted basis, the Group will own a 52% equity interest in the company.

Before its acquisition by CCT Telecom, WIN had been operating under extreme financial difficulties in recent years and the business was deteriorating. After the rescue by CCT Telecom, almost all of the previous defaulted debts of WIN were released and discharged, and its business revitalised by the injection of CCT Telecom's electric component business. To reflect the ownership of the new shareholder, WIN was then renamed CCT Technology Holdings Limited. In November 2002, CCT Technology Holdings Limited was further reorganised, with its listing status being replaced by CCT Tech International. CCT Technology Holdings Limited has become a wholly owned subsidiary of CCT Tech International.

Currently, the principal business of CCT Tech International is the manufacture of telecom products including electric components. The principal manufacturing base of the business is located in Dongguan, the PRC. Through its substantial interest in CCT Tech International, CCT Telecom continues to enjoy the expansion and profitable growth of the electric component business.

Plastic product operation
- CCT Industrial Group

Principal Manufacturing Base	CCT Technology Park, Huiyang, Guangdong Province, PRC (with expansion in Dongguan, Guangdong Province)
Product Range	Plastic components - plastic moulds - plastic casings - spraying / silk-screening - hot-stamping - ultrasonic welding Baby care products, including - nursery care kits - bathroom and kitchen safety gift sets

The plastic product operation is mainly utilised internally for the production of the Group's telecom products so as to provide a vertical integration support within the Group. Currently, we have over 160 advanced moulding injection machines, including 25 automatic robot arm plastic moulding machines. Our annual production capacity of plastic components, together with some plastic components supplied by our sub-contractors, is able to cater for and fulfill the production of over 28 million units of cordless phones.

In order to increase our customer base and to develop export sales of our plastic products, the Group acquired the baby care product export business from Haier-CCT in early 2002. The acquisition provides synergy to both the baby care product export business and the original plastic product business by better utilising the plastic moulding facilities in our Huiyang plant.

During 2002, the baby care products business as well as other plastic products enjoyed a growing volume of purchase orders and we are now expanding the production capacities to cater for the increased demand. Over the years, the plastic product business unit has managed to meet the full-on internal demands of our telecom product manufacturing operations. Going forward, we will focus on developing and designing new plastic products, including baby and health care products, with the aim of increasing our share of the export market and gaining more customers. Apart from some vertical integration to support the Group's core business, the unit is now ready for its own horizontal growth and expansion.

Multimedia operation
- CCT Multimedia Group

Another stream of business within the Group is our multimedia business. We are currently focused on the media publishing business and publish three titles, namely "Citymagazine", "Milk" and "Cream" magazines. These magazines focus on modern lifestyle trends, providing entertaining news, information and insight into fashion, music, home design, luxury items and accessories for niche target audiences and different age groups, including professionals and trendy teenagers. The major market of these three magazines remains Hong Kong, but we are looking to open up other markets in Greater China.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. MAK Shiu Tong, Clement, aged 49, has served as Chairman, Chief Executive Officer and an Executive Director of the Company since January 1994. Mr. Mak is a substantial shareholder of the Company. He has over 26 years of experience in the electronics manufacturing and distribution industry, specialising in telephone and telecommunications products. He holds a Diploma in Electrical Engineering.

Mr. TAM Ngai Hung, Terry, aged 49, has served as an Executive Director and Group Finance Director of the Company since March 2001. Mr. Tam has more than 25 years of experience in finance and accounting management, and also has extensive experience in mergers and acquisitions. He is a fellow of the Association of Chartered Certified Accountants and an associate of both the Hong Kong Society of Accountants and the Institute of Chartered Secretaries and Administrators. He has previously held a number of senior positions in several listed companies.

Ms. CHENG Yuk Ching, Flora, aged 49, has served as an Executive Director of the Company since February 1998. Ms. Cheng has over 23 years of experience in the electronics industry and has held senior positions in various well-known electronics companies. She holds a Diploma in Business Administration.

Dr. William Donald PUTT, aged 65, has served as an Executive Director of the Company since January 1997. Dr. Putt obtained his PhD in Management from the Massachusetts Institute of Technology in the United States. He has over 30 years of experience in the telecom industry, and was the president and co-founder of TeleConcepts Corporation, which specialised in the design, production and distribution of telecom products.

Independent Non-executive Directors

Mr. Samuel OLENICK, aged 75, has served as an Independent Non-executive Director of the Company since November 1997. He is a certified public accountant in the United States, and has many years of experience in the US telecommunications field.

Mr. TAM King Ching, Kenny, aged 54, has served as an Independent Non-executive Director of the Company since December 1999, and is a practising Certified Public Accountant in Hong Kong. He holds a Bachelor's Degree in Commerce and is a fellow of the Hong Kong Society of Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. He is serving as a member of the Insolvency Practitioners Committee, Professional Risk Management Committee, Insolvency Education Steering Committee and Small and Medium Practitioners Committee in the Hong Kong Society of Accountants. Mr. Tam is also the Immediate Past President of The Society of Chinese Accountants and Auditors.

Mr. LAU Ho Man, Edward, aged 48, has served as an Independent Non-executive Director of the Company since February 2000. Mr. Lau has more than 26 years of experience in finance, accounting management and administration, and also has extensive experience in taxation and corporate finance matters. He is a Certified Public Accountant and a fellow of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. Mr. Lau is also a member of the Chartered Institute of Management Accountants and the American Institute of Certified Public Accountants.

Senior Management

Mr. TONG Chi Hoi, aged 37, joined the Group in November 1997. He currently holds the positions of Managing Director in CCT Telecom Product Group and Managing Director of the electric component division of CCT Tech International Limited, a listed subsidiary of the Group. Mr. Tong has a First Class Honours Degree in Electrical and Electronics Engineering from the University of London. He has over 15 years of experience in the electronics manufacturing industry.

Mr. TUNG Shuk Lun, Maximilian, aged 34, has been the General Counsel of the Company since December 1999 and is responsible for advising on all legal matters of the Company. Mr. Tung graduated from the University of London with an LL.B. Degree and is a practicing solicitor qualified to practice in Hong Kong and the United Kingdom.

Mr. CHEUNG Chi Wah, Patrick, aged 32, joined the Company in October 1999. He currently holds the position of Group Financial Controller and is responsible for finance and accounting management. Mr. Cheung graduated from Hong Kong Polytechnic University with an Honours Degree in Accountancy. He is an associate of both the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants.

Ms. LO Yok Ming, Kitty, aged 47, is responsible for product management, sales and marketing and customer services. Ms. Lo has more than 20 years of experience in the consumer electronics industry and has held senior positions in various multinational companies in the past.

Mr. FUNG Cheuk Chiu, Johnny, aged 49, joined the Group in October 2000. Mr. Fung currently holds the position of Technical Director in a principal subsidiary of the Company. He holds a Higher Certificate in Electronics Engineering. He has more than 25 years of experience in telecom product design and development. Prior to joining the Group, he held a number of senior positions in several electronics companies.

Mr. MAN Chin Keung, Daniel, aged 39, joined the Group in November 2002. Mr. Man currently holds the position of Deputy Managing Director in a principal subsidiary of the Company. He has a Bachelors Degree in Mechanical Engineering. He has more than 11 years of experience in the plastic injection industry.

Ms. LOW Pui Man, Jaime, aged 34, joined the Company in August 1999. She currently holds the position of Company Secretary of the Company. She has extensive experience in company secretarial practice. She is an associate of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.

FINANCIAL REVIEW

FINANCIAL RESULTS

Summary of Results

Turnover of the Group increased slightly by 1% due to the growth of the telecom business. The turnover of cordless phone products in fact increased 20% from last year. Gross profit increased 11% from last year.

A net gain of HK$599 million arose in the year, mainly due to the deemed disposal of Haier-CCT arising from the dilution of the Company's shareholding in Haier-CCT, as Haier-CCT changed from a subsidiary to an associate in October 2002 (CCT Telecom's shareholding in Haier-CCT was diluted from 53.5% as at 31 December 2001 to 43.6% as at 31 December 2002). As a result of the downturn of the Internet and high-tech sector, the Group has either terminated or divested its non-core investments. Provisions were made against those investments which under-performed. Net losses on investments amounted to HK$708 million, mainly comprised of the loss on realisation of investments and the impairment of investments against those under-performed investments in respect of high-tech related businesses.

The Company reported a net loss of HK$398 million in the first half of the year. The Group achieved improved results in the second half of the year. The full year's loss has been reduced to HK$257 million. The reduction in loss was mainly attributable to the growth of the core business and the gain on the deemed disposal of Haier-CCT which happened in the second half of the year.

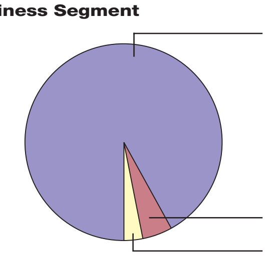
Dividends

The Board proposed a final dividend of HK2 cents per share for the year to the shareholders whose names appear on the register of members of the Company on 19 May 2003, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Total dividend for the year, including the interim dividend of HK1 cent per share, amounted to HK3 cents per share, representing a dividend yield of 3.75% at the date of this report (2001: Nil). The proposed dividend will be paid on or about 16 June 2003 following the shareholders' approval at the forthcoming annual general meeting of the Company.

Analysis by Business Segment

	Turnover		
HK$'million	2002	2001	% change
Telecom products	2,864	2,851	-
Baby care products	166	156	6%
Corporate and others	100	99	1%
Total	3,130	3,106	1%

2002 Turnover by Business Segment



	Profit and loss		
HK$'million	2002	2001	% change
Telecom products	167	140	19%
Baby care products	6	7	-
Corporate and unallocated items	(374)	(777)	(52%)
Total losses from operating activities	(201)	(630)	(68%)

The telecom products segment continued to be the key driver for growth of the Group and contributed 92% (2001: 92%) of the Group's turnover in the current year. The remaining turnover was contributed from baby care products and corporate items, representing 5% (2001: 5%) and 3% (2001: 3%) of the total turnover, respectively.

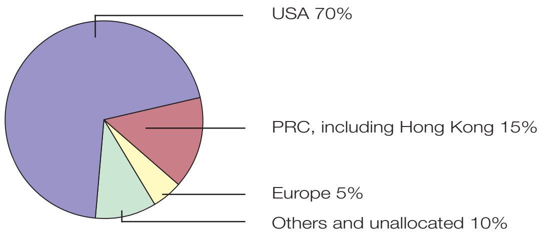
The telecom products business achieved outstanding results in 2002 and contributed an operating profit of HK$167 million to the Group, an increase of 19% as compared with last year. The excellent performance of the segment is due to increased market demand for cordless products, especially 2.4 GHz cordless phones, and the improvement in efficiency produced by our strong research and development capability together with effective cost control.

Corporate and unallocated items, comprised of net losses on investments and unallocated head office overheads, were partially offset by the gain arising from the deemed disposal of Haier-CCT during the year. Corporate items recorded a decrease from a loss of HK$777 million in 2001 to a loss of HK$374 million in 2002, representing a significant 52% reduction.

Analysis of Turnover by Geographical Segment

HK$'million	2002	2001	% change
USA	2,198	1,783	23%
PRC, including Hong Kong	462	778	(41%)
Europe	155	365	(58%)
Others and unallocated	315	180	75%
Total	3,130	3,106	1%

2002 Turnover by Geographical Segment



Most of the Group's turnover was derived from export of telecom products. The USA continued to be the major market of the Group, accounting for 70% (2001: 57%) of the Group's total turnover for the year. The increase in turnover from the USA was mainly attributable to the increase in sales of our cordless phone products to the USA.

The PRC (including Hong Kong) and Europe ranked second and third, accounting for 15% (2001: 25%) and 5% (2001: 12%), respectively, of the Group's total turnover.

FINANCIAL POSITION

Capital Structure and Gearing Ratio

	As at 31 Dec 2002		As at 31 Dec 2001	
HK$'million	Amount	Relative %	Amount	Relative %
Bank loans	363	13%	363	12%
Convertible debts	20	1%	120	4%
Finance lease payables	5	-	9	-
Total borrowings	388	14%	492	16%
Equity	2,428	86%	2,520	84%
Total capital employed	2,816	100%	3,012	100%

On 8 April 2002, the Company passed a special resolution to reduce the share capital of the Company. Pursuant to the special resolution: (i) the nominal value of each of the 422,105,230 then issued shares of HK$5.00 was reduced by HK$4.90 to HK$0.10, thereby reducing the then issued share capital of HK$2,110 million by HK$2,068 million to HK$42 million; (ii) of the credit of HK$2,068 million arising therefrom, HK$934 million was used to eliminate the accumulated losses of the Company and the balance of HK$1,134 million was credited to a distributable reserve of the Company; and (iii) the then unissued shares of the Company were cancelled, immediately followed by the creation of 1,577,894,770 unissued new shares of HK$0.10 each and, as a result, the authorised share capital of the Company has increased to HK$200 million, comprised of 2,000 million shares of HK$0.10 each. Further details of the share reduction are set out in the Company's circular dated 7 March 2002.

