

Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

CHANGE OF COMPANY NAME

The name of the Company was changed from CCT Multimedia Holdings Limited to Haier-CCT Holdings Limited with effect from 28 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

During the year, the Group continued to be engaged in the business of the manufacturing and sale of baby care products. In addition, the Group acquired the entire equity interest in Foreland Agents Limited ("Foreland Agents") and Haier CCT (H.K.) Telecom Co., Limited ("Haier HK") on 17 December 2001. The principal activities of Foreland Agents and Haier HK are the sourcing of raw materials, the distribution of mobile phones and the provision of technical and management services in connection therewith.

As part of the consideration for the acquisition of Foreland Agents and Haier HK, the Group disposed of its entire equity interest in Master Base Investments Inc. ("Master Base") and Creditop International Inc. ("Creditop") to CCT Telecom Holdings Limited ("CCT Telecom"). The principal activities of Master Base and its subsidiaries are the provision of multimedia content and services and magazine publishing and the principal activity of Creditop is the holding of investment in Mingpao.com Holdings Limited ("Mingpao.com").

Details of the principal activities of the principal subsidiaries are set out in note 21 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 37 to 82.

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years/period, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 83. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTY

Details of movements in the fixed assets and investment property of the Company and the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year, together with the reasons therefor, are set out in note 32 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 33 to the financial statements. Under the Companies Act 1998 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK\$679,043,000 (2000: HK\$1,267,195,000). In addition, the Company's share premium account, in the amount of HK\$253,813,000 (2000: HK\$29,861,000), may be distributed in the form of fully paid bonus shares.

DIRECTORS

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

Executive directors:

Mak Shiu Tong Clement (<i>Chairman</i>)	
Cheng Yuk Ching Flora (<i>Vice chairman</i>)	
Tam Ngai Hung	(appointed on 26 March 2001)
Wu Ke Song	(appointed on 17 December 2001)
Chai Yong Sen	(appointed on 17 December 2001)
Liang Hai Shan	(appointed on 17 December 2001)
Lam Hau Yee Resand	(resigned on 26 March 2001)
Leung Wilson	(resigned on 2 April 2001)
Chen Shouson	(resigned on 2 April 2001)
Lo Kin Cheung	(resigned on 16 July 2001)
Lam Chung Ming Paul	(resigned on 16 July 2001)
Siu Chiu Shun Patrick	(resigned on 16 July 2001)
Tse Chi Kai Tilypse	(resigned on 16 July 2001)
Kwok Wai Kin Kenneth	(appointed on 1 February 2001 and resigned on 16 July 2001)
Tsoi Tong Hoo Tony	(resigned on 20 February 2002)

DIRECTORS (continued)

Independent non-executive directors:

Fung Hoi Wing Henry
Lam Kin Kau Mark

In accordance with the bye-laws of the Company, Messrs. Fung Hoi Wing Henry, Lam Kin Kau Mark, Wu Ke Song, Chai Yong Sen and Liang Hai Shan will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors 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 bye-laws of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 75% (2000: 91%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 46% (2000: 57%).

Purchases from the Group's five largest suppliers accounted for approximately 69% (2000: 73%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 31% (2000: 29%).

The Company's ultimate holding company had beneficial interest in one of the five largest suppliers of the Group.

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

DIRECTORS' SERVICE CONTRACTS

No director had a service contract with the Company which is not determinable by the Company within one year without payment, 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, holding companies or fellow subsidiaries was a party during the year.

SHARE OPTION SCHEME

On 28 February 2002, the share option scheme of the Company adopted on 24 November 1997 and subsequently amended on 4 December 1997 (the “Old Share Option Scheme”) was terminated and a new share option scheme (the “New Share Option Scheme”) was adopted to comply with the new amendments of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) regarding share option schemes of a company. As a result, the Company may no longer grant 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 2001, there were 10,400,000 share options granted which remained outstanding under the Old Share Option Scheme. No options have been granted under the New Share Option Scheme since the date of its adoption.

The purpose of the New Share Option Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group’s operations. 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 suppliers, consultants, agents, advisers, shareholders, customers, partners or business associates who, in the sole discretion of the board of directors of the Company, have 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.

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) (which, for this purpose, excludes the Old Share Option Scheme), must not exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares issuable under share options to each eligible participant in the New Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to the shareholders’ approval (and if required, the approval of the shareholders of the holding company) in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company (and if required, the independent non-executive directors of the holding company). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to the shareholders’ approval (and if required, the approval of the shareholders of the holding company) in advance 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, and commences on a specified date and ends on a date which is not later than 10 years from the date of the offer 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 quotations sheet of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on the date of offer of the 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 quotations sheet for the five trading days immediately preceding the date of offer of the grant; and (iii) the nominal value of the Company’s shares.

