1. CORPORATE INFORMATION

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

- sourcing of raw materials, manufacture and distribution of mobile phones and provision of technical and management services; and

- manufacture and sale of baby care products (discontinued during the year - further details are set out in note 6 to the financial statements).

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

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

SSAP 1 (Revised):	"Presentation of Financial Statements"
SSAP 11 (Revised):	"Foreign Currency Translation"
SSAP 15 (Revised):	"Cash Flow Statements"
SSAP 33:	"Discontinuing Operations"
SSAP 34:	"Employee Benefits"

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

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 35 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group reserves note.

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

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the translations, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes and the prior year adjustments that have resulted from them are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

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

SSAP 33 replaces the existing disclosure requirements for discontinuing operations, which were previously included in SSAP 2. The SSAP defines a discontinuing operation and prescribes when an enterprise should commence including discontinuing operations disclosures in its financial statements and the disclosures required. The principal impact of the SSAP is that more extensive disclosures concerning the Group's discontinued operations are now included in note 6 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in the recognition of the Group's accrual for paid holiday carried forward by the Group's employees as at the balance sheet date. In addition, disclosures are now required in respect of the Company's share option schemes, as detailed in note 32 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously required in the Report of the Directors, but are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

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

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

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

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates
An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest and over which it is in a position to exercise significant influence.

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

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

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

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

Impairment of assets

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

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

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

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

Fixed assets and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

Fixed assets and depreciation (continued)

Leasehold land	Over the lease terms
Buildings	4.5%
Leasehold improvements	50%
Plant and machinery	9%
Tools, moulds and equipment	18%
Furniture, fixtures and office equipment	18% - 20%
Motor vehicles	20%

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of the fixed assets when completed and ready for use.

Club memberships

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

Intangible assets

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and amortised on the straight-line basis over their estimated useful lives of 10 years.

Inventories

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

Employee benefits

Paid leave carried forward

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

Share option scheme

The Company operates two share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes are not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of 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 cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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

Deferred tax

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

Leased assets

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor and they are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Retirement benefits scheme

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

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

Foreign currencies

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

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

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

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

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

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

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 34(a) to the financial statements.

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

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

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

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

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

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

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

Dividends

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

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

Related parties

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

4. SEGMENT INFORMATION

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

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

(a) the telecom product segment sources raw materials, manufactures and distributes mobile phones and provides technical and management services and software and hardware designs;

(b) the baby care product segment manufactures and sells baby care products which was discontinued during the year - note 6; and

(c) the corporate and other segment includes general corporate income and expense items.

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

4. SEGMENT INFORMATION (cont'd)

(a) Business segments

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

Group	Telecom products		Baby care products (discontinued on 4 March 2002)		Multimedia (discontinued on 17 December 2001)		Corporate and other		Inter-segment eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (Restated)
Segment revenue:												
Sales to external customers	472,615	18,327	27,262	155,476	–	50,305	–	22	–	–	499,877	224,130
Inter-segment sales	–	–	–	–	–	9,000	–	–	–	(9,000)	–	–
Other revenue from external sources	2,415	–	1,234	–	–	–	2,336	6,783	(1,000)	–	4,985	6,783
Total revenue	475,030	18,327	28,496	155,476	–	59,305	2,336	6,805	(1,000)	(9,000)	504,862	230,913
Segment results	4,725	9,205	1,245	7,488	–	2,775	(5,398)	(17,244)			572	2,224
Interest income											5,787	569
Amortisation of goodwill											(74,803)	(3,432)
Finance costs											(4,682)	(520)
Share of loss of an associate											–	(2,439)
Loss before tax											(73,126)	(3,598)
Tax											(138)	(1,432)
Loss before minority interests											(73,264)	(5,030)
Minority interests											6,376	–
Net loss from ordinary activities attributable to shareholders											(66,888)	(5,030)

4. SEGMENT INFORMATION (cont'd)

(a) Business segments (cont'd)

Group	Telecom products		Baby care products (discontinued on 4 March 2002)		Multimedia (discontinued on 17 December 2001)		Corporate and other		Inter-segment eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	2,418,539	1,638,632	–	77,857	–	–	202,892	354,267	–	(9,363)	2,621,431	2,061,393
Total assets											2,621,431	2,061,393
Segment liabilities	437,054	76,241	–	17,331	–	–	1,365	17,814	–	(9,363)	438,419	102,023
Unallocated liabilities											–	102,970
Total liabilities											438,419	204,993
Other segment information:												
Capital expenditure	26,494	89	715	877	–	2,417	351	74	–	–	27,560	3,457
Depreciation	7,128	30	332	2,567	–	3,878	75	1,127	–	–	7,535	7,602
Amortisation	75,092	3,432	–	–	–	78	–	–	–	–	75,092	3,510
Loss on disposal of fixed assets, net	–	–	67	528	–	–	1,484	1,384	–	–	1,551	1,912
Provision for bad and doubtful debts	21,275	–	–	–	–	–	17	1,951	–	–	21,292	1,951
Provision for obsolete and slow-moving inventories	10,375	–	–	–	–	–	–	–	–	–	10,375	–