The financial position of the Group remains strong, with a low gearing ratio (total borrowings over total capital employed) of only 14% at 31 December 2002 (2001: 16%), reflecting a healthy financial position and the prudent financial policy of the Group.

The outstanding convertible notes amounting to HK$20 million at 31 December 2002 were raised in July 2002 through the Company's listed subsidiary, CCT Technology. The convertible notes were cancelled upon completion of the group reorganisation of CCT Technology and, at the same time, new convertible notes in the same amount of HK$20 million were issued to the original convertible noteholder with substantially the same terms by its new listed holding company, CCT Tech International. The outstanding convertible notes, with a conversion price at HK$0.01 per share of CCT Tech International, bear interest at the rate of 5% per annum and fall due in July 2004.

During the year, the Company fully redeemed HK$120 million worth of convertible notes issued by the Company in 2001. The redeemed convertible notes bore interest at the rate of 8% per annum. The repayment of convertible notes reduced the financial cost of the Company.

At 31 December 2002, total borrowings of the Group amounted to HK$388 million (2001: HK$492 million), of which the maturity profile falling due within one year, in the second to the fifth year and in the sixth to the tenth year amounted to HK$205 million, HK$106 million and HK$77 million, respectively (2001: HK$285 million, HK$175 million and HK$32 million, respectively). There is no material effect of seasonality on the Group's borrowing requirements.

Liquidity and Financial Resources

Current ratio (HK$'million)	At 31 Dec 2002	At 31 Dec 2001
Current assets	1,647	2,202
Current liabilities	991	1,086
	166%	203%

The Group's financial position continued to be strong as at 31 December 2002. Current ratio (a ratio of current assets over current liabilities) as at 31 December 2002 was 166% (2001: 203%). The strong liquid position was attributable to strong cash flows from the operations and the prudent investment strategy of management.

At 31 December 2002, the Group had a cash balance of HK$866 million (2001: HK$1,137 million), decreased by HK$271 million as compared with last year. The decrease was because of the exclusion of Haier-CCT's cash balance from the Group's total cash balance upon consolidation at the year end, due to the fact that Haier-CCT had become an associate of the Company upon completion of the acceleration agreement (Haier-CCT was a subsidiary of the Company at 31 December 2001). The cash balance of CCT Telecom Group (excluding Haier-CCT) in fact increased by HK$102 million as compared with last year.

Among the total cash balance of HK$866 million, approximately HK$83 million (2001: HK$180 million) was pledged for general banking facilities. Almost all of the Group's cash was placed on deposits with licensed banks in Hong Kong.

The Group had outstanding bank loans amounting to HK$363 million at 31 December 2002 (2001: HK$363 million). Approximately 56% of these bank loans were arranged on a short-term basis for the ordinary business of the Group and are repayable within one year. The remaining 44% were of a long-term nature, principally comprised of mortgage loans on properties used by the Group.

Certain of the Group's assets were financed by finance leases and the total outstanding for finance leases payable at 31 December 2002 amounted to HK$5 million (2001: HK$9 million).

At 31 December 2002, the Group had banking facilities of HK$646 million (2001: HK$775 million), of which HK$360 million (2001: HK$360 million) had been utilised.

Capital Commitments
The Group had authorised and contracted capital commitments of approximately HK$60 million (2001: HK$3 million) at 31 December 2002. These capital commitments mainly relate to capital expenditure for the manufacturing business of the Group and will be funded by internal resources.

Treasury Management
The Group employs a conservative approach to cash management and risk controls. To achieve better risk controls and efficient fund management, the Group's treasury activities have been centralised. Most of the Group's receipts and payments are made in Hong Kong dollars and United States dollars. Cash is generally placed in short-term deposits denominated in Hong Kong dollars and United States dollars. At 31 December 2002, all of the Group's outstanding borrowings were denominated in Hong Kong dollars only. Other than the HK$20 million in fixed rate convertible notes, the Group's borrowings were principally made on a floating rate basis. The Group does not have any significant foreign currency or interest rate risk.

OTHER INFORMATION

Employees and Remuneration Policy

The total number of employees of the Group as at 31 December 2002 was 13,245. Remuneration packages are normally reviewed on an annual basis. Apart from salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group. At 31 December 2002, there were outstanding share options of approximately 14 million.

Significant Investment

There was no significant investment unrelated to the core manufacturing business during the year.

The Group continues to focus on the original design and manufacturing of telecom products. During the year, HK$192 million was used for capital expenditure, mainly relating to the Group's core manufacturing business.

Acquisition and Disposal of Material Subsidiaries and Associates

(1) Pursuant to an agreement signed in January 2002 with Haier-CCT, the Company acquired in March 2002 from Haier-CCT (the Company's then listed subsidiary and now a listed associate) a 100% interest in Current Profits Limited, which is engaged in the baby care products business. Further details of the acquisition have been set out in the Company's announcement dated 14 January 2002.

(2) Pursuant to the restructuring agreements dated 10 August 2001 entered into between the Company, Wireless InterNetworks Limited ("WIN", a listed company in Hong Kong), WIN's then receivers, Standard Chartered Bank and Dongguan Defa Investment Limited, the Company acquired a controlling interest in WIN and HK$45 million in WIN's convertible notes. Further details of the acquisition have been set out in the Company's circular dated 31 March 2002.

    To reflect the Company's ownership in WIN, WIN was then renamed CCT Technology Holdings Limited ("CCT Technology"). CCT Technology was further reorganised in November 2002, with its listing status replaced by CCT Tech International.

    On a fully diluted basis, the Company will own a 52% equity interest in CCT Tech International.

(3) Pursuant to an acceleration agreement dated 8 August 2002 (as amended by a supplemental agreement dated 15 August 2002), the Company disposed of its 100% interest in Coreland Limited, which in turn owned a 49% interest in Pegasus Qingdao. Pegasus Qingdao is engaged in the manufacture and distribution of mobile phones. The disposal was completed in September 2002. Further details of the disposal have been set out in the Company's circular dated 5 September 2002.

Pledge of Assets

At 31 December 2002, certain of the Group's assets with a net book value of HK$277 million (2001: HK$383 million) and time deposits of HK$83 million (2001: HK$180 million) were pledged to secure the general banking facilities granted to the Group.

Contingent Liabilities

Apart from the corporate guarantees of HK$360 million (31 December 2001: HK$360 million) given to banks for general facilities utilised by subsidiaries of the Company and a guarantee given to an independent third party in respect of a rental arrangement in the amount of HK$40 million, the Group did not have any other significant contingent liabilities at 31 December 2002.

CORPORATE INFORMATION

COMPANY NAME
CCT Telecom Holdings Limited

BOARD OF DIRECTORS
Executive Directors
MAK Shiu Tong, Clement (Chairman and Chief Executive Officer)
TAM Ngai Hung, Terry
CHENG Yuk Ching, Flora
William Donald PUTT
Independent Non-executive Directors
Samuel OLENICK
TAM King Ching, Kenny
LAU Ho Man, Edward

COMPANY SECRETARY
LOW Pui Man, Jaime

PRINCIPAL BANKERS
Standard Chartered Bank
Nanyang Commercial Bank, Ltd.

SOLICITORS
Sidley Austin Brown & Wood

AUDITORS
Ernst & Young Certified Public Accountants

FINANCIAL YEAR END
December 31

REGISTERED OFFICE
The Office of the Harbour Trust Co. Ltd.
P.O. Box 1787 GT, One Capital Place
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
32/F China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG
Tengis Limited
G/F Bank of East Asia Harbour View Centre
56 Gloucester Road
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STOCK CODE
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CONTENTS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

During the year, the Group continued the business of the manufacture and sale of telecom products and accessories, the manufacture and sale of baby care products and the provision of multimedia content and services and magazine publishing.

During the year, the Group disposed of its entire 49% interest in Pegasus Telecom (Qingdao) Co., Ltd. (formerly known as Haier CCT (Qingdao) Telecom Co., Ltd.) ("Pegasus Qingdao"), a jointly-controlled entity of the Group, to Haier-CCT Holdings Limited (an associate of the Group). Pegasus Qingdao was engaged in manufacture and distribution of mobile phones. Further details are set out in note 41(b) to the financial statements.

Details of the principal activities of the principal subsidiaries and the Group's jointly-controlled entities and principal associates are set out in notes 17, 18 and 19, respectively, to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 36 to 85.

An interim dividend of HK$0.01 per ordinary share was paid on 25 October 2002.

The directors recommend the payment of a final dividend of HK$0.02 per ordinary share in respect of the year, to shareholders on the register of members of the company on 19 May 2003 subject to the approval of the shareholders of the company at the forthcoming annual general meeting. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

FIVE YEAR FINANCIAL SUMMARY

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 reclassified as appropriate, is set out on page 86. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and the investment properties of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 33 and 34 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Companies Law (2001 Revision) Chapter 22 of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

Under the Companies Law (2001 Revision) Chapter 22 of the Cayman Islands, the share premium account of the Company is available for distribution of dividends to shareholders subject to the provisions of the Company's Memorandum and Articles of Association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.

In accordance with the Company's Articles of Association, dividends can only be distributed out of profits and reserves available for distribution including the share premium account of the Company. As at 31 December 2002, the Company had a net credit balance of approximately HK$2,385 million (2001: HK$320 million) of which HK$8 million has been proposed as a final dividend for the year maintained in the reserve accounts which would be available for distribution.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$1 million (2001: HK$46,000).

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total			
	Sales		Purchases	
	2002	2001	2002	2001
The largest customer	59	56		
Five largest customers in aggregate	78	79		
Five largest suppliers in aggregate			<30	<30

None of the directors of the Company or any of their associates or 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 the Group's five largest customers and suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this Annual Report were as follows:

Executive directors:
Mak Shiu Tong Clement
Cheng Yuk Ching Flora
Tam Ngai Hung Terry
William Donald Putt
Tsoi Tong Hoo Tony (resigned on 20 February 2002)

Independent non-executive directors:
Samuel Olenick
Tam King Ching Kenny
Lau Ho Man Edward

In accordance with the articles of association of the Company, Messrs. Cheng Yuk Ching Flora and Samuel Olenick will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

The independent non-executive directors of the Company are not appointed for specific term and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 15 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

During the year, no director had a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

SHARE OPTION SCHEME

On 28 February 2002, the share option scheme adopted by the Company on 25 May 2001 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted by the Company to comply with the new amendments to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in respect of the share option schemes of a listed company. As a result, the Company may no longer grant any further options under the Old Share Option Scheme. However, all options granted prior to the termination of the Old Share Option Scheme will remain in full force and effect. As at 31 December 2002, there were 13,850,000 share options outstanding under the Old Share Option Scheme. No options has been granted by the Company under the New Share Option Scheme during the year.

SHARE OPTION SCHEME (continued)

The purpose of the New Share Option Scheme is to provide incentives and rewards to the eligible participants who contribute to the success of the Group's operation. Eligible participants of the New Share Option Scheme include any employee, executive or officer of the Group (including executive and non-executive directors of the Group) and any supplier, consultant, agent, adviser, shareholder, customer, partner, business associate who, in the sole discretion of the board of directors of the Company (the "Board"), has contributed to the Group. The New Share Option Scheme became effective on 28 February 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Pursuant to the New Share Option Scheme, the maximum number of shares in respect of which options may be granted under the New Share Option Scheme is such number of shares, when aggregated with shares subject to any other share option scheme(s) of the Company (which, for this purpose, excludes the Old Share Option Scheme), must not exceed 10% of the issued share capital of the Company as at the date of adoption of the New Share Option Scheme. The maximum number of shares issuable upon exercise of the options granted under the New Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period is limited to 1% of the shares of the Company in issue as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the shareholders' approval of the Company at a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to the approval in advance by the independent non-executive directors of the Company, excluding the independent non-executive director(s) of the Company who is/are the grantee(s) of the options. In addition, any share option granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue as at the date of grant or with an aggregate value (based on the closing price of the Company's shares as at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to the issue of a circular by the Company and the shareholders' approval of the Company in advance at a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options or the expiry date of the New Share Option Scheme, whichever is earlier.