SHARE OPTION SCHEME (continued)

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

Name or category of participant	Number of share options					As at 31 December 2001	Date of grant of share options	Exercise period of share options	Exercise price of share options (Note 1) HK\$	Price of Company's shares (Note 2)	
	As at 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year					At grant date of options HK\$	At exercise date of options HK\$
Executive Directors											
Mak Shiu	10,000,000	-	(10,000,000)	-	-	-	31/10/2000	9/5/2001 -	0.167	0.232	0.255
Tong Clement	-	10,000,000	(10,000,000)	-	-	-	13/7/2001	13/7/2001 - 8/11/2002	0.190	0.255	0.255
Cheng Yuk	5,000,000	-	(5,000,000)	-	-	-	31/10/2000	9/5/2001 -	0.167	0.232	0.255
Ching Flora	-	5,000,000	(5,000,000)	-	-	-	13/7/2001	13/7/2001 - 12/7/2003	0.190	0.255	0.255
Tsoi Tong	5,000,000	-	(5,000,000)	-	-	-	31/10/2000	9/5/2001 -	0.167	0.232	0.255
Hoo Tony*	-	5,000,000	(5,000,000)	-	-	-	13/7/2001	13/7/2001 - 8/11/2002	0.190	0.255	0.255
Tam Ngai	-	5,000,000	(5,000,000)	-	-	-	27/6/2001	29/6/2001 -	0.170	0.220	0.255
Hung	-	5,000,000	(5,000,000)	-	-	-	13/7/2001	13/7/2001 - 28/6/2003	0.190	0.255	0.255
Kwok Wai Kin	-	1,000,000	-	-	-	1,000,000	27/6/2001	29/12/2001 -	0.170	0.220	-
Kenneth**								28/6/2003			
Siu Chiu Shun	12,000,000	-	(12,000,000)	-	-	-	31/10/2000	31/1/2001 -	0.167	0.232	0.255
Patrick***								30/1/2003			
Lam Hau Yee	3,000,000	-	-	(3,000,000)	-	-	31/10/2000	9/5/2001 -	0.167	0.232	-
Resand#								8/11/2002			
	35,000,000	31,000,000	(62,000,000)	(3,000,000)	-	1,000,000					

SHARE OPTION SCHEME (continued)

Name or category of participant	Number of share options						Date of grant of share options	Exercise period of share options	Exercise price of share options (Note 1) HK\$	Price of Company's shares (Note 2)	
	As at 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	As at 31 December 2001				At grant date of options HK\$	At exercise date of options HK\$
Other employees											
In aggregate	27,000,000	-	(22,000,000)	(2,650,000)	-	2,350,000	31/10/2000	9/5/2001 - 8/11/2002	0.167	0.232	0.363
	8,000,000	-	(8,000,000)	-	-	-	31/10/2000	31/1/2001 - 30/1/2003	0.167	0.232	0.255
	-	6,000,000	-	(6,000,000)	-	-	16/1/2001	1/7/2001 - 31/12/2002	0.152	0.198	-
	-	19,750,000	(15,050,000)	-	-	4,700,000	13/7/2001	13/1/2002 - 12/7/2003	0.190	0.255	0.255
	-	22,350,000	(20,000,000)	-	-	2,350,000	27/6/2001	29/12/2001 - 28/6/2003	0.170	0.220	0.230
	35,000,000	48,100,000	(65,050,000)	(8,650,000)	-	9,400,000					
	70,000,000	79,100,000	(127,050,000)	(11,650,000)	-	10,400,000					

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

** Mr. Kwok Wai Kin Kenneth resigned as an executive director of the Company on 16 July 2001.

*** Mr. Siu Chiu Shun Patrick resigned as an executive director of the Company on 16 July 2001.

Ms. Lam Hau Yee Resand resigned as an executive director of the Company on 26 March 2001.

SHARE OPTION SCHEME (continued)

Notes:

1. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
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 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 options were exercised.

Summary details of the Company's share option scheme are also set out in note 32 to the financial statements.