(b) Geographical segments

The following table presents revenue regarding the Group's geographical segments for the year ended 31 December 2002 and 2001. Over 90% of the Group's assets are located in the PRC.

Group	United States of America		Hong Kong		Elsewhere in the PRC		European Union		Unallocated		Inter-segment eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:														
Sales to external customer	27,708	147,145	54,092	54,944	382,117	2,732	35,066	12,692	894	6,617	–	–	499,877	224,130
Other revenue from external sources	–	–	4,534	6,783	451	–	–	–	–	–	–	–	4,985	6,783
Total revenue	27,708	147,145	58,626	61,727	382,568	2,732	35,066	12,692	894	6,617	–	–	504,862	230,913

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered.

Revenue from the following activities has been included in turnover:

Group	2002 HK$'000	2001 HK$'000 (Restated)
Continuing operations:		
Sourcing of raw materials, manufacture and distribution of mobile phones, and provision of technical and management services	472,615	18,327
Provision of advertising services	–	22
	472,615	18,349
Discontinued operations (note 6):		
Manufacture and sale of baby care products	27,262	155,476
Provision of multimedia content and services, and magazine publishing	–	50,305
	27,262	205,781
Turnover	499,877	224,130

6. DISCONTINUED OPERATIONS

(a) On 17 December 2001, the Group disposed of its entire interest in Master Base Investment Inc. ("Master Base") and Creditop International Inc. ("Creditop") in consideration for the acquisition of certain subsidiaries. The principal activities of Master Base and its subsidiaries are the provision of multimedia content and services and magazine publishing, which were solely carried out in Hong Kong, and the principal activity of Creditop is the holding of investment in Mingpao.com Holdings Limited.

The transaction was completed on 17 December 2001. The discontinued multimedia operations contributed HK$50,305,000 to the Group's turnover and HK$2,875,000 to the Group's result from operating activities for the year ended 31 December 2001.

Net cash flows attributable to the discontinued multimedia operations are as follows:

	1 January to 17 December 2001 HK$'000
Operating	(8,299)
Investing	32,942
Financing	(974)
Net cash inflow	23,669

6. DISCONTINUED OPERATIONS (cont'd)

(b) On 14 January 2002, the Company and CCT Telecom Holdings Limited ("CCT Telecom"), the then ultimate holding company of the Company, 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, at 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 (note 27) 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.

The profit from the disposal was approximately HK$2,240,000. The discontinued baby care products operation contributed HK$27,262,000 (2001: HK$155,476,000) to the Group's turnover and HK$1,252,000 (2001: HK$7,865,000) to the Group's results from operating activities for the year ended 31 December 2002.

Net cash flows attributable to the discontinued baby care product operations are as follows:

	1 January to 4 March 2002 HK$'000	1 January to 31 December 2001 HK$'000
Operating	5,516	33,214
Investing	(559)	(89)
Financing	9,635	(49,438)
Net cash inflow/(outflow)	14,592	(16,313)

7. LOSS FROM OPERATING ACTIVITIES

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

	2002 HK$'000	2001 HK$'000
Depreciation	7,535	7,602
Amortisation of publishing rights*	–	78
Amortisation of patents and licences*	289	–
Amortisation of goodwill**	74,803	3,432
Auditors' remuneration	1,300	1,250
Staff costs (including directors' remuneration – note 9):		
Wages, salaries, bonuses and other emoluments	16,929	50,432
Pension contributions	643	803
Less: Forfeited contributions	–	–
Net pension contributions***	643	803
	17,572	51,235
Minimum lease payments under operating leases in respect of land and buildings	1,365	6,358
Loss on disposal of fixed assets, net	1,551	1,912
Provision for bad and doubtful debts		
- Trade receivables	4,652	1,484
- Other receivables	16,640	467
Provision for obsolete and slow-moving inventories	10,375	–
and after crediting:		
Foreign exchange gains, net	271	629
Write back of provision for bad and doubtful debts	3,000	–
Gross rental income	–	481
Less: Outgoings	–	–
Net rental income	–	481
Interest income	5,787	569