The exercise price of the share options is determinable by the Board, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

SHARE OPTION SCHEME (continued)

Details of the movements of the share options under the Old Share Option Scheme during the year were as follows:

	Number of share options								Price of the Company's shares *(Note 2)*	
Name or category of participant	Outstanding as at 1 January 2002	Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year	Outstanding as at 31 December 2002	Date of grant of share options *(Note 1)*	Exercise period of share options	Exercise price per share option HK$	At grant date of share options HK$	At exercise date of share options HK$
Executive directors										
Mak Shiu Tong Clement	5,000,000	–	–	–	5,000,000	13/8/2001	16/8/2001 - 15/8/2003	2.936#	0.720	–
Cheng Yuk Ching Flora	1,250,000	–	–	–	1,250,000	13/8/2001	16/8/2001 - 15/8/2003	2.936#	0.720	–
Tam Ngai Hung Terry	750,000	–	–	–	750,000	11/6/2001	13/6/2001 - 12/6/2003	3.732#	0.920	–
	1,250,000	–	–	–	1,250,000	13/8/2001	16/8/2001 - 15/8/2003	2.936#	0.720	–
Tsoi Tong Hoo Tony*	1,250,000	–	–	(1,250,000)	–	13/8/2001	16/8/2001 - 15/8/2003	2.936#	0.720	–
	9,500,000	–	–	(1,250,000)	8,250,000					
Other employees										
In aggregate	125,000	–	–	(125,000)	–	11/6/2001	13/6/2001 - 12/6/2003	3.732#	0.920	–
	625,000	–	–	–	625,000	27/6/2001	29/12/2001 - 28/6/2003	3.553#	0.890	–
	1,000,000	–	–	(750,000)	250,000	30/6/2001	30/6/2001 - 30/12/2003	3.533#	0.850	–
	750,000	–	–	–	750,000	8/8/2001	8/2/2002 - 7/8/2003	3.085#	0.730	–
	4,775,000	–	–	(800,000)	3,975,000	13/8/2001	16/2/2002 - 15/8/2003	2.936#	0.720	–
	7,275,000	–	–	(1,675,000)	5,600,000					
	16,775,000	–	–	(2,925,000)	13,850,000					

SHARE OPTION SCHEME (continued)

Notes:

1. *The vesting period of the share options is from the date of grant until the commencement of the exercise period.*

2. *The price of the Company's shares as at the date of grant of the share options is the closing price of the Company's shares as listed on the Stock Exchange on the trading day immediately prior to the date of grant of the share options. The price of the Company's shares as at the date of exercise of the share options is the weighted average of the closing prices of the Company's shares as listed on the Stock Exchange immediately before the dates on which the share options were exercised.*

Adjusted to take into account of the share consolidation, rights issue and bonus issue of the Company in December 2001.

* *Mr. Tsoi Tong Hoo Tony resigned as an executive director of the Company on 20 February 2002.*

The financial impact of the share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors of the Company do not consider it appropriate to disclose a theoretical value of the share options granted because a number of factors crucial for the valuation cannot be determined. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful, but would be misleading to the shareholders of the Company.

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

As at 31 December 2002, the interests of the directors of the Company and/or any of their respective associates in the equity or debt securities of the Company or any of its associated corporation (as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register required to be kept by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules (the "Model Code"), were as follows:

(i) The Company

		Number of ordinary shares in the Company beneficially held and nature of interest		
Name of director	*Notes*	Personal	Family	Corporate
Mak Shiu Tong Clement	*(1)*	856,000	1,407,500	83,998,441
Cheng Yuk Ching Flora		9,876,713	–	–
Samuel Olenick	*(2)*	–	–	125,000
William Donald Putt		171,500	–	–

DIRECTORS' INTERESTS IN SHARES AND WARRANTS (continued)

(ii) Associated corporation - Haier-CCT Holdings Limited ("Haier-CCT")

		Number of ordinary shares in Haier-CCT beneficially held and nature of interest			Amount of 2004 warrants* in Haier-CCT beneficially held and nature of interest		
Name of director	*Notes*	Personal	Family	Corporate	Personal HK$	Family HK$	Corporate HK$
Mak Shiu Tong Clement	*(3)*	20,574,412	1,150,391	85,494,864	1,069,869.32	59,820.28	4,444,651.64
Cheng Yuk Ching Flora		19,312,498	–	–	1,004,249.48	–	–
Tam Ngai Hung Terry		10,000,000	–	–	520,000.00	–	–
Samuel Olenick	*(4)*	–	–	130,548	–	–	6,788.08
William Donald Putt		179,112	–	–	9,313.72	–	–

Notes:

(1) The family interest of Mr. Mak Shiu Tong Clement in 1,407,500 shares in the Company was held by his wife, Ms. Yiu Yu Ying, and the corporate interest of Mr. Mak Shiu Tong Clement in 83,998,441 shares in the Company was held by Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons had beneficial interests, under the provisions of the SDI Ordinance. These interests in the shares of the Company have also been disclosed under the section of "Substantial Shareholders' Interests" below.

(2) Mr. Samuel Olenick was deemed to be interested in 125,000 shares in the Company under the provisions of the SDI Ordinance.

(3) The family interest of Mr. Mak Shiu Tong Clement in 1,150,391 shares and in the 2004 warrants in an aggregate amount of HK$59,820.28 in Haier-CCT were held by his wife, Ms. Yiu Yu Ying, and the corporate interest of Mr. Mak Shiu Tong Clement in 85,494,864 shares and in the 2004 warrants in an aggregate amount of HK$4,444,651.64 in Haier-CCT were held by Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons had beneficial interests, under the provisions of the SDI Ordinance.

(4) Mr. Samuel Olenick was deemed to be interested in 130,548 shares and in the 2004 warrants in an aggregate amount of HK$6,788.08 in Haier-CCT under the provisions of the SDI Ordinance.

** The 2004 warrants in Haier-CCT entitle the holders thereof to subscribe for its shares at a subscription price of HK$0.52 per share, subject to adjustments, until 26 February 2004.*

Save as disclosed above, as at 31 December 2002, none of the directors of the Company and/or any of their respective associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporation (as defined in the SDI Ordinance), as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE ORDINARY SHARES

(i) The Company

The Company has granted to certain directors of the Company the rights to subscribe for ordinary shares in the share capital of the Company. Details of the movements of the share options granted to the directors of the Company during the year are set out under the section of "Share Option Scheme" above.

DIRECTORS' RIGHTS TO ACQUIRE ORDINARY SHARES (continued)

(ii) Associated corporation - Haier-CCT

	Number of share options in Haier-CCT					
Name of director	Outstanding as at 1 January 2002	Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year	Outstanding as at 31 December 2002	Exercise price per share option HK$
Mak Shiu Tong Clement	–	89,000,000	–	–	89,000,000	0.156
Cheng Yuk Ching Flora	–	89,000,000	–	–	89,000,000	0.156
Tam Ngai Hung Terry	–	89,000,000	–	–	89,000,000	0.156
William Donald Putt	–	5,000,000	–	–	5,000,000	0.156

Note: The above share options were granted on 16 August 2002 which are exercisable during the period from 16 August 2003 to 15 August 2007.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any of its associated corporation (as defined in the SDI Ordinance) granted to any director of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, or any of its associated corporation (as defined in the SDI Ordinance) a party to any arrangement to enable the directors of the Company to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2002, the following parties were interested in 10% or more in the equity securities of the Company as recorded in the register required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of ordinary shares held	Approximate percentage of the Company's issued share capital (%)
Capital Interest Limited *(Note)*	83,998,441	19.90
Yiu Yu Ying *(Note)*	1,407,500	0.34
Mak Shiu Tong Clement	856,000	0.20
	86,261,941	20.44

Note: Under the provisions of the SDI Ordinance, Mr. Mak Shiu Tong Clement, a director of the Company, was deemed to control or have an interest in Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons had beneficial interests. Mr. Mak Shiu Tong Clement was also deemed to have an interest in the shares owned by his wife, Ms. Yiu Yu Ying. These interests in the shares of the Company have also been disclosed under the section of "Directors' Interests in Shares and Warrants" above.

Save as disclosed above, as at 31 December 2002, no other parties, other than the directors of the Company and/or any of their respective associates, whose interests are set out above, had registered as having an interest of 10% or more in the equity securities of the Company as recorded in the register required to be kept by the Company under Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

During the year, the Company had transactions with connected persons as defined in the Listing Rules, which constituted connected transactions under Chapter 14 of the Listing Rules. Details of the transactions are as follows:

(1) On 14 January 2002, the Company and Haier-CCT entered into a sale and purchase agreement pursuant to which the Company agreed to acquire from Haier-CCT the entire interest in Current Profits Limited ("Current Profits"), a then wholly-owned subsidiary of Haier-CCT, for a total purchase price of HK$60,000,000. The purchase price was payable by the Company by way of a set-off against the entire amount of the HK$60,000,000 loan note issued by Haier-CCT on 17 December 2001 to an indirect wholly-owned subsidiary of the Company. The transaction was completed on 4 March 2002. Current Profits and its subsidiaries are engaged in the manufacture and sale of baby care products.

(2) On 8 August 2002, the Company, Haier-CCT, Haier Group Company ("Haier") and Orient Rich (H.K.) Limited ("Orient Rich"), an indirect wholly-owned subsidiary of Haier, entered into an acceleration agreement (as amended by a supplemental agreement dated 15 August 2002). Pursuant to the acceleration agreement:

(i) Haier-CCT exercised its option granted by the Company under a conditional agreement entered into between the Company, Haier-CCT, Haier and Orient Rich on 4 July 2001 (as amended by a supplemental agreement dated 11 July 2001) and acquired a 100% equity interest in Coreland Limited ("Coreland", formerly known as CCT Technology Group Holdings Limited) at a consideration of HK$1 which was payable in cash and completed on 26 September 2002. Coreland owned 49% interest in Pegasus Qingdao which is engaged in the manufacture and distribution of mobile phones;

(ii) Haier-CCT acquired an interest-free shareholder's loan in the amount of HK$54,940,947 owed by Coreland to a wholly-owned subsidiary of the Company at a consideration equal to the amount of the shareholder's loan, which was payable in cash and completed on 26 September 2002;

(iii) Haier-CCT exercised part of its option granted by Haier under the conditional agreement as mentioned in (i) above and acquired a 15.5% equity interest in Pegasus Qingdao at a consideration of HK$204,600,000, which was satisfied by the issue of 1,023,000,000 shares of Haier-CCT at a price of HK$0.20 each and completed on 2 October 2002; and

(iv) Haier-CCT continues to hold the option granted by Haier under the conditional agreement as mentioned in (i) above in respect of the remaining 35.5% equity interest in Pegasus Qingdao, which will be exercisable in full or in part at any time up to 31 July 2004 at a price of HK$468,600,000, satisfied by the issue to Haier or its nominee(s) 2,343,000,000 shares of Haier-CCT at an agreed price of HK$0.20 each.

Upon completion of the acquisitions as stated in (i), (ii) and (iii) above, Haier-CCT owns a 64.5% interest in Pegasus Qingdao.

The purpose of the transactions was to allow Haier-CCT to become engaged in the manufacture of mobile phones. Each of the Company and Haier is a substantial shareholder of Haier-CCT and accordingly, the transaction constituted a connected transaction under Chapter 14 of the Listing Rules.

CONNECTED TRANSACTIONS (continued)

(3) During the year, the Group had the following material transactions with Pegasus Qingdao up to the date of the Group's disposal of the entire interest in Pegasus Qingdao to Haier-CCT:

Group

HK$'million	Notes	2002	2001
Purchases of mobile phones	(i)	35	192
Sales of raw materials	(ii)	78	254
Software and hardware design fee income	(iii)	2	15

Notes:

(i) The purchases of mobile phones from Pegasus Qingdao were made in accordance with the terms and conditions set out in a letter of intent and a supplemental agreement (collectively the "Export Agreements") entered into between Pegasus Telecom (H.K.) Co., Limited, ("Pegasus HK") and Pegasus Qingdao on 3 July 2001 and 15 August 2001, respectively.

The purchase prices were determined at a discount of 8% to the selling prices charged by the Group to its customers.

(ii) The sales of raw materials to Pegasus Qingdao were made in accordance with the terms and conditions set out in an agreement and a supplemental agreement (collectively the "Sourcing Agreements") entered into between Pegasus HK and Pegasus Qingdao on 3 July 2001 and 15 August 2001, respectively.

The sales were determined based on the actual costs of materials plus a sourcing fee of 4%.

(iii) The software and hardware design fee income from Pegasus Qingdao was charged in accordance with the terms and conditions set out in the Sourcing Agreements.

The software and hardware design fees were charged at rates in the range of 2% to 10% of the retail prices of mobile phones produced by Pegasus Qingdao.

In addition to the above, Foreland Agents Limited ("Foreland Agents"), an indirect wholly-owned subsidiary of Haier-CCT, charged Coreland a technical and management service fee of approximately HK$44 million in accordance with the terms and conditions set out in a technical service and management agreement and a supplemental agreement (collectively the "Management Agreements") entered into between Foreland Agents and Coreland on 21 September 2000 and 27 August 2001, respectively.