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 do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors and employees 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

As at 31 December 2001, the interests of the directors or their respective associates in the share capital of the Company and its associated corporation, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

(i) The Company

Name of director	Number of shares beneficially held and nature of interest		
	Personal	Family	Corporate
Mak Shiu Tong Clement (<i>Note</i>)	20,574,412	1,150,391	85,103,220
Cheng Yuk Ching Flora	19,312,498	—	—
Tsoi Tong Hoo Tony*	11,305,483	—	—
Tam Ngai Hung	10,000,000	—	—

Note : The family interest of Mr. Mak Shiu Tong Clement in 1,150,391 shares in the Company is held by his wife, Ms. Yu Yu Ying. The corporate interest of Mr. Mak Shiu Tong Clement in 85,103,220 shares in the Company is held by Capital Interest Limited, the issued share capital of which his wife, Ms. Yu Yu Ying, and his two sons have beneficial interests, under the provisions of the SDI Ordinance.

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

DIRECTORS' INTERESTS IN SHARES (continued)

(ii) Associated Corporation - CCT Telecom

Name of director	Number of CCT Telecom shares beneficially held and nature of interest		
	Personal	Family	Corporate
Mak Shiu Tong Clement (Note)	856,000#	1,407,500#	83,848,441#
Cheng Yuk Ching Flora	9,876,713#	–	–
Tsoi Tong Hoo Tony*	2,500,000#	–	–

Note : The family interest of Mr. Mak Shiu Tong Clement in 1,407,500 CCT Telecom shares is held by his wife, Ms. Yiu Yu Ying, and the corporate interest of Mr. Mak Shiu Tong Clement in 83,848,441 CCT Telecom shares is held by Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons have beneficial interests, under the provisions of the SDI Ordinance.

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

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

Save as disclosed above, as at 31 December 2001, none of the directors or their respective associates had any personal, family, corporate or other interests in the securities of the Company, its subsidiaries or any of its associated corporations, as defined in the SDI Ordinance, as recorded in the register required to be kept under Section 29 of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

(i) The Company

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

(ii) Associated Corporation - CCT Telecom

Name of director	Number of share options outstanding as at 1 January 2001	Number of share options granted during the year	Number of share options exercised during the year	Number of share options cancelled during the year	Number of share options outstanding as at 31 December 2001	Notes	Exercise price per share HK\$
Mak Shiu Tong Clement	–	5,000,000*	–	–	5,000,000*	(a)	2.936*
Cheng Yuk Ching Flora	–	1,250,000*	–	–	1,250,000*	(a)	2.936*
Tsoi Tong Hoo Tony#	–	1,250,000*	–	–	1,250,000*	(a)	2.936*
Tam Ngai Hung	–	750,000*	–	–	750,000*	(b)	3.732*
	–	1,250,000*	–	–	1,250,000*	(a)	2.936*
Kwok Wai Kin Kenneth##	–	625,000*	–	–	625,000*	(c)	3.553*
Siu Chiu Shun Patrick###	–	750,000*	–	–	750,000*	(d)	3.085*
	–	10,875,000*	–	–	10,875,000*		

DIRECTORS' RIGHTS TO ACQUIRE SHARES (continued)

Notes:

- (a) Exercisable from 16 August 2001 to 15 August 2003
- (b) Exercisable from 13 June 2001 to 12 June 2003
- (c) Exercisable from 29 December 2001 to 28 June 2003
- (d) Exercisable from 8 February 2002 to 7 August 2003

* Adjusted to take into account of the share consolidation, rights issue and bonus share issue of CCT Telecom in 2001.

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

Mr. Kwok Wai Kin Kenneth resigned as an executive director of the Company on 16 July 2001.

Mr. Siu Chiu Shun Patrick resigned as an executive director of the Company on 16 July 2001.

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 its associated corporation granted to any director 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 subsidiaries, holding companies or fellow subsidiaries or its associated corporation a party to any arrangement to enable the directors of the Company to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following parties were interested in 10% or more of the issued share capital of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Notes	Number of shares held
Clear Access Agents Limited		810,000,000
Greatway International Corp.		880,172,486
Soaring Profit Holdings Limited	(1)	3,726,772,486
CCT Telecom Holdings Limited	(2)	3,726,772,486
Orient Rich (H.K.) Limited		1,700,000,000
Haier (Hong Kong) Company Limited	(3)	1,700,000,000
Qingdao Haier Import & Export Corporation	(4)	1,700,000,000
Haier Group Corporation	(5)	1,700,000,000

Notes:

- (1) The interest disclosed includes the 880,172,486 shares held by Greatway International Corp., 99,000,000 shares held by Info-net International Corp., 810,000,000 shares held by Clear Access Agents Limited, 733,600,000 shares held by Super Control Investments Limited, 700,000,000 shares held by Invest Paradise Group Limited and 504,000,000 shares held by Full Elite Assets Limited. Greatway International Corp., Info-net International Corp., Clear Access Agents Limited, Super Control Investments Limited, Invest Paradise Group Limited and Full Elite Assets Limited are wholly-owned subsidiaries of Soaring Profit Holdings Limited.
- (2) The interest disclosed includes the 3,726,772,486 shares in the Company beneficially owned by Soaring Profit Holdings Limited. Soaring Profit Holdings Limited is a wholly-owned subsidiary of CCT Telecom.

SUBSTANTIAL SHAREHOLDERS (continued)

Pursuant to a placing agreement dated 19 December 2001 entered into, among others, by CCT Telecom and Orient Rich (H.K.) Limited ("Orient Rich"), CCT Telecom agreed to place 1,021,000,000 shares in the Company. The placement was completed on 27 December 2001. As a result of the placing, CCT Telecom's interest in the shares of the Company was reduced to 3,726,772,486 shares as at 31 December 2001.

Pursuant to the subscription agreement dated 19 December 2001 entered into, among others, by CCT Telecom and Orient Rich, CCT Telecom agreed to subscribe for 860,000,000 shares in the capital of the Company. The subscription was completed on 2 January 2002. After the subscription, CCT Telecom's interest in the shares of the Company was increased to 4,586,772,486 shares.

- (3) *The interest disclosed includes the 1,700,000,000 shares in the Company held by Orient Rich. Orient Rich is a subsidiary of Haier (Hong Kong) Company Limited.*
- (4) *The interest disclosed includes the 1,700,000,000 shares in the Company beneficially owned by Haier (Hong Kong) Company Limited. Haier (Hong Kong) Company Limited is a subsidiary of Qingdao Haier Import & Export Corporation.*
- (5) *The interest disclosed includes the 1,700,000,000 shares in the Company beneficially owned by Qingdao Haier Import & Export Corporation. Qingdao Haier Import & Export Corporation is a subsidiary of Haier Group Corporation ("Haier").*

Pursuant to the placing agreement dated 19 December 2001 entered into, among others, by CCT Telecom and Orient Rich, Orient Rich agreed to place 260,000,000 shares in the Company. The placing was completed on 27 December 2001. As a result of the placing, Haier's interest in the shares of the Company was reduced to 1,700,000,000 shares as at 31 December 2001.

Pursuant to the subscription agreement dated 19 December 2001 entered into, among others, by CCT Telecom and Orient Rich, Orient Rich agreed to subscribe for 260,000,000 shares in the capital of the Company. The subscription was completed on 2 January 2002. After the subscription, Haier's interest in the shares of the Company was increased to 1,960,000,000 shares.

Save as disclosed above, as at 31 December 2001, no other parties, other than the directors of the Company and their respective associates, whose interests are set out above, had registered as having an interest of 10% or more in the share capital of the Company as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 38 to the financial statements.

CONNECTED TRANSACTIONS

- (i) On 4 July 2001 and 11 July 2001, the Company, CCT Telecom and Orient Rich, an indirect wholly-owned subsidiary of Haier Group Corporation, entered into a conditional agreement and a supplemental agreement (collectively the "Agreements"), respectively, to acquire (1) a 100% equity interest in Foreland Agents (and the relevant shareholder's loan), which holds 51% of the issued share capital in Haier HK, from CCT Telecom; and (2) 49% of the issued share capital of Haier HK from Orient Rich, for an aggregate consideration of HK\$1,446,800,000.

The consideration was satisfied by (1) the transfer of the Company's 100% equity interest in Master Base (and the relevant shareholder's loan) and Creditop; (2) the issue of a HK\$60,000,000 loan note in favour of an indirect wholly-owned subsidiary of CCT Telecom; and (3) the issue of 3,774,000,000 and 1,960,000,000 new ordinary shares of HK\$0.10 each in the capital of the Company to CCT Telecom and Orient Rich, respectively, at a subscription price of HK\$0.20 per share.

The transactions were completed on 17 December 2001.

CONNECTED TRANSACTIONS (continued)

The above transactions were described to the shareholder in the Circular dated 29 August 2001 and were approved by the independent shareholder in the special general meeting held on 14 September 2001.