* *The amortisation of the patents and licences and publishing rights for the year are included in "Cost of sales" on the face of the profit and loss account.*

** *The amortisation of goodwill for the year is disclosed on the face of the profit and loss account.*

*** *At 31 December 2002, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2001: Nil).*

8. FINANCE COSTS

Group

	2002 HK$'000	2001 HK$'000
Interest on bank and other loans wholly repayable within five years	4,629	287
Interest on finance leases	53	233
	4,682	520

9. DIRECTORS' REMUNERATION

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

Group

	2002 HK$'000	2001 HK$'000
Executive directors:		
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	–	5,049
Performance related bonuses	–	10,091
Pension scheme contributions	–	242
	–	15,382
Independent non-executive directors:		
Fees	240	240

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

	Number of directors 2002	2001
Nil - HK$1,000,000	12	13
HK$1,000,001 - HK$1,500,000	–	1
HK$1,500,001 - HK$2,000,000	–	2
HK$5,500,001 - HK$6,000,000	–	1
	12	17

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

During the year, 727,000,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 32 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no (2001: five) director, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining five (2001: Nil) non-director, highest paid employees are as follows:

Group

	2002 HK$'000	2001 HK$'000
Salaries, allowances and benefits in kind	3,205	–
Performance related bonuses	64	–
Pension scheme contributions	87	–
	3,356	–

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

	Number of employees	
	2002	2001
Nil – HK$1,000,000	4	–
HK$1,000,001 – HK$1,500,000	1	–
	5	–

During the year, no share option was granted to the five non-directors, highest paid employees in respect of their services to the Group, further details of which are set out in note 32 to the financial statements.

11. TAX

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

Group

	2002 HK$'000	2001 HK$'000
Hong Kong profits tax	670	2,676
Over provision in prior year	(532)	(1,244)
Tax charge for the year	138	1,432

Pegasus Telecom (Qingdao) Co., Ltd., a sino-foreign equity joint venture, is entitled to preferential tax treatments including full exemption from the PRC income tax for two years starting from its first profit-making year following by a 50% reduction for the next consecutive three years.

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is approximately HK$553,000 (2001: HK$1,161,552,000).

13. DIVIDENDS

No dividends have been paid or declared by the Company during the year (2001: Nil).

14. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of approximately HK$66,888,000 (2001: HK$5,030,000), and the weighted average of 9,179,016,822 (2001: 1,857,193,397) ordinary shares in issue during the year.

The calculation of diluted loss per share is based on the net loss attributable to shareholders for the year of approximately HK$66,888,000 (2001: HK$5,030,000). The weighted average number of ordinary shares used in the calculation is the 9,179,016,822 (2001: 1,857,193,397) ordinary shares in issue during the year, as used in the basic loss per share calculation, the weighted average of 1,361,989 (2001: 2,149,155) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year and the weighted average of nil (2001: Nil) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the year.

15. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Tools, moulds and equipment HK$'000	Furniture, fixture and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:								
At 1 January 2002	3,494	4,537	2,953	6,502	6,986	2,423	–	26,895
Additions	725	210	5,726	835	376	990	18,698	27,560
Acquisition of subsidiaries	43,270	–	147,220	23,081	–	–	13,234	226,805
Disposals	–	(126)	–	(2,642)	(609)	(306)	–	(3,683)
Disposal of subsidiaries	(3,494)	(4,309)	(2,967)	(3,832)	(4,786)	(1,723)	–	(21,111)
Transfers	585	–	11,245	3,242	–	–	(15,072)	–
At 31 December 2002	44,580	312	164,177	27,186	1,967	1,384	16,860	256,466
Accumulated depreciation:								
At 1 January 2002	664	4,313	1,710	4,261	4,049	465	–	15,462
Depreciation provided during the year	500	198	4,464	1,503	536	334	–	7.535
Acquisition of subsidiaries	3,043	–	16,115	6,859	–	–	–	26,017
Disposals	–	(42)	–	(817)	(122)	(76)	–	(1,057)
Disposal of subsidiaries	(676)	(4,309)	(1,827)	(3,473)	(3,846)	(240)	–	(14,371)
At 31 December 2002	3,531	160	20,462	8,333	617	483	–	33,586
Net book value:								
At 31 December 2002	41,049	152	143,715	18,853	1,350	901	16,860	222,880
At 31 December 2001	2,830	224	1,243	2,241	2,937	1,958	–	11,433

The Group had no fixed assets held under finance leases as at 31 December 2002 (2001: HK$1,572,000).

