

Financial Review

FINANCIAL RESULTS

Summary of Results

HK\$'000	2002	2001	% change
Turnover			
- Continuing operations	472,615	18,349	2,476%
- Discontinued operations	27,262	205,781	(87%)
	499,877	224,130	123%
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	14,183	10,473	35%
Depreciation of fixed assets and amortisation of intangible assets	(7,824)	(7,680)	2%
Amortisation of goodwill	(74,803)	(3,432)	2,080%
Finance costs	(4,682)	(520)	800%
Share of loss of an associate	-	(2,439)	N/A
Tax	(138)	(1,432)	(90%)
Minority interests	6,376	-	N/A
Net loss attributable to shareholders	(66,888)	(5,030)	1,230%

Following the acquisition of the 64.5% interest in Pegasus Qingdao, the Group has now successfully re-formed into a mobile phone manufacturer and distributor.

Turnover of HK\$472.6 million from the continuing operations was derived from the new mobile phone business. The substantial increase in turnover in 2002 was attributable to the newly acquired mobile phone business, including the three-month contribution from Pegasus Qingdao.

The turnover from the discontinued operations was derived from the baby care products business which was sold to CCT Telecom in March 2002.

EBITDA was HK\$14.2 million (2001: HK\$10.5 million), up 35% attributable mainly to the contribution from the mobile phone business.

There was a charge of amortisation of goodwill of HK\$74.8 million in 2002, as compared with a corresponding charge of HK\$3.4 million in 2001. The significant increase is due to the goodwill arising from the additional acquisition of Pegasus Qingdao during the year and a full year's charge of amortisation of goodwill for Pegasus HK this year (as compared to less than one month's charge for Pegasus HK last year).

Summary of Results (cont'd)

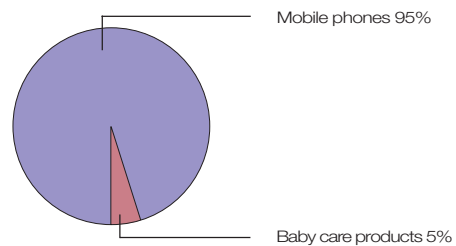
Net loss attributable to shareholders amounted to HK\$66.9 million (2001: HK\$5 million), mainly attributable to the amortisation of goodwill. Without such amortisation, there would have been a net profit of approximately HK\$8 million for the year (2001: loss of HK\$1.6 million).

The handset business is growing fast and has great potential. We believe that our handset business will generate sufficient income to cover amortisation of goodwill and contribute a net profit to the Group in the future years.

Analysis by Business Segment

Turnover (HK\$'000)	2002	2001	% change
Mobile phones	472,615	18,327	2,479%
Baby care products - discontinued in March 2002	27,262	155,476	(82%)
Multimedia - discontinued in December 2001	-	50,305	N/A
Corporate and others	-	22	N/A
Total	499,877	224,130	123%

2002 Turnover by Business Segment



The significant change in turnover and results by business segment arose as a result of the reformation of the Group's core business. The Group now focuses on the manufacture and distribution of mobile phones, which contributed 95% of the turnover of the Group in 2002. The baby care products business, which contributed the remaining 5% of the turnover in 2002, was sold to CCT Telecom in March 2002.

Financial Review

Analysis by Business Segment (cont'd)

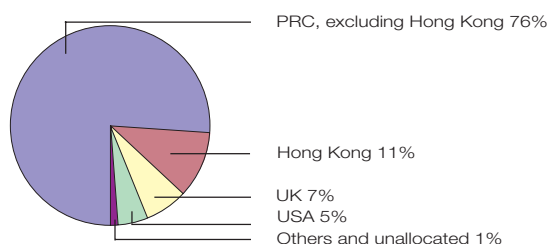
EBITDA (HK\$'000)	2002	2001	% change
Mobile phones	12,208	9,234	32%
Baby care products - discontinued in March 2002	1,584	10,431	(85%)
Multimedia - discontinued in December 2001	-	6,753	N/A
Corporate and others	391	(15,945)	N/A
Total	14,183	10,473	35%

The mobile phone business is the key driver for growth and contributed HK\$12.2 million in EBITDA for the year (2001: HK\$9.2 million). The significant increase of 32% was attributable to the Group's acquiring further interest in the mobile phone business during the year. The Company's acquisition of 64.5% interest in Pegasus Qingdao contributed to the Group's earnings for three months from October 2002. A full picture in respect of the performance of our mobile phone business will be reflected when the Company exercises its option to acquire the remaining 35.5% interest in Pegasus Qingdao. Because of the promising mobile phone market, we believe the contribution from our mobile phone business will increase in 2003 and future years.

Analysis of Turnover by Geographical Segment

(HK\$'000)	2002	2001	% change
PRC, excluding Hong Kong	382,117	2,732	13,887%
Hong Kong	54,092	54,944	(2%)
UK	35,066	12,692	176%
USA	27,708	147,145	(81%)
Others and unallocated	894	6,617	(86%)
Total	499,877	224,130	123%

2002 Turnover by Geographical Segment



Due to the change of principal business of the Group from baby care products to mobile phones in the year, the principal geographical segment has changed accordingly. The PRC (excluding Hong Kong) is now the major market of the Group and accounted for 76% of the Group's turnover for the year (2001: 1%).

