

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 2002.

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 sourcing of raw materials, the distribution of mobile phones and the provision of technical and management services in connection therewith. However, the Group discontinued its businesses of manufacture and sale of baby care product operations as a result of the disposal of Current Profits Limited and its subsidiaries, details of which are set out in note 6 to the financial statements.

During the year, the Group acquired a 64.5% interest in Pegasus Telecom (Qingdao) Co., Ltd. ("Pegasus Qingdao", formerly known as Haier CCT (Qingdao) Telecom Co., Ltd.). The principal business of Pegasus Qingdao is the manufacture and distribution of mobile phones.

Details of the principal activities of the principal subsidiaries are set out in note 19 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 32 to 75.

The directors do not recommend the 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/periods, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 76. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of 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 share capital, share options and warrants of the Company during the year are set out in notes 31 and 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 the 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 are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively. Under the Companies Act 1998 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances.

DISTRIBUTABLE RESERVES

At 31 December 2002, 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\$1,034,603,000 (2001: HK\$679,043,000). In addition, the Company's share premium account, in the amount of HK\$70,040,000 (2001: HK\$253,813,000), 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 Annual Report were as follows:

Executive directors:

Mak Shiu Tong Clement

Wu Ke Song

Chai Yong Sen

Cui Shao Hua (appointed on 4 November 2002)

Liang Hai Shan

Tam Ngai Hung Terry

Man Wei Dong (appointed on 4 November 2002)

Cheng Yuk Ching Flora (resigned on 4 November 2002)

William Donald Putt (appointed on 29 May 2002 and resigned on 4 November 2002)

Tsoi Tong Hoo Tony (resigned on 20 February 2002)

Independent non-executive directors:

Lam Kin Kau Mark

Fung Hoi Wing Henry

In accordance with the bye-laws of the Company, Messrs. Tam Ngai Hung Terry, Liang Hai Shan, Cui Shao Hua and Man Wei Dong 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 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 8 to 9 of this Annual Report.

Report of the Directors

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:

	Sales		Percentage of the Group's total		Purchases	
	2002	2001	2002	2001	2002	2001
	(%)	(%)	(%)	(%)		
The largest customer	51	46				
Five largest customers in aggregate	90	75				
The largest supplier					23	31
Five largest suppliers in aggregate					63	69

CCT Telecom Holdings Limited, a substantial shareholder of the Company, had beneficial interests in two of the five largest customers of the Group. Haier Group Company, another substantial shareholder of the Company, had beneficial interests in two of the five largest customers of the Group.

Save as disclosed above, at no time during the year did the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have any interest in these major customers and 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 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 or fellow subsidiaries was a party during the year.

SHARE OPTION SCHEME

On 28 February 2002, the share option scheme adopted by the Company 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 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 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 5,725,000 and 891,500,000 share options outstanding under the Old Share Option Scheme and the New Share Option Scheme respectively.

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.

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 this 1% limit shall be subject to the issue of a circular by the Company (and if required, the holding company) and the shareholders' approval of the Company (and if required, the approval of the shareholders of the holding 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 (and if required, the independent non-executive directors of the holding company), excluding the independent non-executive director(s) of the Company and the holding 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 if required, the holding company) and the shareholders' approval of the Company (and if required, the approval of the shareholders of the holding 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.

Report of the Directors

SHARE OPTION SCHEME (cont'd)

Details of the movements of the share options under the 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 (Note 1)	Exercise period of share options	Exercise price per share option (Note 2)	Price of the Company's shares (Note 3)	
	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				At grant date of share options	At exercise date of share options
							HK\$	HK\$	HK\$	
Employees										
In aggregate	2,350,000	-	(150,000)	(2,200,000)	-	31/10/2000	9/5/2001 - 8/11/2002	0.167	0.232	0.485
	3,350,000*	-	(1,025,000)	(250,000)	2,075,000*	27/6/2001	29/12/2001 - 28/6/2003	0.170	0.220	0.392
	4,700,000	-	(150,000)	(900,000)	3,650,000	13/7/2001	13/1/2002 - 12/7/2003	0.190	0.255	0.380
	10,400,000	-	(1,325,000)	(3,350,000)	5,725,000					

Notes:

- The vesting period of the share options is from the date of grant until the commencement of the exercise period.
 - 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.
 - 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.
- * The balance includes 1,000,000 share options held by a former director.