The Group's land and buildings are situated in Mainland China and are held under medium term leases.

Certain of the Group's fixed assets were pledged to secure general banking facilities granted to the Group, as detailed in note 38 to the financial statements.

16. INTANGIBLE ASSETS

Group	Patents and licences HK$'000
Cost:	
At 1 January 2002	–
Acquisition of subsidiaries	8,424
At 31 December 2002	8,424
Accumulated amortisation:	
At 1 January 2002	–
Acquisition of subsidiaries	1,348
Amortisation provided during the year	289
At 31 December 2002	1,637
Net book value:	
At 31 December 2002	6,787
At 31 December 2001	–

17. GOODWILL

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

Group	HK$'000
Cost:	
At 1 January 2002	1,449,037
Acquisition of subsidiaries (note 34(c))	188,133
At 31 December 2002	1,637,170
Accumulated amortisation:	
At 1 January 2002	3,019
Amortisation provided during the year	74,803
At 31 December 2002	77,822
Net book value:	
At 31 December 2002	1,559,348
At 31 December 2001	1,446,018

18. LONG TERM RECEIVABLE

Prior year balance represented a receivable from Coreland Limited ("Coreland", formerly known as CCT Technology Group Holdings Limited), a then indirect wholly-owned subsidiary of CCT Telecom, relating to the provision of technical and management services by the Group in accordance with the technical service and management agreement and a supplemental agreement (collectively the "Management Agreements") entered into between Foreland Agents Limited ("Foreland Agents"), an indirect wholly-owned subsidiary of the Company, and Coreland on 21 September 2000 and 27 August 2001, respectively. Under the terms and conditions set out in the Management Agreements, the balance shall fall due after 2002.

During the year, the Group acquired the entire issued share capital of Coreland pursuant to an acceleration agreement dated 8 August 2002, details of which are set out in note 40(b) to the financial statements. As a result of the acquisition, Coreland became an indirect wholly-owned subsidiary of the Company and the amount owed by Coreland to the Group in the amount of approximately HK$104 million at 31 December 2002 was eliminated against the amount receivable from Coreland by the Group in the same amount on consolidation.

19. INTERESTS IN SUBSIDIARIES

Company

	2002 HK$'000	2001 HK$'000
Unlisted shares, at cost	1,518,084	2,719,835
Due from subsidiaries	1,583,273	55
Due to subsidiaries	–	(9,282)
	3,101,357	2,710,608
Provision for impairment	(1,201,691)	(1,201,691)
	1,899,666	1,508,917

The amounts due from/(to) subsidiaries are unsecured, interest-free and are repayable on demand.

19. INTERESTS IN SUBSIDIARIES (cont'd)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Foreland Agents Limited	British Virgin Islands/ Hong Kong	Ordinary US$2	–	100	Provision of technical and management services
Pegasus Telecom (Hong Kong) Co., Limited (formerly known as Haier CCT (H.K.) Telecom Co., Limited)	Hong Kong	Ordinary HK$20,000,000	–	100	Sourcing of raw materials and distribution of mobile phones
Pegasus Telecom (Qingdao) Co., Ltd* (formerly known as Haier CCT (Qingdao) Telecom Co., Ltd)	The People's Republic of China	Registered US$12,000,000	64.5	–	Manufacture and distribution of mobile phones

* *Acquired during the year.*

During the year, the Group acquired 64.5% equity interest in Pegasus Telecom (Qingdao) Co., Ltd. ("Pegasus Qingdao") pursuant to an acceleration agreement dated 8 August 2002 (as amended by a supplemental agreement dated 15 August 2002), details of which are set out in notes 34(c) and 40(b) to the financial statements.

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

20. INVENTORIES

Group

	2002 HK$'000	2001 HK$'000
Raw materials	147,595	37,619
Work in progress	53,524	–
Finished goods	105,732	790
	306,851	38,409

The carrying amount of inventories carried at net realisable value included in the above balance was HK$61,804,000 (2001: Nil) as at the balance sheet date.

21. TRADE AND BILLS RECEIVABLES

The Group normally allows an average credit period of 30 to 90 days to its trade customers. An aged analysis of the trade and bills receivables as at the balance sheet date is as follows:

Group	2002		2001	
	HK$'000	Percentage	HK$'000	Percentage
Within 1 month	79,211	61	27,479	41
1 to 2 months	32,380	25	9,778	14
2 to 3 months	11,404	9	6,261	9
Over 3 months	6,619	5	24,493	36
Total	129,614	100	68,011	100

Included in the Group's trade and bills receivables in 2001 were trade receivables of HK$19,329,000 from Pegasus Qingdao, which was repayable within a credit period of 30 days.

