

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.

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 telecommunications products (including cordless phones and mobile phones) and accessories, the trading of telecommunications and network equipment and provision of related consultancy services, the manufacture and sale of baby care products and the provision of multimedia content and services and magazine publishing.

Details of the principal activities of the principal subsidiaries and the Group's principal jointly-controlled entities and principal associates are set out in notes 17, 18 and 19, respectively, 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 is set out in note 4 to the financial statements.

RESULTS AND DIVIDEND

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 49 to 97.

The directors do not recommend payment of any dividend for the year. Particulars of the dividend for the year ended 31 December 2000 are set out in note 12 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities 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 98. 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 note 33 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, REDEMPTION OR SALE OF LISTED SECURITIES

During the year, the Company had repurchased certain ordinary shares of HK\$0.50 each in the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the particulars of which are as follows:

Trading months in 2001	Number of ordinary shares repurchased	Price per ordinary share		Total cost (before expenses) HK\$'million
		Highest HK\$	Lowest HK\$	
January	4,566,000	1.06	0.84	5
February	904,000	1.01	0.93	1
March	2,310,000	1.00	0.88	2
	7,780,000			8

Further details of these transactions are set out in note 33(d) to the financial statements.

Save as disclosed above, 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 during the year are set out in note 34 to the financial statements.

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 2001, the Company had a net credit balance of approximately HK\$320 million (2000: HK\$1,803 million) maintained in the reserve accounts which would be available for distribution.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling HK\$46,000 (2000: HK\$1,030,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 79% (2000: 72%) of the total sales for the year and sales to the largest customer included therein accounted for approximately 56% (2000: 50%).

Purchases from the Group's five largest suppliers of the Group accounted for less than 30% of the total purchases for the year.

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 or five largest 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 (appointed on 26 March 2001)
Tsoi Tong Hoo Tony (resigned on 20 February 2002)
William Donald Putt

Independent non-executive directors:

Samuel Olenick
Tam King Ching Kenny
Lau Ho Man Edward

In accordance with Article 99 of the Articles of Association of the Company, Messrs. Tam King Ching Kenny and Lau Ho Man Edward will retire and, being eligible, will offer themselves for re-election, at the forthcoming annual general meeting.

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 24 to 25 of this 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 25 May 2001, the share option scheme adopted by the Company on 21 October 1991 (the “First Old Share Option Scheme”) expired and a replacing share option scheme (the “Second Old Share Option Scheme”) was adopted by the shareholders of the Company. On 28 February 2002, the Second Old Share Option Scheme was terminated and a further new share option scheme (the “New Share Option Scheme”) was adopted to comply with the new amendments to the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) regarding the share option schemes of a company. As a result, the Company may no longer grant any further options under the First Old Share Option Scheme or the Second Old Share Option Scheme. However, all options granted prior to the termination of the Second Old Share Option Scheme will remain in full force and effect. As at 31 December 2001, there were 16,775,000 share options granted which remained outstanding under the Second 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 the 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 First and Second Old Share Option Schemes), 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 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. 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 grant) in excess of HK\$5 million, within any 12-month period, are subject to the shareholders’ approval 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 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.

Report of the Directors

SHARE OPTION SCHEME (continued)

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

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)	
	At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31 December 2001				At grant date of options HK\$	At exercise date of options HK\$
Other employees											
In aggregate	4,150,000	-	-	(4,150,000)	-	-	24/9/1999	6/4/2000-5/10/2001	1.200*	1.790	-
	8,000,000	-	-	(8,000,000)	-	-	25/4/2000	28/10/2000-27/4/2002	1.270*	1.700	-
	12,550,000	-	-	(12,550,000)	-	-	5/5/2000	10/11/2000-9/5/2002	1.310*	1.950	-
	4,000,000	-	-	(4,000,000)	-	-	2/11/2000	9/5/2001-20/10/2001	0.750	1.050	-
	28,700,000	-	-	(28,700,000)	-	-					

* Adjusted to take into account of the special dividend in specie of the Company on 29 September 2000.

