FINANCIAL REVIEW

FINANCIAL RESULTS

Summary of Results

Turnover of the Group increased slightly by 1% due to the growth of the telecom business. The turnover of cordless phone products in fact increased 20% from last year. Gross profit increased 11% from last year.

A net gain of HK$599 million arose in the year, mainly due to the deemed disposal of Haier-CCT arising from the dilution of the Company's shareholding in Haier-CCT, as Haier-CCT changed from a subsidiary to an associate in October 2002 (CCT Telecom's shareholding in Haier-CCT was diluted from 53.5% as at 31 December 2001 to 43.6% as at 31 December 2002). As a result of the downturn of the Internet and high-tech sector, the Group has either terminated or divested its non-core investments. Provisions were made against those investments which under-performed. Net losses on investments amounted to HK$708 million, mainly comprised of the loss on realisation of investments and the impairment of investments against those under-performed investments in respect of high-tech related businesses.

The Company reported a net loss of HK$398 million in the first half of the year. The Group achieved improved results in the second half of the year. The full year's loss has been reduced to HK$257 million. The reduction in loss was mainly attributable to the growth of the core business and the gain on the deemed disposal of Haier-CCT which happened in the second half of the year.

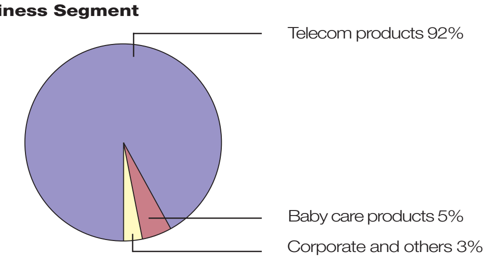
Dividends

The Board proposed a final dividend of HK2 cents per share for the year to the shareholders whose names appear on the register of members of the Company on 19 May 2003, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Total dividend for the year, including the interim dividend of HK1 cent per share, amounted to HK3 cents per share, representing a dividend yield of 3.75% at the date of this report (2001: Nil). The proposed dividend will be paid on or about 16 June 2003 following the shareholders' approval at the forthcoming annual general meeting of the Company.

Analysis by Business Segment

	Turnover		
HK$'million	2002	2001	% change
Telecom products	2,864	2,851	-
Baby care products	166	156	6%
Corporate and others	100	99	1%
Total	3,130	3,106	1%

2002 Turnover by Business Segment



	Profit and loss		
HK$'million	2002	2001	% change
Telecom products	167	140	19%
Baby care products	6	7	-
Corporate and unallocated items	(374)	(777)	(52%)
Total losses from operating activities	(201)	(630)	(68%)

The telecom products segment continued to be the key driver for growth of the Group and contributed 92% (2001: 92%) of the Group's turnover in the current year. The remaining turnover was contributed from baby care products and corporate items, representing 5% (2001: 5%) and 3% (2001: 3%) of the total turnover, respectively.

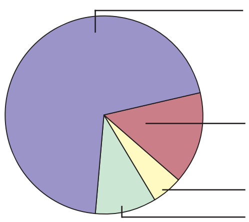
The telecom products business achieved outstanding results in 2002 and contributed an operating profit of HK$167 million to the Group, an increase of 19% as compared with last year. The excellent performance of the segment is due to increased market demand for cordless products, especially 2.4 GHz cordless phones, and the improvement in efficiency produced by our strong research and development capability together with effective cost control.

Corporate and unallocated items, comprised of net losses on investments and unallocated head office overheads, were partially offset by the gain arising from the deemed disposal of Haier-CCT during the year. Corporate items recorded a decrease from a loss of HK$777 million in 2001 to a loss of HK$374 million in 2002, representing a significant 52% reduction.

Analysis of Turnover by Geographical Segment

HK$'million	2002	2001	% change
USA	2,198	1,783	23%
PRC, including Hong Kong	462	778	(41%)
Europe	155	365	(58%)
Others and unallocated	315	180	75%
Total	3,130	3,106	1%

2002 Turnover by Geographical Segment



Most of the Group's turnover was derived from export of telecom products. The USA continued to be the major market of the Group, accounting for 70% (2001: 57%) of the Group's total turnover for the year. The increase in turnover from the USA was mainly attributable to the increase in sales of our cordless phone products to the USA.