As detailed in note 40(b) to the financial statements, Pegasus Qingdao became a direct non wholly-owned subsidiary of the Company during the year.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Prepayments	5,550	319	–	–
Deposits and other receivables	15,342	42,693	–	919
	20,892	43,012	–	919

23. DUE FROM A RELATED COMPANY

Group	31 December 2002 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2002 HK$'000
Pegasus Qingdao	–	30,824	24,402

Prior year balance mainly arose from transactions in relation to the provision of software and hardware design services pursuant to the terms and conditions set out in an agreement and a supplemental agreement dated 3 July 2001 and 15 August 2001, respectively. The balance was unsecured, interest free and was repayable on demand.

As detailed in note 40(b) to the financial statements, Pegasus Qingdao became a direct non wholly-owned subsidiary of the Company and the amount owed by Pegasus Qingdao to the Group in the amount of approximately HK$7 million at 31 December 2002 was eliminated against the amount receivable from Pegasus Qingdao by the Group in the same amount on consolidation.

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances	178,704	268,114	6,386	245,481
Time deposits	196,184	104,621	196,184	101,986
	374,888	372,735	202,570	347,467
Less: Time deposits pledged for general banking facilities granted to the Group	(–)	(2,628)	(–)	(–)
Cash and cash equivalents	374,888	370,107	202,570	347,467

Included in the Group's cash and cash equivalents are deposits of approximately HK$459,000 (2001: Nil) placed with Haier Group Finance Co., Ltd. ("Haier Finance"), a subsidiary of Haier Group Company ("Haier"). Haier Finance is a financial institution approved by the People's Bank of China. The interest rates on these deposits were 0.72% per annum during the year. Haier is a substantial shareholder of the Company.

Further details of the interest income attributable to the deposits placed with Haier Finance are set out in note 40(d) to the financial statements.

25. TRADE AND BILLS PAYABLES

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

Group	2002		2001	
	HK$'000	Percentage	HK$'000	Percentage
Within 1 month	240,286	98	54,619	74
1 to 2 months	–	–	6,395	9
2 to 3 months	–	–	2,748	4
Over 3 months	3,835	2	9,731	13
Total	244,121	100	73,493	100

Included in the Group's trade and bills payables in 2001 were trade payables of HK$52,232,000 to Pegasus Qingdao.

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Other payables	49,949	7,094	–	–
Accruals	4,162	21,436	1,364	7,451
	54,111	28,530	1,364	7,451

27. LOAN NOTE

The loan note was issued by the Company to an indirect wholly-owned subsidiary of CCT Telecom on 17 December 2001. The loan note bore interest from the date of its issue at a rate of 5% per annum and the interest was payable annually in arrears with a maturity date on the second anniversary of the date of issue.

On 4 March 2002, the loan note was applied to set-off against the consideration receivable from an indirect wholly-owned subsidiary of CCT Telecom in respect of the disposal of one of the Group's subsidiaries, details of which are set out in note 34(d) and 40(a) to the financial statements.

28. INTEREST-BEARING BANK AND OTHER LOANS

	Group	
	2002 HK$'000	2001 HK$'000
Bank loans repayable within one year or on demand:		
– unsecured	74,766	–
– secured	–	37,380
Other loans repayable within one year or on demand:		
– unsecured	65,421	–
	140,187	37,380
Portion classified as current liabilities	(140,187)	(37,380)
Long term portion	–	–

Included in the Group's interest-bearing bank and other loans are loans of approximately HK$65,421,000 (2001: Nil) from Haier Finance, which are guaranteed by Haier, interest-bearing at approximately 5% per annum and are repayable on 27 June 2003.

Further details of the interest expenses attributable to the loans borrowed from Haier Finance are set out in note 40(d) to the financial statements.

29. FINANCE LEASE PAYABLES

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

	Minimum lease payments 2002 HK$'000	Minimum lease payments 2001 HK$'000	Present value of minimum lease payables 2002 HK$'000	Present value of minimum lease payables 2001 HK$'000
Amounts payable:				
Within one year	–	576	–	556
In the second year	–	576	–	503
In the third to fifth year, inclusive	–	426	–	339
Total minimum finance lease payments	–	1,578	–	1,398
Future finance charges	–	(180)		
Total net finance lease payables	–	1,398		
Portion classified as current liabilities	–	(472)		
Long term portion	–	926		