SHARE OPTION SCHEME (continued)

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

Name or category of participant	Number of share options					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)	
	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\$	exercise date of 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	-
Tsoi Tong Hoo Tony **	-	1,250,000*	-	-	-	1,250,000*	13/8/2001	16/8/2001-15/8/2003	2.936*	0.720	-
Tam Ngai Hung	-	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	-
	-	9,500,000*	-	-	-	9,500,000*					

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

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

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)	
	At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31 December 2001				At grant date of options HK\$	At exercise date of options HK\$
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*	-	-	-	1,000,000*	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*	-	-	-	4,775,000*	13/8/2001	16/2/2002– 15/8/2003	2.936*	0.720	-
	-	7,275,000*	-	-	-	7,275,000*					
	-	16,775,000*	-	-	-	16,775,000*					

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

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 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.

SHARE OPTION SCHEME (continued)

Summary details of the Company's share option schemes are also set out in note 33(c) 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 or any of its subsidiaries and associated corporations 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	Notes	Number of shares beneficially held and nature of interest		
		Personal	Family	Corporate
Mak Shiu Tong Clement	(a)	856,000#	1,407,500#	83,848,441#
Cheng Yuk Ching Flora		9,876,713#	–	–
Tsoi Tong Hoo Tony*		2,500,000#	–	–
Samuel Olenick	(b)	–	–	125,000#
William Donald Putt		171,500#	–	–

(ii) Associated corporation - Haier-CCT Holdings Limited ("Haier-CCT") (formerly known as CCT Multimedia Holdings Limited)

Name of director	Notes	Number of Haier-CCT shares beneficially held and nature of interest		
		Personal	Family	Corporate
Mak Shiu Tong Clement	(c)	20,574,412	1,150,391	85,103,220
Cheng Yuk Ching Flora		19,312,498	–	–
Tam Ngai Hung		10,000,000	–	–
Tsoi Tong Hoo Tony*		11,305,483	–	–
Samuel Olenick	(d)	–	–	130,548
William Donald Putt		179,112	–	–

DIRECTORS' INTERESTS IN SHARES (continued)

Notes:

- (a) *The family interest of Mr. Mak Shiu Tong Clement in 1,407,500 shares in the Company is held by his wife, Ms. Yiu Yu Ying, and the corporate interest of Mr. Mak Shiu Tong Clement in 83,848,441 shares in the Company 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. These interests in the Company's shares has also been disclosed under the section of "Substantial shareholders" below.*
- (b) *Mr. Samuel Olenick is deemed to be interested in the shares under the provisions of the SDI Ordinance.*
- (c) *The family interest of Mr. Mak Shiu Tong Clement in 1,150,391 Haier-CCT shares is held by his wife, Ms. Yiu Yu Ying, and the corporate interest of Mr. Mak Shiu Tong Clement in 85,103,220 Haier-CCT 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.*
- (d) *Mr. Samuel Olenick is deemed to be interested in the Haier-CCT shares under the provisions of the SDI Ordinance.*
- # *Adjusted to take into account of the share consolidation, rights issue and bonus share issue of the Company in 2001.*
- * *Mr. Tsoi Tong Hoo Tony resigned as an executive director of the Company and Haier-CCT 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 interest in the securities of the Company or any of its subsidiaries and 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 ORDINARY SHARES

- (i) The Company

The Company has granted to 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.

DIRECTORS' RIGHTS TO ACQUIRE ORDINARY SHARES (continued)

(ii) Associated Corporation - Haier-CCT

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	10,000,000	–	(10,000,000)	–	–	(a)	0.167
Clement	–	10,000,000	(10,000,000)	–	–	(b)	0.190
Cheng Yuk Ching	5,000,000	–	(5,000,000)	–	–	(a)	0.167
Flora	–	5,000,000	(5,000,000)	–	–	(b)	0.190
Tsoi Tong Hoo	5,000,000	–	(5,000,000)	–	–	(a)	0.167
Tony*	–	5,000,000	(5,000,000)	–	–	(b)	0.190
Tam Ngai Hung	–	5,000,000	(5,000,000)	–	–	(c)	0.170
	–	5,000,000	(5,000,000)	–	–	(b)	0.190
	20,000,000	30,000,000	(50,000,000)	–	–		