SHARE OPTION SCHEME (cont'd)

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

Name or category of participant	Number of share options				Outstanding as at 31 December 2002	Date of grant of share options (Note 1)	Exercise period of share options	Exercise price per share option (Note 2)
	Outstanding as at 1 January 2002	Granted during the year	Exercised during the year	Lapsed/Cancelled during the year				
HK\$								
Directors								
Mak Shiu Tong Clement	-	89,000,000	-	-	89,000,000	16/8/2002	16/8/2003 - 15/8/2007	0.156
Wu Ke Song	-	89,000,000	-	-	89,000,000	19/11/2002	19/11/2003 - 18/11/2007	0.150
Chai Yong Sen	-	89,000,000	-	-	89,000,000	19/11/2002	19/11/2003 - 18/11/2007	0.150
Cui Shao Hua	-	89,000,000	-	-	89,000,000	19/11/2002	19/11/2003 - 18/11/2007	0.150
Liang Hai Shan	-	89,000,000	-	-	89,000,000	19/11/2002	19/11/2003 - 18/11/2007	0.150
Tam Ngai Hung Terry	-	89,000,000	-	-	89,000,000	16/8/2002	16/8/2003 - 15/8/2007	0.156
Man Wei Dong	-	89,000,000	-	-	89,000,000	19/11/2002	19/11/2003 - 18/11/2007	0.150
Lam Kin Kau Mark	-	5,000,000	-	-	5,000,000	16/8/2002	16/8/2003 - 15/8/2007	0.156
Fung Hoi Wing Henry	-	5,000,000	-	-	5,000,000	16/8/2002	16/8/2003 - 15/8/2007	0.156
Cheng Yuk Ching Flora*	-	89,000,000	-	-	89,000,000	16/8/2002	16/8/2003 - 15/8/2007	0.156
William Donald Putt *	-	5,000,000	-	-	5,000,000	16/8/2002	16/8/2003 - 15/8/2007	0.156
	-	727,000,000	-	-	727,000,000			
Other employees								
In aggregate	-	164,500,000	-	-	164,500,000	16/8/2002	16/8/2003 - 15/8/2007	0.156
	-	891,500,000	-	-	891,500,000			

Notes:

- The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- The exercise price of the share options is the same as the closing price of the Company's shares as listed on the Stock Exchange on the date of grant of the share options which is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

* Ms. Cheng Yuk Ching Flora and Dr. William Donald Putt resigned as directors of the Company on 4 November 2002.

Report of the Directors

SHARE OPTION SCHEME (cont'd)

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 to the directors and employees of the Company during the year, 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 IN THE COMPANY

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:

Name of director	Number of ordinary shares beneficially held and nature of interest			Amount of 2004 warrants beneficially held and nature of interest		
	Personal	Family	Corporate	Personal	Family	Corporate
				HK\$	HK\$	HK\$
Mak Shiu Tong Clement (Note)	20,574,412	1,150,391	85,494,864	1,069,869.32	59,820.28	4,444,651.64
Tam Ngai Hung Terry	10,000,000	-	-	520,000.00	-	-

Note: 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 the Company 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 the Company 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. The 2004 warrants in the Company 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 IN 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.

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	Notes	Number of ordinary shares held	Approximate percentage of the Company's issued share capital (%)
Soaring Profit Holdings Limited	(1)	4,346,772,486	43.63
CCT Telecom Holdings Limited	(2)	4,346,772,486	43.63
Qingdao Haier Investment & Development Co., Limited		1,023,000,000	10.27
Qingdao Haier Collective Asset Management Association	(3)	1,023,000,000	10.27
Orient Rich (H.K.) Limited		1,960,000,000	19.67
Haier (Hong Kong) Company Limited	(4)	1,960,000,000	19.67
Qingdao Haier Import & Export Corporation	(5)	1,960,000,000	19.67
Haier Group Company	(6)	2,983,000,000	29.94

Notes:

- (1) The interest disclosed comprises 880,172,486 shares held by Greatway International Corp., 899,000,000 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 324,000,000 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 comprises 4,346,772,486 shares beneficially owned by Soaring Profit Holdings Limited through the subsidiaries stated in note (1) above. Soaring Profit Holdings Limited is a wholly-owned subsidiary of CCT Telecom Holdings Limited.
- (3) The interest disclosed comprises 1,023,000,000 shares held by Qingdao Haier Investment & Development Co., Limited. Qingdao Haier Investment & Development Co., Limited is a subsidiary of Qingdao Haier Collective Asset Management Association.
- (4) The interest disclosed comprises 1,960,000,000 shares held by Orient Rich (H.K.) Limited. Orient Rich (H.K.) Limited is a subsidiary of Haier (Hong Kong) Company Limited.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS (cont'd)

- (5) *The interest disclosed comprises 1,960,000,000 shares beneficially owned by Haier (Hong Kong) Company Limited. Haier (Hong Kong) Company Limited is a subsidiary of Qingdao Haier Import & Export Corporation.*
- (6) *The interest disclosed comprises 1,960,000,000 shares beneficially owned by Qingdao Haier Import & Export Corporation and 1,023,000,000 shares beneficially owned by Qingdao Haier Collective Asset Management Association. Qingdao Haier Import & Export Corporation and Qingdao Haier Collective Asset Management Association are subsidiaries of Haier Group Company.*

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.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 39 to the financial statements.

CONNECTED TRANSACTIONS

- (1) On 14 January 2002, the Company and CCT Telecom Holdings Limited ("CCT Telecom") entered into a sale and purchase agreement pursuant to which CCT Telecom agreed to acquire from the Company the entire interest in Current Profits Limited ("Current Profits"), a then wholly-owned subsidiary of the Company, for a total purchase price of HK\$60,000,000. The purchase price was payable by CCT Telecom by way of a set-off against the entire amount of the HK\$60,000,000 loan note issued by the Company on 17 December 2001 to an indirect wholly-owned subsidiary of CCT Telecom. 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, CCT Telecom, 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) the Company exercised its option granted by CCT Telecom under a conditional agreement entered into between the Company, CCT Telecom, 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) the Company acquired an interest-free shareholder's loan in the amount of HK\$54,940,947 owed by Coreland to a wholly-owned subsidiary of CCT Telecom at a consideration equal to the amount of the shareholder's loan, which was payable in cash and completed on 26 September 2002;
 - (iii) the Company 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 the Company at a price of HK\$0.20 each and completed on 2 October 2002; and

CONNECTED TRANSACTIONS (cont'd)

- (iv) the Company 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 the Company at an agreed price of HK\$0.20 each.

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

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

- (3) During the year, the Group had the following material transactions with Pegasus Qingdao and Coreland up to the date Pegasus Qingdao and Coreland became subsidiaries of the Group:

	Notes	2002 HK\$'000	2001 HK\$'000
Purchases of mobile phones	(i)	34,531	13,170
Sales of raw materials	(ii)	78,393	2,723
Technical and management service fee income	(iii)	44,333	2,903
Software and hardware design fee income	(iv)	2,307	1,225

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 technical and management service fee income from Coreland 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 Limited and Coreland on 21 September 2000 and 27 August 2001, respectively.*

- (iv) *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.

The above transactions occurred prior to the completion of the exercise of the CCT Technology Option and PRC JV Option by the Company as set out in note (2) above and were defined as "ongoing connected transactions" in the circular to the shareholders of the Company dated 29 August 2001 and were approved by the shareholders at a special general meeting of the Company held on 14 September 2001.