30. DEFERRED TAX

Group

	2002 HK$'000	2001 HK$'000
At 1 January	240	240
Disposal of subsidiaries (note 34(d))	(240)	–
At 31 December	–	240

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

	Provided		Not provided	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Accelerated depreciation allowances	–	240	274	1,219
Tax losses	–	–	(2,824)	(12,447)
	–	240	(2,550)	(11,228)

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

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

31. SHARE CAPITAL

Shares

Company

	2002 HK$'000	2001 HK$'000
Authorised:		
20,000,000,000 (2001: 20,000,000,000) shares of HK$0.10 each	2,000,000	2,000,000
Issued and fully paid:		
9,962,291,000 (2001: 8,569,966,000) shares of HK$0.10 each	996,229	856,996

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

	Notes	Number of shares in issue	Issued capital HK$'000	Share premium HK$'000	Total HK$'000
At 1 January 2002		8,569,966,000	856,996	253,813	1,110,809
Issue upon private placements	(a)	368,000,000	36,800	73,600	110,400
Issue of consideration shares	(b)	1,023,000,000	102,300	–	102,300
Exercise of share options	(c)	1,325,000	133	95	228
Share issue expense		–	–	(3,655)	(3,655)
Transfer of share premium to set off against accumulated losses		–	–	(253,813)	(253,813)
At 31 December 2002		9,962,291,000	996,229	70,040	1,066,269

(a) On 19 December 2001, Tingkong-RexCapital Securities International Limited agreed to place, on a fully underwritten basis, 368,000,000 new ordinary shares of HK$0.10 each on behalf of the Company at a price of HK$0.30 each per share. The share placement was completed on 16 January 2002.

(b) Pursuant to an acceleration agreement dated 8 August 2002 (as amended by a supplemental agreement dated 15 August 2002), the Company allotted and issued 1,023,000,000 ordinary shares of HK$0.10 each to a nominee of Haier, a substantial shareholder of the Company, at a price of HK$0.20 per share on 2 October 2002, as the consideration for the acquisition of 15.5% equity interest in Pegasus Qingdao. Further details of this transaction are set out in note 40(b) to the financial statements. The share issue was completed on 2 October 2002.

(c) Details of the Company's share option scheme and the share options issued under the scheme are included in note 32 to the financial statements.

31. SHARE CAPITAL (cont'd)

Warrants

On 22 February 2002, the Company made a bonus issue of warrants to the shareholders whose names appeared on the register of members of the Company on 22 February 2002, on the basis of one unit of warrant for every ten shares of HK$0.10 each in the share capital of the Company held on that date. As a result, 893,876,600 units of warrants in the amount of HK$464,815,832 were issued pursuant to the bonus issue. Each unit of warrant entitles the holder thereof to subscribe for new ordinary shares of the Company at an initial subscription price of HK$0.52 per share, payable in cash and subject to adjustment, at any time between 26 February 2002 and 26 February 2004 (both dates inclusive).

There were no warrants exercised during the year.

32. SHARE OPTION SCHEME

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

On 28 February 2002, the share option scheme adopted by the Company on 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") regarding 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 Company or any of its subsidiaries (including executive and non-executive directors of the Company or any of its subsidiaries) and any supplier, consultant, agent, adviser, shareholder, customer or partner, business associate who, at the sole discretion of the board of directors of the Company, has contributed to the Company and/or any of its subsidiaries. The New Share Option Scheme became effective on 28 February 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

32. SHARE OPTION SCHEME (cont'd)

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 options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue as at the date of grant or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to the issue of a circular by the Company (and if required, the holding company) and 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 of the Company, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options or the expiry date of the New Share Option Scheme, whichever is earlier.

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

Details of the current year's movements in the number of ordinary shares under the Old Share Option Scheme were as follows:

	Number of share options								Price of the Company's shares *(Note 3)*	
Name or category of participant	Outstanding as at 1 January 2002	Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year	Outstanding as at 31 December 2002	Date of grant of share options *(Note 1)*	Exercise period of share options	Exercise price per share option *(Note 2)*	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					

32. SHARE OPTION SCHEME (cont'd)

Notes:

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

2. *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.*

3. *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.*

During the year, 150,000, 1,025,000 and 150,000 fully paid ordinary shares of HK$0.10 each in the Company were issued at subscription prices of HK$0.167, HK$0.17 and HK$0.19 per ordinary share, respectively, upon exercise of the share options, for an aggregate cash consideration of approximately HK$227,800.