The PRC (including Hong Kong) and Europe ranked second and third, accounting for 15% (2001: 25%) and 5% (2001: 12%), respectively, of the Group's total turnover.

FINANCIAL POSITION

Capital Structure and Gearing Ratio

	As at 31 Dec 2002		As at 31 Dec 2001	
HK$'million	Amount	Relative %	Amount	Relative %
Bank loans	363	13%	363	12%
Convertible debts	20	1%	120	4%
Finance lease payables	5	-	9	-
Total borrowings	388	14%	492	16%
Equity	2,428	86%	2,520	84%
Total capital employed	2,816	100%	3,012	100%

On 8 April 2002, the Company passed a special resolution to reduce the share capital of the Company. Pursuant to the special resolution: (i) the nominal value of each of the 422,105,230 then issued shares of HK$5.00 was reduced by HK$4.90 to HK$0.10, thereby reducing the then issued share capital of HK$2,110 million by HK$2,068 million to HK$42 million; (ii) of the credit of HK$2,068 million arising therefrom, HK$934 million was used to eliminate the accumulated losses of the Company and the balance of HK$1,134 million was credited to a distributable reserve of the Company; and (iii) the then unissued shares of the Company were cancelled, immediately followed by the creation of 1,577,894,770 unissued new shares of HK$0.10 each and, as a result, the authorised share capital of the Company has increased to HK$200 million, comprised of 2,000 million shares of HK$0.10 each. Further details of the share reduction are set out in the Company's circular dated 7 March 2002.

The financial position of the Group remains strong, with a low gearing ratio (total borrowings over total capital employed) of only 14% at 31 December 2002 (2001: 16%), reflecting a healthy financial position and the prudent financial policy of the Group.

The outstanding convertible notes amounting to HK$20 million at 31 December 2002 were raised in July 2002 through the Company's listed subsidiary, CCT Technology. The convertible notes were cancelled upon completion of the group reorganisation of CCT Technology and, at the same time, new convertible notes in the same amount of HK$20 million were issued to the original convertible noteholder with substantially the same terms by its new listed holding company, CCT Tech International. The outstanding convertible notes, with a conversion price at HK$0.01 per share of CCT Tech International, bear interest at the rate of 5% per annum and fall due in July 2004.

During the year, the Company fully redeemed HK$120 million worth of convertible notes issued by the Company in 2001. The redeemed convertible notes bore interest at the rate of 8% per annum. The repayment of convertible notes reduced the financial cost of the Company.

At 31 December 2002, total borrowings of the Group amounted to HK$388 million (2001: HK$492 million), of which the maturity profile falling due within one year, in the second to the fifth year and in the sixth to the tenth year amounted to HK$205 million, HK$106 million and HK$77 million, respectively (2001: HK$285 million, HK$175 million and HK$32 million, respectively). There is no material effect of seasonality on the Group's borrowing requirements.

Liquidity and Financial Resources

Current ratio (HK$'million)	At 31 Dec 2002	At 31 Dec 2001
Current assets	1,647	2,202
Current liabilities	991	1,086
	166%	203%

The Group's financial position continued to be strong as at 31 December 2002. Current ratio (a ratio of current assets over current liabilities) as at 31 December 2002 was 166% (2001: 203%). The strong liquid position was attributable to strong cash flows from the operations and the prudent investment strategy of management.

At 31 December 2002, the Group had a cash balance of HK$866 million (2001: HK$1,137 million), decreased by HK$271 million as compared with last year. The decrease was because of the exclusion of Haier-CCT's cash balance from the Group's total cash balance upon consolidation at the year end, due to the fact that Haier-CCT had become an associate of the Company upon completion of the acceleration agreement (Haier-CCT was a subsidiary of the Company at 31 December 2001). The cash balance of CCT Telecom Group (excluding Haier-CCT) in fact increased by HK$102 million as compared with last year.

Among the total cash balance of HK$866 million, approximately HK$83 million (2001: HK$180 million) was pledged for general banking facilities. Almost all of the Group's cash was placed on deposits with licensed banks in Hong Kong.