Report of the Directors

CONNECTED TRANSACTIONS (cont'd)

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 were:

- (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 in respect of items as indicated in notes (i), (ii) and (iv) above, and so far as the Company's shareholders unconnected with CCT Telecom were concerned in respect of item as indicated in note (iii) above;
 - (c) conducted on terms no less favourable than terms available for third parties in respect of items as indicated in notes (i), (ii) and (iv) above; and
 - (d) conducted in accordance with the Export Agreements or the Sourcing Agreements or the Management Agreements (as the case may be).
- (4) During the year, the Group had the following material transactions with Haier and/or its subsidiaries:

	Notes	2002 HK\$'000
Utility service fee expenses	(i)	859
Legal consultancy service fee expenses	(i)	236
Human resources service fee expenses	(i)	28
General security service fee expenses	(i)	127
Interest expenses	(ii)	834
Interest income	(ii)	16
Sales of mobile phones	(iii)	338,955
Purchases of materials	(iv)	18,985

Notes:

- (i) *The utility service fee expenses, legal consultancy service fee expenses, human resources services fee expenses and general security service fee expenses were charged by Qingdao Haier Energy Power Co., Ltd. ("Haier Energy"), Qingdao Haier Intellectual Property Legal Service Centre ("Haier Legal"), Qingdao Haier Human Resources Development Co., Ltd. ("Haier Human Resources") and Qingdao Haier Security Service Co., Ltd. ("Haier Security"), respectively, in accordance with the terms and conditions set out in the services agreement (the "Services Agreement") entered into between Pegasus Qingdao, Haier Energy, Haier Legal, Haier Human Resources, Haier Security and Haier Group Finance Co., Ltd. ("Haier Finance") on 10 January 2003.*

The utility service fees, legal consultancy service fees, human resources service fees and general security service fees were charged on actual cost basis.

CONNECTED TRANSACTIONS (cont'd)

- (ii) *The interest expenses were charged by and the interest income were received from Haier Finance in accordance with the terms and conditions set out in the Services Agreement. The average daily balance of loan plus interest for each of the three months ended 31 December 2002 was approximately HK\$66.37 million. The average daily balance of deposits plus interest for each of the three months ended 31 December 2002 was approximately HK\$9.16 million, HK\$6.15 million and HK\$8.60 million, respectively.*

The interests were determined with reference to the standard rates published by the People's Bank of China.

- (iii) *The sales of mobile phones were made in accordance with the terms and conditions set out in the products distribution agreement entered into between Pegasus Qingdao and Qingdao Haier Telecommunications Co., Ltd. on 10 January 2003.*

The sales were determined based on the costs of the raw materials plus processing fee ranging between 5% to 40% of the purchase price of the materials.

- (iv) *The purchases of raw materials were made in accordance with the terms and conditions set out in the materials procurement agreement entered into between Pegasus Qingdao and Qingdao Haier International Trade Co., Ltd. and Qingdao Haier Materials Procurement Co., Ltd. on 10 January 2003.*

The purchases were determined based on the consolidated and integrated tender and bidding price plus 2.6% commission.

On 10 January 2003, the Company provided a letter of indemnity to Haier pursuant to which the Company agreed to guarantee and counter-indemnify Haier for a maximum amount of US\$45,150,000 (equivalent to approximately HK\$352 million), representing 64.5% of the guarantee amount of US\$70,000,000 (equivalent to approximately HK\$546 million) granted by Haier to the China Construction Bank, Qingdao High Technology Park Branch, as a security to banking facilities of Pegasus Qingdao.

The above transactions, which occurred after the Company acquired Pegasus Qingdao on 2 October 2002, were defined as "ongoing connected transactions" in the circular to the shareholders of the Company dated 17 March 2003 and were approved by the shareholders at a special general meeting of the Company on 2 April 2003.

The Company has applied to the Stock Exchange for conditional waivers from strict compliance with the connected transactions requirements as set out in the Listing Rules for the two financial years ending 31 December 2003 and 2004.

- (5) On 15 November 2002, the Company, Qingdao Haier Investment Development Co., Limited ("Haier Investment"), a subsidiary of Haier, and Pegasus Qingdao entered into a shareholders' loan agreement pursuant to which each of the Company and Haier Investment agreed to grant to Pegasus Qingdao an interest-free loan of RMB250,000,000 (the "Loan") (equivalent to approximately HK\$236,000,000) in proportion to the respective shareholding of the Company and Haier in Pegasus Qingdao. The repayment term of the Loan is three years from the date of grant.

The Loan shall be utilised by Pegasus Qingdao for its mobile phone manufacturing business.

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 bye-laws of the Company.

Report of the Directors

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 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