The above transactions occurred prior to the completion of the exercise of the CCT Technology Option and the PRC JV Option by Haier-CCT were defined as "ongoing connected transactions" in a circular to the shareholders of the Company dated 29 August 2001 and were approved by shareholders at an extraordinary general meeting of the Company held on 14 September 2001.

The Stock Exchange has granted conditional waivers to the Company from strict compliance with the connected transactions requirements as set out in the Listing Rules for the two financial years ended 31 December 2002. The ongoing connected transactions have obtained the approval of the independent non-executive directors of the Company.

The aggregate value of the transactions under the Sourcing Agreements and the Export Agreements for the period from 1 January 2002 to 2 October 2002 did not exceed HK$5.5 billion and HK$3.5 billion, respectively, and the monthly service fee under the Management Agreements did not exceed the monthly service fee specified in the Management Agreements.

The independent non-executive directors of the Company have reviewed and confirmed the connected transactions indicated in notes (i), (ii) and (iii) above were:

CONNECTED TRANSACTIONS (continued)

(a) conducted on normal commercial terms and in the ordinary and usual course of business of the Group;

(b) fair and reasonable so far as the independent shareholders of the Company were concerned;

(c) conducted on terms no less favourable than terms available to third parties; and

(d) conducted in accordance with the Export Agreements or the Sourcing Agreements (as the case may be).

In respect of the technical and management service fee of approximately HK$44 million set out above, the independent non-executive directors of the Company have reviewed and confirmed that it was:

(a) conducted on normal commercial terms and in the ordinary and usual course of business of the Group;

(b) fair and reasonable so far as the shareholders of the Company were concerned; and

(c) conducted in accordance with the Management Agreements.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Board, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by this Annual Report, except that the independent non-executive directors of the Company are not appointed for specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

AUDIT COMMITTEE

Pursuant to the requirements of the Listing Rules, the Company has established an audit committee comprising three independent non-executive directors of the Company. A set of written terms of reference, which described the authority and duties of the audit committee, was adopted by the Board.

The audit committee is answerable to the Board and the principal duties of the committee include the review and supervision of the Company's financial reporting process and internal control. The audit committee had reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2002.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Mak Shiu Tong, Clement
Chairman

Hong Kong
22 April 2003

ERNST & YOUNG
安永會計師事務所

To the members
CCT Telecom Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 36 to 85 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
22 April 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2002

HK$'million	Notes	2002	2001 (Restated)
TURNOVER	5	3,130	3,106
Cost of sales		(2,696)	(2,714)
Gross profit		434	392
Other revenue		41	50
Selling and distribution costs		(49)	(27)
Administrative expenses		(314)	(326)
Other operating expenses		(72)	(114)
Profit/(loss) from operating activities before net gains/(losses) on investments and impairment of fixed assets		40	(25)
Net gains on disposal/deemed disposal of subsidiaries		599	60
Net unrealised holding losses on short term investments		(383)	(452)
Net realised losses on disposal of short term investments		(12)	(43)
Impairment of long term investments		(313)	(30)
Impairment of fixed assets		(3)	(127)
Net losses on disposal/deemed disposal of associates		(129)	(13)
LOSS FROM OPERATING ACTIVITIES	6	(201)	(630)
Finance costs	7	(27)	(36)
Share of profits and losses of jointly-controlled entities		5	9
Share of profits and losses of associates (including a realisation of the relevant portion of the unrealised profits of approximately HK$6 million (2001: Nil) arising from the disposal of subsidiaries to an associate)		(33)	(9)
LOSS BEFORE TAX		(256)	(666)
Tax	10	(7)	(6)
LOSS BEFORE MINORITY INTERESTS		(263)	(672)
Minority interests		6	(13)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	(257)	(685)
DIVIDENDS	12		
Interim		4	–
Proposed final		8	–
		12	–
LOSS PER SHARE	13		
Basic		HK$0.61	HK$1.67
Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET

31 December 2002

HK$'million	Notes	2002	2001
NON-CURRENT ASSETS			
Fixed assets	14	1,412	1,437
Intangible assets	15	23	35
Goodwill	16	39	385
Interests in jointly-controlled entities	18	–	119
Interests in associates	19	496	83
Other assets	20	12	14
Long term investments	21	4	368
		1,986	2,441
CURRENT ASSETS			
Short term investments	21	15	464
Inventories	22	122	121
Trade and bills receivables	23	538	394
Prepayments, deposits and other receivables	24	106	86
Pledged time deposits	25	83	180
Cash and cash equivalents	25	783	957
		1,647	2,202
CURRENT LIABILITIES			
Trade and bills payables	26	605	535
Tax payable		14	15
Other payables and accruals	27	167	251
Interest-bearing bank and other borrowings	28	205	165
Convertible notes	31	–	120
		991	1,086
NET CURRENT ASSETS		656	1,116
TOTAL ASSETS LESS CURRENT LIABILITIES		2,642	3,557
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	29	161	202
Finance lease payables	30	2	5
Convertible notes	31	20	–
Deferred tax	32	3	3
		186	210
MINORITY INTERESTS		28	827
		2,428	2,520

HK$'million	Notes	2002	2001
CAPITAL AND RESERVES			
Issued capital	33	42	2,110
Reserves	35(a)	2,378	410
Proposed final dividend	12	8	–
		2,428	2,520

Mak Shiu Tong, Clement
Chairman

Tam Ngai Hung, Terry
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2002

HK$'million	Notes	Issued capital	Share premium account	Capital reserve	Retained profits/ (accumulated losses)	Proposed final dividend	Total
At 1 January 2001		783	3,127	–	(974)	–	2,936
Placement of shares		60	5	–	–	–	65
Issue of consideration shares		5	–	–	–	–	5
Bonus issue of shares		1,055	(1,055)	–	–	–	–
Rights issue of shares		211	–	–	–	–	211
Share issue expenses		–	(4)	–	–	–	(4)
Repurchases of shares		(4)	(4)	–	–	–	(8)
Net loss for the year		–	–	–	(685)	–	(685)
		2,110	2,069	–	(1,659)	–	2,520
At 31 December 2001 and beginning of year							
Capital reduction	33	(2,068)	–	2,068	–	–	–
Capital reduction against accumulated losses	33	–	–	(934)	934	–	–
Transfer to accumulated losses	35(b)	–	(815)	–	815	–	–
Reversal of goodwill upon disposal/deemed disposal of associates		–	–	–	148	–	148
Reversal of goodwill upon disposal of a subsidiary		–	–	–	21	–	21
Net loss for the year		–	–	–	(257)	–	(257)
Interim dividend	12	–	(4)	–	–	–	(4)
Proposed final dividend	12	–	–	(8)	–	8	–
At 31 December 2002		42	1,250	1,126	2	8	2,428
Retained by:							
Company and subsidiaries		42	1,250	1,126	23	8	2,449
Associates		–	–	–	(21)	–	(21)
At 31 December 2002		42	1,250	1,126	2	8	2,428
Company and subsidiaries		2,110	2,069	–	(1,655)	–	2,524
Jointly-controlled entities		–	–	–	4	–	4
Associates		–	–	–	(8)	–	(8)
At 31 December 2001		2,110	2,069	–	(1,659)	–	2,520

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

HK$'million	2002	2001 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(256)	(666)
Adjustments for:		
Finance costs	27	36
Share of profits and losses of jointly-controlled entities and associates	28	–
Interest income	(15)	(11)
Dividend income from listed equity investments	–	(2)
Depreciation	122	120
Amortisation of goodwill	16	1
Amortisation of intangible assets	31	45
Write off of deferred development costs	41	24
Loss on disposal of fixed assets, net	9	10
Net realised losses on disposal of short term investments	12	43
Net gains on disposal/deemed disposal of subsidiaries	(599)	(60)
Impairment of an investment in a jointly-controlled entity	–	33
Net unrealised holding losses of short term investments	383	452
Impairment of long term investments	313	30
Impairment of fixed assets	3	127
Impairment of other assets	2	–
Net losses on disposal/deemed disposal of associates	129	13
Bad and doubtful debt provisions on trade receivables	2	44
Bad and doubtful debt provisions on other receivables	2	2
Provision for slow-moving and obsolete stocks	6	–
Operating profit before working capital changes	256	241
Decrease/(increase) in inventories	(37)	185
Decrease in short term investments	106	165
Decrease/(increase) in trade and bills receivables	(154)	24
Increase in prepayments, deposits and other receivables	(136)	(49)
Increase/(decrease) in trade and bills payables and accruals	171	(213)
Cash generated from operations	206	353
Interest received	15	11
Interest paid	(26)	(32)
Interest element on finance lease rental payments	(1)	(4)
Dividend paid	(4)	–
Dividends from listed equity investments	–	2
Hong Kong profits tax paid	(7)	(4)
Net cash inflow from operating activities	183	326

HK$'million	Notes	2002	2001 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(130)	(236)
Proceeds from disposal of fixed assets		11	11
Additions to intangible assets		(60)	(65)
Disposal/deemed disposal of associates		87	13
Disposal/deemed disposal of subsidiaries	36(d)	(248)	–
Advances to associates		–	(7)
Acquisition of subsidiaries	36(e)	(7)	(5)
Investments in jointly-controlled entities		–	(26)
Advances to jointly-controlled entities		–	(24)
Purchases of minority interest in subsidiaries	36(f)	–	(4)
Proceeds from disposal of partial interests in subsidiaries	36(g)	–	47
Decrease/(increase) in pledged time deposits		97	(50)
Net cash outflow from investing activities		(250)	(346)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from placement of shares		–	60
Proceeds from rights issue of shares		–	211
Contribution by minority interests, net of expenses		–	362
Share issue expenses		–	(4)
Repurchases of shares		–	(8)
Repayment of convertible notes		(120)	(130)
Issue of convertible notes		20	100
New bank loans		250	182
Net repayment of trust receipt loans		(1)	(51)
Repayment of bank loans		(253)	(67)
Capital element of finance lease rental payments		(5)	(5)
Net cash inflow/(outflow) from financing activities		(109)	650
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(176)	630
Cash and cash equivalents at beginning of year		957	327
CASH AND CASH EQUIVALENTS AT END OF YEAR		781	957

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

HK$'million	Notes	2002	2001 (Restated)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	196	472
Non-pledged time deposits with original maturity of less than three months when acquired	25	587	485
Bank overdrafts	29	(2)	–
		781	957

BALANCE SHEET

31 December 2002

HK$'million	Notes	2002	2001
NON-CURRENT ASSETS			
Interests in subsidiaries	17	1,979	2,095
CURRENT ASSETS			
Short term investments	21	11	20
Prepayments, deposits and other receivables	24	1	5
Pledged time deposits	25	17	52
Cash and cash equivalents	25	428	388
		457	465
CURRENT LIABILITIES			
Other payables and accruals	27	9	10
Convertible notes	31	–	120
		9	130
NET CURRENT ASSETS		448	335
		2,427	2,430
CAPITAL AND RESERVES			
Issued capital	33	42	2,110
Reserves	35(b)	2,377	320
Proposed final dividend	12	8	–
		2,427	2,430

Mak Shiu Tong, Clement
Chairman

Tam Ngai Hung, Terry
Director

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- the manufacture and sale of telecom products and accessories;
- the manufacture and sale of baby care products; and
- the provision of multimedia content and services, and magazine publishing.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The following new and revised SSAP are effective for the first time for the current year's financial statements:

SSAP 1 (Revised):	"Presentation of financial statements"
SSAP 11 (Revised):	"Foreign currency translation"
SSAP 15 (Revised):	"Cash flow statements"
SSAP 34:	"Employee benefits"

These SSAP prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAP, are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 39 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are now translated to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the cash flow statement has been revised.

Further details of these changes and the prior year adjustments that have resulted from them are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 and note 36(a), respectively, to the financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAP") (cont'd)

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 34 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and equity investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Joint venture companies (cont'd)

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than a separately identified asset on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill, to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 goodwill accounting policy above.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Goodwill (cont'd)
On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Impairment of assets
An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation
Fixed assets, other than investment properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of that asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fixed assets and depreciation (cont'd)
Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land	2% - 5%
Buildings	2.5% - 5%
Plant and machinery	10% - 25%
Tools, moulds and equipment	10% - 50%
Furniture and office equipment	12.5% - 50%
Motor vehicles	18% - 33-1/3%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress
Construction in progress represents buildings under construction. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Investment properties
Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Intangible assets
Publishing rights
Purchased publishing rights are stated at cost less accumulated amortisation and any impairment losses, and are amortised on the straight-line basis over their estimated useful lives of 20 years.

Deferred development costs
All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Intangible assets (cont'd)

Deferred development costs (cont'd)

Deferred development costs are stated at cost less accumulated amortisation and any impairment losses, and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding four years, commencing from the date when the products are put into commercial production.