The Group had outstanding bank loans amounting to HK$363 million at 31 December 2002 (2001: HK$363 million). Approximately 56% of these bank loans were arranged on a short-term basis for the ordinary business of the Group and are repayable within one year. The remaining 44% were of a long-term nature, principally comprised of mortgage loans on properties used by the Group.

Certain of the Group's assets were financed by finance leases and the total outstanding for finance leases payable at 31 December 2002 amounted to HK$5 million (2001: HK$9 million).

At 31 December 2002, the Group had banking facilities of HK$646 million (2001: HK$775 million), of which HK$360 million (2001: HK$360 million) had been utilised.

Capital Commitments

The Group had authorised and contracted capital commitments of approximately HK$60 million (2001: HK$3 million) at 31 December 2002. These capital commitments mainly relate to capital expenditure for the manufacturing business of the Group and will be funded by internal resources.

Treasury Management

The Group employs a conservative approach to cash management and risk controls. To achieve better risk controls and efficient fund management, the Group's treasury activities have been centralised. Most of the Group's receipts and payments are made in Hong Kong dollars and United States dollars. Cash is generally placed in short-term deposits denominated in Hong Kong dollars and United States dollars. At 31 December 2002, all of the Group's outstanding borrowings were denominated in Hong Kong dollars only. Other than the HK$20 million in fixed rate convertible notes, the Group's borrowings were principally made on a floating rate basis. The Group does not have any significant foreign currency or interest rate risk.

OTHER INFORMATION

Employees and Remuneration Policy

The total number of employees of the Group as at 31 December 2002 was 13,245. Remuneration packages are normally reviewed on an annual basis. Apart from salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group. At 31 December 2002, there were outstanding share options of approximately 14 million.

Significant Investment

There was no significant investment unrelated to the core manufacturing business during the year.

The Group continues to focus on the original design and manufacturing of telecom products. During the year, HK$192 million was used for capital expenditure, mainly relating to the Group's core manufacturing business.

Acquisition and Disposal of Material Subsidiaries and Associates

(1) Pursuant to an agreement signed in January 2002 with Haier-CCT, the Company acquired in March 2002 from Haier-CCT (the Company's then listed subsidiary and now a listed associate) a 100% interest in Current Profits Limited, which is engaged in the baby care products business. Further details of the acquisition have been set out in the Company's announcement dated 14 January 2002.

(2) Pursuant to the restructuring agreements dated 10 August 2001 entered into between the Company, Wireless InterNetworks Limited ("WIN", a listed company in Hong Kong), WIN's then receivers, Standard Chartered Bank and Dongguan Defa Investment Limited, the Company acquired a controlling interest in WIN and HK$45 million in WIN's convertible notes. Further details of the acquisition have been set out in the Company's circular dated 31 March 2002.

    To reflect the Company's ownership in WIN, WIN was then renamed CCT Technology Holdings Limited ("CCT Technology"). CCT Technology was further reorganised in November 2002, with its listing status replaced by CCT Tech International.

    On a fully diluted basis, the Company will own a 52% equity interest in CCT Tech International.

(3) Pursuant to an acceleration agreement dated 8 August 2002 (as amended by a supplemental agreement dated 15 August 2002), the Company disposed of its 100% interest in Coreland Limited, which in turn owned a 49% interest in Pegasus Qingdao. Pegasus Qingdao is engaged in the manufacture and distribution of mobile phones. The disposal was completed in September 2002. Further details of the disposal have been set out in the Company's circular dated 5 September 2002.

Pledge of Assets

At 31 December 2002, certain of the Group's assets with a net book value of HK$277 million (2001: HK$383 million) and time deposits of HK$83 million (2001: HK$180 million) were pledged to secure the general banking facilities granted to the Group.

Contingent Liabilities

Apart from the corporate guarantees of HK$360 million (31 December 2001: HK$360 million) given to banks for general facilities utilised by subsidiaries of the Company and a guarantee given to an independent third party in respect of a rental arrangement in the amount of HK$40 million, the Group did not have any other significant contingent liabilities at 31 December 2002.