FINANCIAL POSITION

Liquidity and Financial Resources

The financial position and liquidity of the Group remain strong with a current ratio (current assets over current liabilities) of 190% at 31 December 2002 (31 December 2001: 268%). At 31 December 2002, the Group had a cash balance of HK\$375 million (31 December 2001: HK\$373 million) and total facilities of approximately HK\$787 million, of which HK\$140.2 million (31 December 2001: HK\$68 million) were utilised. All of the bank borrowings of the Group were arranged on a short-term basis for the ordinary business of the Group and are repayable within one year. The large pool of cash and available banking facilities provides the Group with sufficient resources for business growth and expansion.

There is no material effect of seasonality on the Group's borrowing requirements.

The Group had authorised capital commitments amounting to approximately HK\$233 million at 31 December 2002 for the building of a new handset factory in Qingdao.

Capital Structure and Gearing Ratio

	As at 31 Dec 2002		As at 31 Dec 2001	
	HK\$'000	Relative %	HK\$'000	Relative %
Bank and other loans	140,187	6%	37,380	2%
Loan note	-	-	60,000	3%
Total borrowings	140,187	6%	97,380	5%
Equity	2,101,085	94%	1,856,400	95%
Total capital employed	2,241,272	100%	1,953,780	100%

At 31 December 2002, the Group maintained a low gearing ratio (total borrowings over total capital employed) of only 6% (31 December 2001: 5%).

The loans of HK\$140.2 million as at 31 December 2002 were borrowed by a subsidiary of the Company and are denominated in Renminbi, repayable within one year, and bear interest at floating rates.

Financial Review

Change in Use of Proceeds

Due to the acquisition of Pegasus HK in December 2001, the Company made two placements of shares in order to restore the public float, raising total net proceeds of HK\$430 million in December 2001 and January 2002. The proposed use of proceeds was detailed in an announcement by the Company dated 19 December 2001. The Company subsequently announced the plan to build a new mobile phone factory in Qingdao together with a corresponding change in use of proceeds on 18 November 2002. The proposed use of proceeds before and after the change is summarised as follows:

HK\$'000	As announced on 18 November 2002 (Revised Use)	As announced on 19 December 2001 (Original Use)
Research and development for mobile phone and telecom products operation	40,000	50,000
Potential acquisition of distribution network in the PRC and overseas	80,000	160,000
Capital expenditure for mobile phone operations	170,000	50,000
Development of distribution of corded and domestic cordless phone operations	-	50,000
Marketing and advertising	10,000	40,000
Working capital	130,000	80,000
Total	430,000	430,000

The change can better align the Group's capital expenditure plans and working capital needs with the Company's strategy to penetrate the promising handset market in China. During the year, approximately HK\$76 million was utilised out of the proceeds and the balance of HK\$354 million was carried forward.

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 are centralised. Most of the Group's receipts and payments are made in Renminbi and Hong Kong dollars. Cash is generally placed in short-term deposits denominated either in Renminbi or Hong Kong dollars. At 31 December 2002, all of the Group's outstanding borrowings were denominated in Renminbi and were principally made on a floating rate basis. Foreign currency risk is not significant as liabilities in Renminbi will be matched by the Group's earnings, most of which are also denominated in Renminbi. The Group does not have any significant interest rate risk.

OTHER INFORMATION

Employees and Remuneration Policy

The total number of employees of the Group as at 31 December 2002 was 1,071. 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 897 million.

Significant Investment

The Group did not hold any significant investment at 31 December 2002.

Acquisition and Disposal of Material Subsidiaries and Associates

- (1) Pursuant to an agreement signed in January 2002 with CCT Telecom, the Company disposed of its entire interest in Current Profits Limited, which is engaged in the baby care products business, to CCT Telecom in March 2002. Further details of the disposal are set out in point 1 under the heading "Connected Transactions" in the Report of the Directors.
- (2) Pursuant to an acceleration agreement dated 8 August 2002 (as amended by a supplemental agreement dated 15 August 2002), the Company acquired a 15.5% interest in Pegasus Qingdao and a 100% interest in Coreland Limited which in turn owned a 49% interest in Pegasus Qingdao. Pursuant to the acquisition, the Company owns a 64.5% effective interest in Pegasus Qingdao, which is engaged in the manufacture and distribution of mobile phones. Further details of the acquisition are set out in point 2 under the heading "Connected Transactions" in the Report of the Directors.

Pledge of Assets

No assets of the Group were pledged at 31 December 2002.

Contingent Liabilities

Apart from the corporate guarantees of HK\$100 million (31 December 2001: HK\$202 million) given to banks for general facilities utilised by a subsidiary of the Company, the Group did not have any other significant contingent liabilities at 31 December 2002.