Club memberships

Club memberships are intended to be held for long term purposes. They are stated at cost less any impairment losses, on an individual membership basis.

Long term investments

Long term investments are stated at cost less any impairment losses, on an individual investment basis.

Short term investments

Short term investments are investments in equity securities held for trading purposes. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis, as determined by the directors having regard to the prices of the most recent reported sales or purchases of the securities, or professional valuations performed at the end of each financial year. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased assets is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Share option scheme

The Company operates two share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme are not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for certain of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

In addition to the MPF Scheme, the Group operates a separate defined contribution retirement benefits scheme for those employees who are eligible to participate in this scheme. This scheme operates in a similar way to the MPF Scheme, except that when an employee leaves this scheme before his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group are reduced by the relevant amount of the forfeited employer contributions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. These changes have had no material effect on the financial statements.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 36(a) to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) income from the provision of multimedia content and services and software and hardware designs, when the services are rendered;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue recognition (continued)

(c) circulation income, when the magazines are delivered;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(f) dividend income, when the shareholders' right to receive payment has been established.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's Memorandum and Articles of Association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the telecom products segment engages in the manufacture and sale of telecom products and accessories;

(b) the baby care products segment manufactures and sells baby care products;

(c) the corporate segment comprises corporate income and expense items; and

(d) the "others" segment comprises, principally, the Group's network equipment business which engages in the trading of network equipment and the provision of related consultancy services; and multimedia business which provides multimedia content and services and publishes magazines.

4. SEGMENT INFORMATION (cont'd)

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

(a) Business segments

The following tables present revenue and profit information regarding the Group's business segments for the years ended 31 December 2002 and 2001, and certain asset and liability information regarding the Group's business segments as at 31 December 2002 and 2001.

Group
2002

HK$' million	Telecom products	Baby care products	Corporate and others	Eliminations	Consolidated
Segment revenue:					
Sales to external customers	2,864	166	85	–	3,115
Intersegment sales	–	–	–	–	–
Other revenue from external sources	–	–	41	–	41
Total revenue	2,864	166	126	–	3,156
Segment results	167	6	(847)	–	(674)
Interest income					15
Unallocated revenue					599
Unallocated expenses					(141)
Loss from operating activities					(201)
Finance costs					(27)
Share of profits and losses of:					
Jointly-controlled entities	–	–	5	–	5
Associates	–	–	(33)	–	(33)
Loss before tax					(256)
Tax					(7)
Loss before minority interests					(263)
Minority interests					6
Net loss from ordinary activities attributable to shareholders					(257)

4. SEGMENT INFORMATION (cont'd)

(a) Business segments (cont'd)

Group
2001

HK$' million	Telecom products	Baby care products	Corporate and others	Eliminations	Consolidated
Segment revenue:					
Sales to external customers	2,851	156	88	–	3,095
Intersegment sales	–	–	9	(9)	–
Other revenue from external sources	–	–	48	–	48
Total revenue	2,851	156	145	(9)	3,143
Segment results	140	7	(794)	–	(647)
Interest income					11
Unallocated revenue					62
Unallocated expenses					(56)
Loss from operating activities					(630)
Finance costs					(36)
Share of profits and losses of:					
Jointly-controlled entities	–	–	9	–	9
Associates	–	–	(9)	–	(9)
Loss before tax					(666)
Tax					(6)
Loss before minority interests					(672)
Minority interests					(13)
Net loss from ordinary activities attributable to shareholders					(685)

4. SEGMENT INFORMATION (cont'd)

(a) Business segments (cont'd)

Group
2002

HK$' million	Telecom products	Baby care products	Corporate and others	Eliminations	Consolidated
Segment assets	2,847	87	5,657	(5,454)	3,137
Interests in associates	–	–	496	–	496
Interests in jointly-controlled entities	–	–	–	–	–
Total assets	2,847	87	6,153	(5,454)	3,633
Segment liabilities	2,621	24	3,581	(5,454)	772
Unallocated liabilities	235	1	169	–	405
Total liabilities	2,856	25	3,750	(5,454)	1,177
Other segment information:					
Capital expenditure	153	5	34	–	192
Deprecation	84	2	36	–	122
Amortisation	31	–	16	–	47
Impairment losses recognised directly in the profit and loss account	–	2	316	–	318
Other non-cash expenses	56	–	528	–	584

2001

HK$' million	Telecom products	Baby care products	Corporate and others	Eliminations	Consolidated
Segment assets	2,399	78	9,377	(7,413)	4,441
Interests in associates	–	–	83	–	83
Interests in jointly-controlled entities	–	–	119	–	119
Total assets	2,399	78	9,579	(7,413)	4,643
Segment liabilities	1,785	17	6,397	(7,413)	786
Unallocated liabilities	216	2	292	–	510
Total liabilities	2,001	19	6,689	(7,413)	1,296
Other segment information:					
Capital expenditure	164	1	143	–	308
Deprecation	51	3	66	–	120
Amortisation	45	–	1	–	46
Impairment losses recognised directly in the profit and loss account	–	–	157	–	157
Other non-cash expenses	34	1	586	–	621

4. SEGMENT INFORMATION (cont'd)

(b) Geographical segments

The following table presents revenue regarding the Group's geographical segments for the years ended 31 December 2002 and 2001. Over 90% of the Group's assets are located in the People's Republic of China ("PRC"), including Hong Kong.

Group
2002

HK$' million	United States of America	PRC, including HK	European Union	Others	Consolidated
Segment revenue:					
Sales to external customers	2,198	447	155	315	3,115
Other revenue from external sources	–	41	–	–	41
Total revenue	2,198	488	155	315	3,156

2001

HK$' million	United States of America	PRC, including HK	European Union	Others	Consolidated
Segment revenue:					
Sales to external customers	1,783	767	365	180	3,095
Other revenue from external sources	–	48	–	–	48
Total revenue	1,783	815	365	180	3,143

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; income from the provision of multimedia content and services, magazine publishing, and telecom related consultancy services.

Revenue from the following activities has been included in turnover:

HK$'million	2002	2001
Manufacture and sale of telecom products and accessories	2,864	2,851
Trading of telecom and network equipment and provision of related consultancy services	2	34
Manufacture and sale of baby care products	166	156
Provision of multimedia content and services, and magazine publishing	83	54
Interest income	15	11
	3,130	3,106

6. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	Group	
HK$'million	2002	2001
Depreciation	122	120
Minimum lease payments under operating leases in respect of land and buildings	15	8
Research and development costs:		
Deferred expenditure amortised *	31	45
Current year expenditure	60	65
Amortisation of goodwill **	16	1
Auditors' remuneration	5	5
Staff costs (excluding directors' remuneration - note 8)***		
Wages and salaries	252	215
Pension scheme contributions	9	6
Impairment of an investment in a jointly-controlled entity	–	33
Bad and doubtful debt provisions on trade receivables	2	44
Bad and doubtful debt provisions on other receivables	2	2
Loss on disposal of fixed assets, net	9	10
Write off of deferred development costs **	41	24
Provision for slow-moving and obsolete stocks*	6	–
Impairment of other assets	2	–
and after crediting:		
Gross rental income from investment properties	3	8
Dividend income from listed equity investments	–	2

* The amortisation of deferred development expenditure and provision for slow-moving and obsolete stocks are included in "Cost of sales" on the face of the consolidated profit and loss account.

** The amortisation of goodwill and write off of deferred development costs for the year are included in "Other operating expenses" on the face of the consolidated profit and loss account.

*** The effect of forfeited contributions on the Group's contributions to the pension schemes for the year, and the amounts of forfeited contributions available to reduce contributions in future years, were not material.

7. FINANCE COSTS

	Group	
HK$'million	2002	2001
Interest on bank loans and overdrafts wholly repayable within five years	15	11
Interest on bank loans repayable after five years	3	8
Interest on convertible note	8	13
Interest on finance leases	1	4
	27	36

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
HK$'million	2002	2001
Fees:		
Executive directors	–	–
Independent non-executive directors	–	–
	–	–
Executive directors' other emoluments:		
Salaries, allowances and benefits in kind	18	19
Performance related bonuses	8	11
Pension scheme contributions	1	1
	27	31

The number of directors, whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil - HK$1,000,000	5	4
HK$2,500,001 - HK$3,000,000	1	–
HK$3,000,001 - HK$3,500,000	–	1
HK$4,500,001 - HK$5,000,000	–	1
HK$5,000,001 - HK$5,500,000	–	1
HK$6,000,001 - HK$6,500,000	1	–
HK$17,500,001 - HK$18,000,000	1	1
	8	8

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no share options of the Company were granted to the directors in respect of their services to the Group.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2001: four) directors, details of whose remuneration are set out in note 8 above. The details of the remuneration of the remaining two (2001: one) non-director, highest paid employees are as follows:

	Group	
HK$' million	2002	2001
Salaries, allowances and benefits in kind	6	3
Performance related bonus	2	1
Pension scheme contributions	–	–
	8	4

The number of the non-director, highest paid employees fell within the following bands is as follows:

	Number of employees	
	2002	2001
HK$3,500,001 - HK$4,000,000	1	1
HK$4,500,001 - HK$5,000,000	1	-
	2	1

During the year, no share options of the Company were granted to the two non-director, highest paid employees in respect of their services to the Group.

10. TAX

The Company is exempted from tax in the Cayman Islands until 2010. Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Certain PRC subsidiaries of the Group, which are categorised as wholly foreign owned enterprises, are entitled to preferential tax treatments including full exemption from the PRC income tax for two years starting from their first profit-making year following by a 50% reduction for the next three consecutive years.

	Group	
HK$'million	2002	2001
Group:		
Hong Kong:		
Provision for the year	8	9
Overprovision in prior years	(1)	(4)
	7	5
Share of tax attributable to associates	–	1
Tax charge for the year	7	6

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is approximately HK$1 million (2001: net loss of HK$425 million). The Group's share of the profits and losses for the year retained by the jointly-controlled entities and associates amounted to profits of HK$5 million and losses of HK$33 million, respectively (2001: profits of HK$9 million and losses of HK$9 million, respectively).

12. DIVIDENDS

HK$'million	2002	2001
Interim - HK$0.01 (2001: Nil) per ordinary share	4	–
Proposed final - HK$0.02 (2001: Nil) per ordinary share	8	–
	12	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of approximately HK$257 million (2001: loss of HK$685 million), and the weighted average number of 422,105,230 (2001: 409,734,112) ordinary shares in issue during the year.

The diluted loss per share for the years ended 31 December 2002 and 31 December 2001 are not shown as the potential ordinary shares outstanding during the year had no dilution effect on the basic loss per share and the impact of the potential ordinary shares was anti-dilutive for the year ended 31 December 2001.

14. FIXED ASSETS

Group

HK$' million	Investment properties	Leasehold land and buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total
Cost or valuation:								
At 1 January 2002	58	1,385	246	117	108	17	–	1,931
Additions	–	19	45	34	26	4	4	132
Acquisition of subsidiaries	–	8	–	–	2	–	–	10
Disposals	(1)	(1)	(23)	(37)	(13)	(1)	–	(76)
Disposal of subsidiaries	–	–	(9)	(14)	(10)	(3)	–	(36)
Transfers	(44)	48	–	–	–	–	(4)	–
At 31 December 2002	13	1,459	259	100	113	17	–	1,961
Analysis of cost or valuation:								
At cost	–	1,459	259	100	113	17	–	1,948
At 31 December 2002 valuation	13	–	–	–	–	–	–	13
	13	1,459	259	100	113	17	–	1,961
Accumulated depreciation and impairment:								
At 1 January 2002	–	249	104	76	57	8	–	494
Depreciation provided during the year	–	46	40	17	16	3	–	122
Impairment during the year recognised in the profit and loss account	–	3	–	–	–	–	–	3
Disposals	–	–	(15)	(32)	(8)	(1)	–	(56)
Disposal of subsidiaries	–	–	(5)	(5)	(3)	(1)	–	(14)
At 31 December 2002	–	298	124	56	62	9	–	549
Net book value:								
At 31 December 2002	13	1,161	135	44	51	8	–	1,412
At 31 December 2001	58	1,136	142	41	51	9	–	1,437

14. FIXED ASSETS (cont'd)

The net book values of the fixed assets of the Group held under finance leases included in the total amounts of tools, moulds and equipment, furniture and office equipment and motor vehicles as at 31 December 2002, were Nil (2001: HK$1,000,000), HK$3,800,000 (2001: HK$3,000,000), and HK$2,600,000 (2001: HK$5,000,000), respectively.

The Group's land and building included above are held under the following lease terms:

HK$'million	Hong Kong	Elsewhere	Total
Long term leases	209	-	209
Medium term leases	65	887	952
	274	887	1,161

The Group's investment properties included above are held under the following lease terms:

HK$'million	Hong Kong	Elsewhere	Total
Long term leases	13	-	13

The Group's investment properties were revalued on 31 December 2002 by Grant Sherman Appraisal Limited and E. N. Surveyors & Co., independent professionally qualified valuers, on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 39(a) to the financial statements.