Notes:(a) *Exercisable from 9 May 2001 to 8 November 2002.*(b) *Exercisable from 13 July 2001 to 12 July 2003.*(c) *Exercisable from 29 June 2001 to 28 June 2003.** *Mr. Tsoi Tong Hoo Tony resigned as an executive director of the Company and Haier-CCT on 20 February 2002.*

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 subsidiaries and associated corporations 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 and associated corporations 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	Number of shares held	Percentage of shareholding in the Company's share capital
Capital Interest Limited*	83,848,441	19.87
Yiu Yu Ying*	1,407,500	0.33
Mak Shiu Tong Clement	856,000	0.20
	86,111,941	20.40

* Under the provisions of the SDI Ordinance, Mr. Mak Shiu Tong Clement, a director of the Company, is 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 have beneficial interests. Mr. Mak is also deemed to have an interest in the shares owned by his wife, Ms. Yiu Yu Ying. These interests have been disclosed under the section of "Directors' interests in shares" above.

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 required to be kept by the Company under Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

- (1) On 3 January 2001, Greatway International Corp., a wholly-owned subsidiary of the Company, acquired an additional 22,410,000 ordinary shares of Haier-CCT at a price of HK\$0.20 each from two former directors of Haier-CCT for a cash consideration of HK\$4,482,000. As a result, the Group's interest in Haier-CCT increased from 61.42% to 62.87%.
- (2) On 4 July 2001 and 11 July 2001, the Company, Haier-CCT and Orient Rich (H.K.) Limited ("Orient Rich"), an indirect wholly-owned subsidiary of Haier Group Corporation, entered into a conditional agreement and a supplemental agreement (collectively the "Agreements"), respectively, whereby Haier-CCT agreed to acquire: (1) a 100% equity interest in Foreland Agents Limited (and the relevant shareholder's loan) ("Foreland Agents"), which holds 51% of the issued share capital in Haier CCT (H.K.) Telecom Co., Limited ("Haier HK"), from the Company; 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 Haier-CCT's 100% equity interests in Master Base Investment Inc. (and the relevant shareholder's loan) and Creditop International Inc., which holds a 9.8% equity interest in Mingpao.com Holdings Limited; (2) the issue of a HK\$60,000,000 loan note in favour of an indirect wholly-owned subsidiary of the Company; 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 Haier-CCT to the Company 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)

Under the Agreements, Haier-CCT 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 Haier-CCT at HK\$0.20 each. In addition, Haier-CCT has the option granted by the Company (the “CCT Technology Option”) to purchase 100% interest in CCT Technology Group Holdings Limited (“CCT Technology”), an indirect wholly-owned subsidiary of the Company, from the Company 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.

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

- (3) The Group had the following material transactions with Haier Qingdao during the year:

HK\$'million	Notes	GROUP	
		2001	2000
Purchases of mobile phones from Haier Qingdao	(a)	192	-
Sales of raw materials to Haier Qingdao	(b)	254	-
Software and hardware design fee income from Haier Qingdao	(c)	15	-

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 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.

In addition to the above, Foreland Agents charged CCT Technology a technical and management service fee of HK\$45 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 CCT Technology on 21 September 2000 and 27 August 2001, respectively.

The above transactions 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 at an extraordinary 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 as indicated in notes (a), (b) and (c) 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 the technical and management service fee of HK\$45 million above, the independent non-executive directors of the Company have reviewed 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 were concerned; and
 - (iii) conducted in accordance with the Management Agreements.
- (4) On 13 July 2001, the Company 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 the Company, Haier HK and the Third Parties. The CCT Guarantee had been approved by the independent shareholders at the extraordinary general meeting of the Company held on 14 September 2001. In order to release the CCT Guarantee, the Company is currently in negotiation with the Third Parties for the replacement of the CCT Guarantee by a guarantee to be given by Haier-CCT. At the date of this report, the negotiation was not finalised and Haier-CCT agreed to indemnify the Company ("CCTMM Indemnity") with respect to the obligations of the Company under the CCT Guarantee.

Details of the CCT Guarantee 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 extraordinary general meeting held on 14 September 2001.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 40 to the financial statements.

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, 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 at the annual general meeting 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 directors of the Company.

The Audit Committee is answerable to the board of directors of the Company. The principal duties of the committee include the review and supervision of the Company’s financial reporting process and internal control.

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