Under the Agreements, the Company has the option granted by Haier Group Corporation (the “PRC JV Option”) to purchase the 51% interest in Haier CCT (Qingdao) Telecom Co., Ltd. (“Haier Qingdao”), a Sino-foreign equity joint venture, from Qingdao Haier Investment Development Co., Limited, a wholly-owned subsidiary of Haier Group Corporation, for HK\$673,200,000 which shall be satisfied by the issue to Haier Group Corporation or its nominee(s) 3,366,000,000 new ordinary shares of the Company at HK\$0.20 each. In addition, the Company has the option granted by CCT Telecom (the “CCT Technology Option”) to purchase 100% interest in CCT Technology Group Holdings Limited (“CCT Technology”), a fellow subsidiary of the Company and an indirect wholly-owned subsidiary of CCT Telecom from CCT Telecom, at a cash price equal to the net assets value of CCT Technology at the time of exercise. Both the PRC JV Option and the CCT Technology Option are exercisable in full or in part any time during the two-year period after the first anniversary of the date of completion of the Agreements.

- (ii) The Group had the following material transactions with Haier Qingdao and CCT Technology during the year:

	Notes	GROUP	
		2001 HK\$'000	2000 HK\$'000
Purchases of mobile phones from Haier Qingdao	(a)	13,170	–
Sales of raw materials to Haier Qingdao	(b)	2,732	–
Technical and management service fee income from CCT Technology	(c)	2,903	–
Software and hardware design fee income from Haier Qingdao	(d)	1,225	–

Notes:

- (a) The purchases of mobile phones 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 Haier HK and Haier Qingdao on 3 July 2001 and 15 August 2001, respectively.
- (b) The sales of raw materials 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 Haier HK and Haier Qingdao on 3 July 2001 and 15 August 2001, respectively.
- (c) The technical and management service fee income was charged 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 CCT Technology on 21 September 2000 and 27 August 2001, respectively.
- (d) The software and hardware design fee income was charged in accordance with the terms and conditions set out in the Sourcing Agreements entered into between Haier HK and Haier Qingdao on 3 July 2001 and 15 August 2001, respectively.

The above transactions occurred after the Company acquired the mobile phone business on 17 December 2001 were defined as “ongoing connected transactions” in the circular to the shareholders of the Company dated 29 August 2001 and were approved by the independent shareholders in the special general meeting of the Company held on 14 September 2001.

CONNECTED TRANSACTIONS (continued)

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 ending 31 December 2001 and 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 year ended 31 December 2001 did not exceed HK\$3 billion and HK\$2.2 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 in respect of items as indicated in notes (a), (b) and (d) above were:

- (i) conducted on normal commercial terms and in the ordinary and usual course of business of the Group;
- (ii) fair and reasonable so far as the independent shareholders of the Company were concerned;
- (iii) conducted on terms no less favourable than terms available for third parties; and
- (iv) conducted in accordance with the Export Agreements or the Sourcing Agreements (as the case may be).

In respect of connected transaction as indicated in note (c) above, the independent non-executive directors of the Company have reviewed it and confirmed it was:

- (i) conducted on normal commercial terms and in the ordinary and usual course of business of the Group;
 - (ii) fair and reasonable so far as the Company's shareholders unconnected with CCT Telecom were concerned; and
 - (iii) conducted in accordance with the Management Agreements.
- (iii) On 13 July 2001, CCT Telecom executed guarantees (the "CCT Guarantee") to certain third parties (the "Third Parties") for performance of the obligations of Haier HK under certain arrangements (the "Third-Party Arrangement") entered into between CCT Telecom, Haier HK and the Third Parties. In order to release the CCT Guarantee, CCT Telecom is currently in negotiation with the Third Parties for the replacement of the CCT Guarantee by a guarantee to be given by the Company. At the date of this report, the negotiation was not finalised and the Company agreed to indemnify CCT Telecom ("CCTMM Indemnity") with respect to the obligations of CCT Telecom under the CCT Guarantee.

Details of CCTMM Indemnity was described in the Circular to the shareholders of the Company dated 29 August 2001 and was approved by the independent shareholders of the Company in the special general meeting held on 14 September 2001.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors of the Company, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report of the Company, save 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 at the annual general meeting in accordance with the by-laws of the Company.

AUDIT COMMITTEE

Pursuant to the requirements of the Listing Rules, the Company has established an audit committee comprising two 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 directors of the Company.

The audit committee is answerable to the board of directors of the Company and the principal duties of the committee include the review and supervision of the Company's financial reporting process and internal controls.

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 2002