15. INTANGIBLE ASSETS

HK$'million	Deferred development costs	Publishing rights	Total
Cost:			
At 1 January 2002	81	2	83
Additions	60	–	60
Write off	(65)	–	(65)
At 31 December 2002	76	2	78
Accumulated amortisation:			
At 1 January 2002	48	–	48
Amortisation provided during the year	31	–	31
Write back	(24)	–	(24)
At 31 December 2002	55	–	55
Net book value:			
At 31 December 2002	21	2	23
At 31 December 2001	33	2	35

16. GOODWILL

The amounts of the goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries and minority interests, are as follows:

Group

HK$'million	
Cost:	
At 1 January 2002	386
Acquisition of subsidiaries	29
Disposal of subsidiaries	(374)
At 31 December 2002	41
Accumulated amortisation:	
At 1 January 2002	1
Amortisation provided during the year	16
Disposal of subsidiaries	(15)
At 31 December 2002	2
Net book value:	
At 31 December 2002	39
At 31 December 2001	385

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves.

The amounts of the goodwill remaining in consolidated reserves as at 31 December 2002, arising from the acquisitions of subsidiaries and associates prior to 1 January 2001, are as follows:

Group

HK$'million	Goodwill eliminated against consolidated retained profits
Cost:	
At beginning of year	952
Disposal/deemed disposal of associates	(148)
Disposal of subsidiaries	(21)
At 31 December 2002	783
Accumulated impairment:	
At beginning of year and as at 31 December 2002	680
Net amount:	
At 31 December 2002	103
At 31 December 2001	272

17. INTERESTS IN SUBSIDIARIES

HK$'million	Company 2002	Company 2001
Unlisted shares, at cost	–	25
Due from subsidiaries	4,477	4,810
Due to subsidiaries	(600)	(716)
	3,877	4,119
Provision for impairment	(1,898)	(2,024)
	1,979	2,095

The balances with the subsidiaries are unsecured, interest-free and are repayable on demand.

As at 31 December 2002, the unlisted shares, at cost, amounted to HK$85.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
CCT Marketing Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	–	100	Trading of telecom products
CCT Telecom (HK) Limited	Hong Kong	HK$2,600,000 Ordinary	–	100	Sourcing of telecom products
CCT Tech International Limited*# ("CCT Tech International")	Bermuda	HK$108,384,036 Ordinary	–	41.52##	Investment holding
Electronic Sales Limited	Hong Kong	HK$5,948,000 Ordinary	–	41.52##	Sale of telecom products
Full Triumph International Limited	British Virgin Islands	US$1 Ordinary	–	100	Property holding
Goldbay Investments Limited	Hong Kong	HK$2 Ordinary	–	100	Property holding
Huge Partner Limited	Hong Kong	HK$10,000 Ordinary	–	100	Property holding

17. INTERESTS IN SUBSIDIARIES (cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Neptune Holding Limited	Hong Kong	HK$10,000,000 Non-voting** class 'A' shares HK$1,000,000 Voting class 'B' shares	–	100	Trading of plastic casings and parts
Wiltec Industries Limited	Hong Kong	HK$100 Ordinary HK$1,000,000 Deferred***	–	100	Sale of baby care products
Huiyang CCT Telecommunications Products Co., Ltd.	People's Republic of China	HK$80,000,000 Registered****	–	100	Manufacturing of telecom products
Huiyang CCT Plastic Products Co., Ltd.	People's Republic of China	HK$48,600,000 Registered****	–	100	Manufacturing of plastic casings and parts

* *Listed on The Stock Exchange of Hong Kong Limited.*

** *The non-voting shares carry no rights to dividends and no rights to vote at general meetings.*

*** *The non-voting deferred shares carry no rights to dividends, to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding-up.*

**** *Registered under the laws of the PRC as a wholly foreign owned enterprise.*

\# *Acquired during the year.*

\## *CCT Tech International and Electronic Sales Limited are accounted for as subsidiaries since the Company has the power to cast the majority of votes at meetings of the board of directors in these companies.*

During the year, the Group acquired CCT Tech International Limited. Further details of the acquisition are included in note 36(e) to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the company, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the company, result in particulars of excessive length.

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

HK$'million	Group 2002	2001
Share of net assets	–	95
Due from a jointly-controlled entity	–	24
	–	119

Prior year balance represented the Group's 49% interest in Pegasus Telecom (Qingdao) Co., Ltd. ("Pegasus Qingdao") (formerly known as Haier CCT (Qingdao) Telecom Co., Ltd.). During the year, the Group disposed of its 49% interest in Pegasus Qingdao pursuant to an acceleration agreement dated 8 August 2002 (as amended by a supplemental agreement dated 15 August 2002), further details of which are set out in note 41(b) to the financial statements.

19. INTERESTS IN ASSOCIATES

HK$'million	Group 2002	2001
Share of net assets	917	46
Unrealised profits arising from the disposal of subsidiaries (Note)	(421)	–
Loans to associates	–	59
Due from associates	–	22
	496	127
Provision against loans to associates	–	(44)
	496	83

Note: The unrealised profits arising from the disposal of subsidiaries to an associate are released to the consolidated profit and loss account to match against the Group's share of goodwill amortisation arising from the acquisition of certain subsidiaries by an associate from the Group.

Particulars of the principal associates during the year, all held indirectly through subsidiaries, are as follows:

Name	Business Structure	Place of incorporation and operations	Nominal value of issued share capital	Percentage of ownership interest attributable to the Group 2002	2001	Principal activities
Haier-CCT Holdings Limited* ("Haier-CCT")	Corporate	Bermuda	HK$996,229,100 Ordinary	43.6	53.52	Investment holding
Modernet Company Limited**	Corporate	British Virgin Islands	US$1 Ordinary	–	25	Investment holding
Team Work Corporation Limited***	Corporate	British Virgin Islands	US$100 Ordinary	–	40	Provision of agency services and movie production

19. INTERESTS IN ASSOCIATES (continued)

* *Listed on The Stock Exchange of Hong Kong Limited.*

** *The ownership interest was passively diluted below 20% during the year and was reclassified as long term investment in the consolidated financial statements as the Group ceased to be in a position to exercise significant influence over the company upon the dilution.*

*** *The entire interest was disposed during the year.*

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Included in the Group's share of the net assets of its associates are the share of net assets of Haier-CCT which, in the opinion of the directors, is material in the context of the Group's financial statements. Details of the net assets of Haier-CCT and its subsidiaries (collectively referred as to the "Haier-CCT Group") and their respective results are set out below:

HK$'million	As at 31 December 2002
Non-current assets	1,789
Current assets	832
Current liabilities	(438)
Minority interests	(82)
	2,101

HK$'million	Year ended 31 December 2002
Turnover	500
Loss before tax	(73)
Tax	–
Loss before minority interests	(73)
Minority interests	6
Net loss from ordinary activities attributable to shareholders	(67)

At 31 December 2002, Haier-CCT had executed bank guarantees of HK$100,000,000 (2001:HK$202,000,000) for banking facilities granted to its subsidiaries, of which Nil amount (2001: HK$67,662,000) was utilised.

The above amounts are extracted from the published audited financial statements of Haier-CCT for the year ended 31 December 2002.

20. OTHER ASSETS

	Group	
HK$'million	2002	2001
Club memberships, at cost	14	14
Provision for impairment	(2)	–
	12	14

21. INVESTMENTS

HK$'million	Group 2002	Group 2001	Company 2002	Company 2001
Long term investments				
Unlisted equity investments, at cost	317	499	–	–
Provisions for impairment	(313)	(131)	–	–
	4	368	–	–
Short term investments				
Listed equity investments, at market value:				
Hong Kong	4	90	–	–
Elsewhere	11	20	11	20
	15	110	11	20
Unlisted equity investments, at fair value	–	354	–	–
	15	464	11	20

As at 31 December 2002, the number of shares of the following companies held by the Group exceeded 20% of their respective total issued shares:

Name	Place of incorporation	Description and value of shares held	Percentage holding
Tradeeasy Holdings Limited*	Cayman Islands	HK$4,201,183 Ordinary	23.34
Sendo Holdings PLC	United Kingdom	GBP31,526,000 Ordinary GBP31,474,000 Preference	32.1

* *Listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.*

22. INVENTORIES

HK$'million	Group 2002	2001
Raw materials	41	65
Work in progress	34	32
Finished goods	47	24
	122	121

The carrying amount of inventories carried at net realisable value included in the above balance was Nil (2001: Nil).

23. TRADE AND BILLS RECEIVABLES

An aged analysis of the trade and bills receivables as at the balance sheet date is as follows:

	Group 2002		Group 2001	
HK$'million	Balance	Percentage	Balance	Percentage
Current to 30 days	212	40	195	50
31 to 60 days	162	30	100	25
61 to 90 days	140	26	66	17
Over 90 days	24	4	33	8
	538	100	394	100

The Group allows an average credit period of 30-90 days to its trade customers.

Included in the Group's trade and bills receivables at 31 December 2001 were trade receivables of approximately HK$19 million due from Pegasus Qingdao, the Group's former jointly-controlled entity. The balance arose from transactions relating to the sales of raw materials pursuant to the terms and conditions set out in an agreement and a supplemental agreement dated 3 July 2001 and 15 August 2001, respectively.

During the year, the Group disposed of its entire 49% interest in Pegasus Qingdao pursuant to an acceleration agreement dated 8 August 2002. Further details of the transactions are set out in note 41(b) to the financial statements.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
HK$'million	2002	2001	2002	2001
Prepayments	42	3	–	–
Deposits and other receivables	64	83	1	5
	106	86	1	5

25. CASH AND CASH EQUIVALENTS

	Group		Company	
HK$'million	2002	2001	2002	2001
Cash and bank balances	196	472	7	5
Time deposits	670	665	438	435
	866	1,137	445	440
Less: Time deposits pledged for bank borrowings	(83)	(180)	(17)	(52)
	783	957	428	388

26. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date is as follows:

	Group 2002		Group 2001	
HK$'million	Balance	Percentage	Balance	Percentage
Current to 30 days	198	32	208	39
31 to 60 days	114	19	111	21
61 to 90 days	113	19	80	15
Over 90 days	180	30	136	25
	605	100	535	100

Included in trade and bills payables at 31 December 2001 were trade payables of approximately HK$52 million due to Pegasus Qingdao, the Group's former jointly-controlled entity. The balance arose from transactions relating to the purchases of mobile phones pursuant to the terms and conditions set out in a letter of intent and a supplemental agreement dated 3 July 2001 and 15 August 2001, respectively.

During the year, the Group disposed of its entire 49% interest in Pegasus Qingdao to Haier-CCT pursuant to an acceleration agreement dated 8 August 2002. Further details of the transactions are set out in note 41(b) to the financial statements.

27. OTHER PAYABLES AND ACCRUALS

HK$'million	Group 2002	Group 2001	Company 2002	Company 2001
Other payables	62	124	5	–
Accruals	105	127	4	10
	167	251	9	10

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, an accrual was made at the balance sheet date for the expected future cost of paid annual leave earned during the year by employees, which remained untaken by the employees at the balance sheet date and is permitted to be carried forward and utilised in the following year.

This change in accounting policy has resulted in HK$4 million being included in the balance of the Group's accruals in respect of paid leave carried forward as at 31 December 2002.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

HK$'million	Notes	Group 2002	Group 2001
Bank overdrafts		2	–
Current portion of bank loans		200	161
	29	202	161
Current portion of finance lease payables	30	3	4
		205	165

29. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

HK$'million	Group 2002	Group 2001
Bank overdrafts:		
Secured	2	–
Bank loans:		
Secured	361	363
Bank overdrafts repayable within one year or on demand	2	–
Bank loans repayable:		
Within one year or on demand	200	161
In the second year	37	55
In the third to fifth years, inclusive	47	115
Beyond five years	77	32
	361	363
	363	363
Portion classified as current liabilities - note 28	(202)	(161)
Long term portion	161	202

30. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles for business use. These leases are classified as finance leases and have remaining lease terms ranging from one to two years.

At the balance sheet date, the future minimum lease payments under finance leases and their present value were as follows:

	Group			
HK$'million	Minimum lease payments 2002	Minimum lease payments 2001	Present value of minimum lease payments 2002	Present value of minimum lease payments 2001
Amounts payable:				
Within one year	3	4	3	4
In the second year	3	4	2	3
In the third to fifth years inclusive	–	2	–	2
Total minimum finance lease payments	6	10	5	9
Future finance charges	(1)	(1)		
Total net finance lease payables	5	9		
Portion classified as current liabilities - note 28	(3)	(4)		
Long term portion	2	5		

31. CONVERTIBLE NOTES

	Group		Company	
HK$'million	2002	2001	2002	2001
Convertible notes	20	120	–	120

(a) In October 2002, the Company redeemed HK$120 million worth of the convertible notes which were issued in the prior year.