Details of the current year's movements in the number of ordinary shares under the New Share Option Scheme were as follows:

	Number of share options							
Name or category of participant	Outstanding as at 1 January 2002	Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year	Outstanding as at 31 December 2002	Date of grant of share options *(Note 1)*	Exercise period of share options	Exercise price per share option *(Note 2)*
								HK$
Directors								
In aggregate	–	282,000,000	–	–	282,000,000	16/8/2002	16/8/2003 - 15/8/2007	0.156
	–	445,000,000	–	–	445,000,000	19/11/2002	19/11/2003 - 18/11/2007	0.150
	–	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:

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

2. *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.*

33. RESERVES

(a) Group

The movements of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 35 of the financial statements.

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange thereof.

A special resolution was passed at the annual general meeting of the Company held on 24 May 2002 to approve the amount of HK$253,813,000 and HK$910,231,000 standing to the credit of the Company's share premium account and contributed surplus account, respectively, be reduced and applied to set off against an equivalent amount of the accumulated losses of the Company as at 31 December 2001.

(b) Company

	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2001	29,861	1,269,687	(2,492)	1,297,056
Issue of consideration shares	–	573,400	–	573,400
Placement of shares	224,000	–	–	224,000
Share issue expenses	(9,556)	–	–	(9,556)
Exercise of shares options	9,508	–	–	9,508
Net loss for the year	-	-	(1,161,552)	(1,161,552)
At 31 December 2001	253,813	1,843,087	(1,164,044)	932,856
Issue of consideration shares	–	102,300	–	102,300
Placement of shares	73,600	–	–	73,600
Exercise of share options	95	–	–	95
Share issue expenses	(3,655)	–	–	(3,655)
Transfer of share premium and contributed surplus to set off against accumulated losses - Note (a)	(253,813)	(910,231)	1,164,044	–
Net loss for the year	–	–	(553)	(553)
At 31 December 2002	70,040	1,035,156	(553)	1,104,643

The contributed surplus of the Company represents the excess of the fair values of the shares of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefore. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances.

Note (a)
A special resolution was passed at the annual general meeting of the Company held on 24 May 2002 to approve the amount of HK$253, 813,000 and HK$910,231,000 standing to the credit of the share premium account and contributed surplus account, respectively, be reduced and applied to set off against an equivalent amount of the accumulated losses of the Company as at 31 December 2001.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year adjustments

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

Also, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 3 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31 December 2001 has been adjusted to remove trust receipt loans amounting to HK$37,380,000, previously included at that date. The year's movement in trust receipt loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

(b) Major non-cash transactions

During the year, the Group had the following major non-cash transactions:

(i) The Company allotted and issued a total of 1,023,000,000 ordinary shares of HK$0.10 each, credited as fully paid, at HK$0.20 per ordinary share as consideration for the acquisition of 15.5% equity interest in Pegasus Qingdao. Further details of this transaction are set out in note 40(b) to the financial statements.

(ii) The Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK$830,000.

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

(c) Acquisition of subsidiaries

	2002 HK$'000	2001 HK$'000
Net assets acquired:		
Fixed assets	200,788	3,014
Intangible assets	7,076	1,941
Long term receivable	–	40,731
Inventories	244,204	44,081
Trade and bills receivables	213,918	46,572
Prepayments, deposits and other receivables	6,540	38,114
Due from a related company	–	22,966
Cash and cash equivalents	15,073	25,765
Trade and bills payables	(182,618)	(59,758)
Other payables and accruals	(158,601)	(25,057)
Tax payable	–	(3,000)
Interest-bearing bank and other loans	(185,607)	(56,659)
Finance lease payables	–	(740)
	160,773	77,970
Minority interests	(88,303)	–
	72,470	77,970
Goodwill on acquisition (note 17)	188,133	1,461,433
	260,603	1,539,403
Satisfied by:		
Cash paid for incidental acquisition costs	1,062	7,429
Cash paid for settlement of the shareholder's loan	54,941	–
Reclassification from deposit for acquisition of a subsidiary	–	10,000
Issue of consideration shares	204,600	1,146,800
Issue of loan note	–	60,000
Disposal of subsidiaries (note 34(d))	–	315,174
	260,603	1,539,403

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

(c) Acquisition of subsidiaries (cont'd)

Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2002 HK$'000	2001 HK$'000
Cash paid	(56,003)	(7,429)
Cash and cash equivalents acquired	15,073	25,765
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	(40,930)	18,336

During the year, the Group acquired the entire interest in Coreland and 64.5% interest in Pegasus Qingdao, which is engaged in mobile phone business.

Further details of the transactions are included in the section "Connected transactions" in the Report of the Directors on pages 26 to 29.

The subsidiaries acquired during the year contributed approximately HK$303,764,000 to the Group's turnover, and post-acquisition loss of approximately HK$17,959,000 to the Group's loss after tax for the year.