(b) On 19 July 2002, CCT Technology Holdings Limited, an indirect non-wholly owned subsidiary of the Company, issued convertible notes with an aggregate principal amount of HK$20 million to an independent third party and which were subsequently replaced by the convertible notes issued by CCT Tech International (an indirect non-wholly owned subsidiary of the Company) on 4 November 2002. The convertible notes provide the holder the option of a right to convert the principal amount into ordinary shares of CCT Tech International on any business day being five business days prior to the maturity of the convertible notes at HK$0.01 per share. The convertible notes bear interest at the rate of 5% per annum and will mature on the second anniversary of the date of their issue.

32. DEFERRED TAX

	Group	
HK$'million	2002	2001
Balance at beginning of year	3	4
Credit for the year	–	(1)
At 31 December	3	3

The principal components of the Group's provision for deferred tax, and the net deferred tax asset position not recognised in the financial statements are as follows:

	Provided		Not provided	
HK$'million	2002	2001	2002	2001
Accelerated depreciation allowances	3	3	16	11
Tax losses	–	–	(55)	(53)
	3	3	(39)	(42)

The benefit of any future tax relief has not been included as an asset in the balance sheet because the directors consider that the benefit should not be recognised until it is assured beyond reasonable doubt.

The revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

The Company had no unprovided deferred tax at the balance sheet date (2001: Nil).

33. SHARE CAPITAL

	Company	
HK$'million	2002	2001
Authorised:		
2,000,000,000 (2001: 800,000,000) ordinary shares of HK$0.10 (2001: HK$5.00) each	200	4,000
Issued and fully paid :		
422,105,230 (2001: 422,105,230) ordinary shares of HK$0.10 (2001: HK$5.00) each	42	2,110

33. SHARE CAPITAL (continued)

A summary of the transactions involving the Company's ordinary share capital during the year is as follows:

	Number of ordinary shares of HK$0.10 each (in millions)	Issued capital HK$'million
At 1 January 2002	422	2,110
Capital reduction (Note)	–	(2,068)
As 31 December 2002	422	42

Note:

Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 8 April 2002, the nominal value of each of the 422,105,230 issued ordinary shares of the Company was reduced by HK$4.90, from HK$5.00 to HK$0.10 per ordinary share (the "Capital Reduction"). Accordingly, the Company's then existing issued share capital of HK$2,110 million was reduced by HK$2,068 million to HK$42 million.

The credit arising from the Capital Reduction, in the sum of HK$2,068 million, was first applied towards the elimination of the accumulated losses of up to HK$934 million of the Company and the balance of such credit was credited to a capital reserve of the Company.

The 377,894,770 unissued ordinary shares of HK$5.00 each of the Company was cancelled and the authorised share capital of the Company was immediately thereafter increased to HK$200,000,000 by the subsequent creation of 1,577,894,770 unissued new ordinary shares of HK$0.10 each that the authorised share capital of the Company thereafter consists of 2,000,000,000 ordinary shares of HK$0.10 each.

Details of the Company's share option scheme are included in note 34 to the financial statements.

34. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

On 28 February 2002, the share option scheme adopted by the Company on 25 May 2001 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted by the Company in compliance with the new amendments to the Listing Rules in respect of the share option scheme of a listed company. As a result, the Company may no longer grant any further options under the Old Share Option Scheme. However, all options granted prior to the termination of the Old Share Option Scheme will remain in full force and effect. As at 31 December 2002, there were 13,850,000 share options outstanding under the Old Share Option Scheme. No option has been granted by the Company under the New Share Option Scheme during the year.

The purpose of the New Share Option Scheme is to provide incentives and rewards to the eligible participants who contribute to the succes of the Group's operation. Eligible participants of the New Share Option Scheme include any employee, executive or officer of the Company or any of its subsidiaries (including executive and non-executive directors of the Company or any of its subsidiaries) and any supplier, consultant, agent, adviser, shareholder, customer, partner, business associate who, in the sole discretion of the board of directors of the Company, has contributed to the Company and/or any of its subsidiaries. The New Share Option Scheme became effective on 28 February 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

34. SHARE OPTION SCHEME (cont'd)

Pursuant to the New Share Option Scheme, the maximum number of shares in respect of which options may be granted under the New Share Option Scheme is such number of shares, when aggregated with shares subject to any other share option scheme(s) of the Company (which, for this purpose, excludes the Old Share Option Scheme), must not exceed 10% of the issued share capital of the Company as at the date of adoption of the New Share Option Scheme. The maximum number of shares issuable upon exercise of the options granted under the New Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period is limited to 1% of the shares of the Company in issue as at the date of grant. Any further grant of share options in excess of such limit shall be subject to the issue of a circular by the Company and the shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of the Company, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options or the expiry date of the New Share Option Scheme, whichever is earlier.

The exercise price of the share options is determinable by the directors of the Company, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to the approval in advance by the independent non-executive directors of the Company, excluding the independent non-executive director(s) of the Company who is /are the grantee(s) of the options. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue as at the date of grant or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to the issue of a circular by the Company and the shareholders' approval in advance in a general meeting.

34. SHARE OPTION SCHEME (cont'd)

The following share options were outstanding under the Old Share Option Scheme during the year:

	Number of share options									Price of Company's shares (Note 2)	
Name or category of participant	Outstanding as at 1 January 2002	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2002	Date of grant of share options *(Note 1)*	Exercise period of share options	Exercise price per share option HK$	At grant date of share options HK$	At exercise date of share options HK$
Directors											
	750,000	–	–	–	–	750,000	11/6/2001	13/6/2001-12/6/2003	3.732	0.920	–
	8,750,000	–	–	(1,250,000)	–	7,500,000	13/8/2001	16/8/2001-15/8/2003	2.936	0.720	–
	9,500,000			(1,250,000)	–	8,250,000					
Other employees In aggregate	125,000	–	–	(125,000)	–	–	11/6/2001	13/6/2001-12/6/2003	3.732	0.920	–
	625,000	–	–	–	–	625,000	27/6/2001	29/12/2001-28/6/2003	3.553	0.890	–
	1,000,000	–	–	(750,000)	–	250,000	30/6/2001	30/6/2001-30/12/2003	3.533	0.850	–
	750,000	–	–	–	–	750,000	8/8/2001	8/2/2002-7/8/2003	3.085	0.730	–
	4,775,000	–	–	(800,000)	–	3,975,000	13/8/2001	16/2/2002-15/8/2003	2.936	0.720	–
	7,275,000	–	–	(1,675,000)		5,600,000					
	16,775,000			(2,925,000)		13,850,000					

Notes:

1. *The vesting period of the share options is from the date of grant until the commencement of the exercise period.*
2. *The price of the Company's shares as at the date of grant of the share options is the closing price of the Company's shares as listed on the Stock Exchange on the trading day immediately prior to the date of grant of the share options. The price of the Company's shares as at the date of exercise of the share options is the weighted average of the closing prices of the Company's shares as listed on the Stock Exchange immediately before the dates on which the share options were exercised.*

\# *Adjusted to take into account of the share consolidation, rights issue and bonus issue of the Company in December 2001.*

No share option has been granted under the New Share Option Scheme adopted by the Company on 28 February 2002 during the year.

35. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 39 of the financial statements.

Certain amounts of goodwill arising on the acquisition of subsidiaries and associate in prior years remain eliminated against consolidated retained profits, as further detailed in note 16 to the financial statements.

(b) Company

HK$'million	Notes	Share premium account	Capital reserve	Retained profits/ (accumulated losses)	Total
Balance at 1 January 2001		3,127	–	(1,324)	1,803
Placement of shares		5	–	–	5
Bonus issue of shares		(1,055)	–	–	(1,055)
Share issue expenses		(4)	–	–	(4)
Repurchases of shares		(4)	–	–	(4)
Net loss for the year		–	–	(425)	(425)
At 31 December 2001 and beginning of year		2,069	–	(1,749)	320
Capital reduction	33	–	2,068	–	2,068
Capital reduction against accumulated losses	33	–	(934)	934	–
Transfer to accumulated losses		(815)	–	815	–
Profit for the year		–	–	1	1
Interim dividend	12	(4)	–	–	(4)
Proposed final dividend	12	–	(8)	–	(8)
At 31 December 2002		1,250	1,126	1	2,377

Note:
Under the Companies Law (2001 Revision) Chapter 22 of the Cayman Islands, the share premium account of the Company is available for distribution of dividends to shareholders subject to the provisions of the Company's Memorandum and Articles of Association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.

In accordance with the Company's Articles of Association, dividends can only be distributed out of the profits and reserves available for distribution, including the share premium account of the Company. As at 31 December 2002, the Company had a net credit balance of approximately HK$2,385 million (2001: HK$320 million) maintained in the reserve accounts which is available for distribution.

The Company's capital reserve was credited through the reduction of share capital on 8 April 2002. Further details are set out in note 33 to the financial statements.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year adjustments

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid, dividend paid and interest received are now included in cash flows from operating activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout.

Also, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 3 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31 December 2001 has been adjusted to remove trust receipt loans amounting to HK$61 million, previously included at that date. The year's movement in trust receipt loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

(b) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the finance leases of HK$2 million (2001: HK$7 million).

(c) Restricted cash and cash equivalent balances

Certain of the Group's time deposits are pledged to a bank to secure bank overdrafts and bank loans granted to the Group, as further explained in note 38 to the financial statements.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(d) Disposal/deemed disposal of subsidiaries

HK$'million	2002	2001
Net assets disposed of:		
Fixed assets	22	–
Interests in jointly-controlled entities	124	–
Interests in associates	61	–
Goodwill	359	–
Cash and bank balances	305	–
Trade and bills receivables	13	–
Inventories	30	–
Prepayments, deposits and other receivables	117	–
Trade and bills payables	(58)	–
Other payables and accruals	(127)	–
Finance lease payables	(1)	–
Tax payable	(1)	–
Minority interests	(810)	–
	34	–
Reclassification to interests in associates	(597)	–
Reversal of goodwill upon disposal of a subsidiary	21	–
Net gains on disposal/deemed disposal of subsidiaries	599	–
	57	–
Satisfied by:		
Cash	57	–

An analysis of net outflow of cash and cash equivalents in respect of the disposal/deemed disposal of subsidiaries is as follows:

HK$'million	2002	2001
Cash consideration	57	–
Cash and bank balances disposed of	(305)	–
Net outflow of cash and cash equivalents in respect of the disposal/deemed disposal of subsidiaries	(248)	–

The subsidiaries disposed of during the year contributed HK$223 million to turnover and HK$37 million to the consolidated loss after tax and before minority interests for the year ended 31 December 2002.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(e) Acquisition of subsidiaries

HK$'million	2002	2001
Net assets acquired:		
Fixed assets	10	–
Intangible assets	–	2
Cash and bank balances	18	–
Trade receivables	5	3
Trade payables	(10)	(1)
Bank loan	(2)	–
Other payables and accruals	(2)	(1)
Minority interests	(17)	–
	2	3
Goodwill on acquisition (note 16)	29	12
	31	15
Satisfied by:		
Cash	20	5
Incidental cost	5	–
Reclassification from interests in associates	6	–
Reclassification from other assets	–	10
	31	15

An analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries

HK$'million	2002	2001
Cash paid	(25)	(5)
Cash and bank balances acquired	18	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(7)	(5)

On 17 May 2002, the Group acquired a 49% interest in CCT Tech International at a cash consideration of HK$20 million. CCT Tech International and its subsidiaries (collectively referred as to "CCT Tech International Group") are engaged in the manufacture and sale of telecom products.

Since its acquisition, the CCT Tech International Group contributed approximately HK$106 million to the Group's turnover and a post-acquisition profit of approximately HK$98 million to the Group's loss before minority interests for the year ended 31 December 2002.

The subsidiary acquired in the prior year contributed HK$14 million to the Group's turnover and HK$1 million to the consolidated loss after tax and before minority interests for the year ended 31 December 2001.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(f) Purchase of minority interests in subsidiaries

HK$'million	2002	2001
Net assets acquired:		
Minority interests	–	3
Goodwill on acquisition	–	1
	–	4
Satisfied by:		
Cash	–	4

(g) Disposal of partial interests in subsidiaries

HK$'million	2002	2001
Net assets disposed of:		
Minority interests	–	31
Gain on disposal	–	16
	–	47
Satisfied by:		
Cash	–	47

37. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
HK$'million	2002	2001	2002	2001
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	–	–	646	360
Guarantee given to an independent third party in respect of a rental arrangement	–	–	40	–
	–	–	686	360

As at 31 December 2002, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$360 million (2001: HK$360 million).

In addition to the above, the Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$7 million as at 31 December 2002, as further explained in note 3 to the financial statements. The contingent liability has arisen as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

38. PLEDGE OF ASSETS

At the balance sheet date, the Group's bank borrowings were secured by:

(i) Pledges of the Group's fixed deposits amounting to approximately HK$83 million (2001: HK$180 million);

(ii) Fixed charges over certain of the Group's leasehold land and buildings with an aggregate net book value amounting to approximately HK$277 million (2001: HK$295 million); and

(iii) Corporate guarantees given by the Company aggregating approximately HK$360 million (2001: HK$360 million).

As at 31 December 2001, there were fixed charges over listed securities with market value of approximately HK$88 million pledged against the Group's bank borrowings. The listed securities were fully disposed of during the year.

39. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2002, the Group had total future minimum lease receivables under non-cancelable operating leases with its tenants falling due as follows:

	Group	
HK$'million	2002	2001
Within one year	–	1

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for an average term of two years.

At 31 December 2002, Group had total future minimum lease payments under non-cancelable operating leases in respect of land and buildings falling due as follows:

	Group	
HK$'million	2002	2001
Within one year	5	8
In the second to fifth years, inclusive	3	1
	8	9

40. COMMITMENTS

In addition to the operating lease commitments detailed in note 39(b) above, the Group and the Company had the following commitments at the balance sheet date:

Capital commitments contracted, but not provided for in respect of:

	Group		Company	
HK$'million	2002	2001	2002	2001
Construction in progress	56	-	-	-
Purchases of plant and machinery, equipment and motor vehicles	4	1	-	-
Leasehold improvements	-	2	-	-
	60	3	-	-

In addition, the Group's share of the associates, own capital commitments, which are not included in the above, were as follows:

	Group	
HK$'million	2002	2001
Contracted, but not provided for	20	-
Authorised, but not contracted for	81	-
	101	-

41. RELATED PARTY TRANSACTIONS

(a) On 14 January 2002, the Company and Haier-CCT entered into a sale and purchase agreement pursuant to which the Company agreed to acquire from Haier-CCT the entire interest in Current Profits, a then wholly-owned subsidiary of Haier-CCT, at a total purchase price of HK$60,000,000. The purchase price was payable by the Company on 17 December 2001 by way of a set-off against the entire amount of the HK$60,000,000 loan note issued by Haier-CCT to an indirect wholly-owned subsidiary of the Company. The transaction was completed on 4 March 2002. Current Profits and its subsidiaries are engaged in the manufacture and sale of baby care products.

The above transaction is also disclosed under the "Connected transactions" section in the Report of Directors on pages 32 to 34.

(b) On 8 August 2002, the Company, Haier-CCT, Haier Group Company ("Haier") and Orient Rich (H.K.) Limited ("Orient Rich"), an indirect wholly-owned subsidiary of Haier, entered into an acceleration agreement (as amended by a supplemental agreement dated 15 August 2002). Pursuant to the acceleration agreement:

(i) Haier-CCT exercised its option granted by the Company under a conditional agreement entered into between the Company, Haier-CCT, Haier and Orient Rich on 4 July 2001 (as amended by a supplemental agreement dated 11 July 2001) and acquired a 100% equity interest in Coreland Limited ("Coreland", formerly known as CCT Technology Group Holdings Limited) at a consideration of HK$1 which was payable in cash and completed on 26 September 2002. Coreland owned 49% interest in Pegasus Qingdao which is engaged in the manufacture and distribution of mobile phones;

41. RELATED PARTY TRANSACTIONS (cont'd)

(ii) Haier-CCT acquired an interest-free shareholder's loan in the amount of HK$54,940,947 owed by Coreland to a wholly-owned subsidiary of the Company at a consideration equal to the amount of the shareholder's loan, which was payable in cash and completed on 26 September 2002;

(iii) Haier-CCT exercised part of its option granted by Haier under the conditional agreement as mentioned in (i) above and acquired a 15.5% equity interest in Pegasus Qingdao at a consideration of HK$204,600,000, which was satisfied by the issue of 1,023,000,000 shares of Haier-CCT at a price of HK$0.20 each and completed on 2 October 2002; and

(iv) Haier-CCT continues to hold the option granted by Haier under the conditional agreement as mentioned in (i) above in respect of the remaining 35.5% equity interest in Pegasus Qingdao, which will be exercisable in full or in part at any time up to 31 July 2004 at a price of HK$468,600,000, satisfied by the issue to Haier or its nominee(s) 2,343,000,000 shares of Haier-CCT at an agreed price of HK$0.20 each.

Upon completion of the acquisitions as stated in (i), (ii) and (iii) above, Haier-CCT owns a 64.5 interests in Pegasus Qingdao.

The above transactions are also disclosed under the "Connected transactions" section in the Report of Directors on pages 32 and 34.

(c) During the year, the Group had the following material transactions with Pegasus Qingdao up to the date of the Group's disposal of the entire interest in Pegasus Qingdao to Haier-CCT:

Group HK$' million	Notes	2002	2001
Purchases of mobile phones	(i)	35	192
Sales of raw materials	(ii)	78	254
Software and hardware design fee income	(iii)	2	15

Notes:

(i) The purchases of mobile phones from Pegasus Qingdao were made in accordance with the terms and conditions set out in a letter of intent and a supplemental agreement (collectively the "Export Agreements") entered into between Pegasus Telecom (H.K.) Co., Ltd. ("Pegasus HK") and Pegasus Qingdao on 3 July 2001 and 15 August 2001, respectively.

The purchase prices are determined at a discount of 8% to the selling prices charged by the Group to its customers.

(ii) The sales of raw materials to Pegasus Qingdao were made in accordance with the terms and conditions set out in an agreement and a supplemental agreement (collectively the "Sourcing Agreements") entered into between Pegasus HK and Pegasus Qingdao on 3 July 2001 and 15 August 2001, respectively.

The sales were determined based on the actual costs of materials plus a sourcing fee of 4%.

(iii) The software and hardware design fee income from Pegasus Qingdao was charged in accordance with the terms and conditions set out in the Sourcing Agreements.

The software and hardware design fees were charged at rates in the range of 2% to 10% of the retail prices of mobile phones produced by Pegasus Qingdao.

41. RELATED PARTY TRANSACTIONS (cont'd)

In addition to the above, Foreland Agents Limited ("Foreland Agents"), an indirect wholly-owned subsidiary of Haier-CCT, charged Coreland a technical and management service fee of HK$44 million in accordance with the terms and conditions set out in a technical service and management agreement and a supplemental agreement (collectively the "Management Agreements") entered into between Foreland Agents and Coreland on 21 September 2000 and 27 August 2001, respectively. The above transaction was made up to the date of the Group's disposal of the entire interest in Coreland to Haier-CCT.

The above transactions have obtained the approval of the independent non-executive directors of the Company. The aggregate value of the transactions under the Sourcing Agreements and the Export Agreements for the year ended 31 December 2002 did not exceed HK$5.5 billion and HK$3.5 billion, respectively, and the monthly services fee under the Management Agreements did not exceed the monthly service fee specified in the Management Agreements. Details of the transactions are also disclosed under the "Connected transactions" section in the Report of the Directors on pages 32 to 34.

42. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2003.

FIVE YEAR FINANCIAL SUMMARY

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 reclassified as appropriate, is set out below.

RESULTS

	Year ended 31 December				
HK$'million	2002	2001	2000	1999	1998
TURNOVER	3,130	3,106	2,190	1,572	897
OPERATING LOSS	(228)	(666)	(238)	(150)	(382)
Share of profits and losses of associates	(33)	(9)	1	–	(14)
Share of profits and losses of jointly-controlled entities	5	9	5	(23)	3
LOSS BEFORE TAX	(256)	(666)	(232)	(173)	(393)
Tax	(7)	(6)	(13)	(8)	(8)
LOSS BEFORE MINORITY INTERESTS	(263)	(672)	(245)	(181)	(401)
Minority interests	6	(13)	40	49	36
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	(257)	(685)	(205)	(132)	(365)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
HK$'million	2002	2001	2000	1999	1998
TOTAL ASSETS	3,633	4,643	4,541	3,483	2,656
TOTAL LIABILITIES	(1,177)	(1,296)	(1,510)	(902)	(644)
MINORITY INTERESTS	(28)	(827)	(95)	(36)	(40)
	2,428	2,520	2,936	2,545	1,972

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of CCT TELECOM HOLDINGS LIMITED (the "Company") will be held at 32/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Monday, 19 May 2003 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the Reports of the Directors and of the Auditors for the year ended 31 December 2002.

2. To declare a final dividend.

3. To re-elect the retiring directors of the Company for the year and to authorise the board of directors of the Company to fix their remuneration.

4. To re-appoint Messrs. Ernst & Young as auditors of the Company for the year and to authorise the board of directors of the Company to fix their remuneration.

As special business and, if thought fit, passing the following resolutions, with or without amendments, as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

5. "**THAT** subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the shares of HK$0.10 each (the "Shares") in the share capital of the Company to be issued pursuant to the exercise of options which may be granted under the New Scheme Limit (as hereinafter defined), the refreshment of the scheme limit of the Company's share option scheme adopted on 28 February 2002, up to 10 per cent. of the total number of Shares in issue as at the date of passing of this resolution (the "New Scheme Limit") be and is hereby approved and any director of the Company be and is hereby authorised to do such act and execute such document to effect the New Scheme Limit."

6. "**THAT**

   (a) subject to paragraph 6(b) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase the securities of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time and the manner of any such repurchase, be and is hereby generally and unconditionally approved;

   (b) the aggregate nominal amount of share capital purchased or agreed conditionally or unconditionally to be purchased by the Company pursuant to the approval in paragraph 6(a) of this resolution shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the authority pursuant to paragraph 6(a) of this resolution shall be limited accordingly; and

(c) for the purposes of this resolution,

"Relevant Period" means the period from the date of passing of this resolution until, whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the law or the articles of association of the Company to be held; and

(iii) the date upon which the authority set out in this resolution is revoked or varied by way of an ordinary resolution of the shareholders of the Company in a general meeting."

7. "**THAT**

(a) subject to paragraph 7(c) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph 7(a) of this resolution shall authorise the directors of the Company to make or grant offers, agreements and options during the Relevant Period (as hereinafter defined) which would or might require the exercise of such powers after the end of the Relevant Period (as hereinafter defined);

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph 7(a) of this resolution, otherwise than pursuant to:

(i) a Rights Issue (as hereinafter defined);

(ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company;

(iii) the exercise of options granted under any option scheme adopted by the Company or similar arrangement for the time being adopted for the grant or issue of shares or rights to acquire shares in the share capital of the Company to the officers and/or employees of the Company and/or any of its subsidiaries; and

(iv) any scrip dividend or similar arrangement providing for the allotment of shares in the share capital of the Company implemented in accordance with the articles of association of the Company,

shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the authority pursuant to paragraphs 7(a) and 7(b) of this resolution shall be limited accordingly; and

(d) for the purposes of this resolution,

"Relevant Period" means the period from the date of passing of this resolution until, whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the law or the articles of association of the Company to be held; and

(iii) the date upon which the authority set out in this resolution is revoked or varied by way of an ordinary resolution of the shareholders of the Company in a general meeting.

"Rights Issue" means the allotment, issue or grant of shares pursuant to an offer open for a period fixed by the directors of the Company to the holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction or the requirements of any recognised regulatory body or any stock exchange)."

8. "**THAT** the general mandate granted to the directors of the Company to allot, issue and deal with additional shares pursuant to and in accordance with resolution 7 above and for the time being in force to exercise the powers of the Company to allot shares and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby extended by the aggregate nominal amount of the issued share capital of the Company repurchased by the Company since the granting of such general mandate pursuant to the exercise by the directors of the Company of the powers of the Company to purchase such shares, provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution."

By Order of the Board
Mak Shiu Tong, Clement
Chairman

Hong Kong
22 April 2003

Notes:

1. *The register of members of the Company will be closed from Wednesday, 14 May 2003 to Monday, 19 May 2003 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and to determine the entitlement to attend and vote at the annual general meeting, all transfer of shares, accompanied by the relevant share certificate(s), must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tengis Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 13 May 2003.*

2. *A member of the Company who is the holder of two or more shares and who is entitled to attend and vote at the annual general meeting is entitled to appoint more than one proxy to attend and vote on his/her behalf. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.*

3. *The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tengis Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the annual general meeting.*

4. *A form of proxy for use at the annual general meeting and a circular setting out further information regarding the resolutions 5 to 8 of this notice will be despatched to the shareholders of the Company with the 2002 annual report of the Company.*