The subsidiaries acquired in the prior year contributed approximately HK$31,891,000 to the Group's turnover and post-acquisition profit of approximately HK$8,496,000 to the Group's loss after tax for the year ended 31 December 2001.

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

(d) Disposal of subsidiaries

	2002 HK$'000	2001 HK$'000
Net assets disposed of:		
Fixed assets	6,740	11,389
Intangible assets	–	1,863
Goodwill	–	11,983
Club memberships	13,739	–
Interest in an associate	–	3,858
Short term investment	–	120,000
Inventories	2,491	–
Trade and bills receivables	37,650	14,427
Prepayments, deposits and other receivables	3,178	15,157
Pledged deposits	2,635	–
Cash and cash equivalents	20,860	25,501
Trade and bills payables	(13,691)	(6,742)
Tax payable	(1,622)	–
Other payables and accruals	(12,963)	(5,855)
Finance lease payables	(1,017)	(1,132)
Deferred tax	(240)	–
	57,760	190,449
Goodwill written back on disposal	–	124,725
Gain on disposal of discontinued operations	2,240	–
	60,000	315,174
Satisfied by:		
Acquisition of subsidiaries (note 34(c))	–	315,174
Set-off against the loan note issued by the Company (note 27)	60,000	–
	60,000	315,174

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries are as follows:

	2002 HK$'000	2001 HK$'000
Cash consideration	–	–
Cash and cash equivalents disposed of	(20,860)	(25,501)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(20,860)	(25,501)

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

(d) Disposal of subsidiaries (cont'd)

The subsidiaries disposed of during the year contributed approximately HK$27,262,000 to turnover and profits of approximately HK$582,000 to the Group's loss after tax for the year.

The subsidiaries disposed of in the prior year contributed approximately HK$50,305,000 to the Group's turnover and profits of approximately HK$237,000 to the Group's loss after tax in the prior year.

35. CONTINGENT LIABILITIES

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

36. OPERATING LEASE ARRANGEMENTS

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

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

	2002 HK$'000	2001 HK$'000
Within one year	–	1,937
In the second to fifth year, inclusive	–	371
	–	2,308

37. COMMITMENTS

Capital commitments

In addition to the operating lease arrangements detailed in note 36 above, the Group had the following commitments at the balance sheet date:

	2002 HK$'000	2001 HK$'000
Contracted, but not provided for:		
Acquisition of fixed assets	47,575	603
Authorised, but not contracted for:		
Acquisition of fixed assets	185,209	–
	232,784	603

38. PLEDGE OF ASSETS

At 31 December 2002, the Group had no fixed assets (2001: HK$2,830,000) and time deposits (2001: HK$2,628,000) pledged to secure general banking facilities granted to the Group.

39. POST BALANCE SHEET EVENTS

On 26 February 2003, the Company announced that Haier had informed the Company that it had submitted a feasibility study report and a formal written application for a possible further asset injection to the Qingdao City Planning Commission (青島市計劃委員會) on 24 February 2003. According to the information provided by Haier, its possible further asset injection will require the ultimate approval of the State Council (國務院), although it is uncertain whether Haier can obtain such approval. As at the date on which these financial statements were approved, Haier has not received any formal approval document from any PRC domestic approval authorities.

40. RELATED PARTY TRANSACTIONS

(a) On 14 January 2002, the Company and 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, a then wholly-owned subsidiary of the Company, at 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, details of which are disclosed as discontinued operations in note 6 to the financial statements.

The above transaction is also disclosed under the "Connected transactions" section in the Report of Directors on page 26.

(b) 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

40. RELATED PARTY 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 above transactions are also disclosed under the "Connected transactions" section in the Report of Directors on pages 26 and 27.

(c) 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., Ltd ("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 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 have obtained the approval of the independent non-executive directors of the Company. The aggregate value of the transactions under the Sourcing Agreements and the Export Agreements for the year ended 31 December 2002 did not exceed HK$5.5 billion and HK$3.5 billion, respectively, and the monthly service fee under the Management Agreements did not exceed the monthly service fee specified in the Management Agreements.

The above transactions are also disclosed under the "Connected transactions" section in the Report of Directors on pages 27 and 28.

40. RELATED PARTY TRANSACTIONS (cont'd)

(d) 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.

(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 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 above transactions are also disclosed under the "Connected transactions" section in the Report of Directors on pages 28 and 29.

41. COMPARATIVE FIGURES

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

42. APPROVAL OF THE FINANCIAL STATEMENTS

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