

# REPORT OF THE DIRECTORS

The directors 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 the business of the manufacture and sale of telecom products and accessories, the manufacture and sale of baby care products and the provision of multimedia content and services and magazine publishing.

During the year, the Group disposed of its entire 49% interest in Pegasus Telecom (Qingdao) Co., Ltd. (formerly known as Haier CCT (Qingdao) Telecom Co., Ltd.) ("Pegasus Qingdao"), a jointly-controlled entity of the Group, to Haier-CCT Holdings Limited (an associate of the Group). Pegasus Qingdao was engaged in manufacture and distribution of mobile phones. Further details are set out in note 41(b) to the financial statements.

Details of the principal activities of the principal subsidiaries and the Group's jointly-controlled entities and principal associates are set out in notes 17, 18 and 19, respectively, 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 36 to 85.

An interim dividend of HK\$0.01 per ordinary share was paid on 25 October 2002.

The directors recommend the payment of a final dividend of HK\$0.02 per ordinary share in respect of the year, to shareholders 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. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 86. This summary does not form part of the audited financial statements.

## FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and the investment properties of the Group during the year are set out in note 14 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 33 and 34 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Companies Law (2001 Revision) Chapter 22 of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## PURCHASE, 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 during the year are set out in note 35 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

Under the Companies Law (2001 Revision) Chapter 22 of the Cayman Islands, the share premium account of the Company is available for distribution of dividends to shareholders subject to the provisions of the Company's Memorandum and Articles of Association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.

In accordance with the Company's Articles of Association, dividends can only be distributed out of profits and reserves available for distribution including the share premium account of the Company. As at 31 December 2002, the Company had a net credit balance of approximately HK\$2,385 million (2001: HK\$320 million) of which HK\$8 million has been proposed as a final dividend for the year maintained in the reserve accounts which would be available for distribution.

## CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$1 million (2001: HK\$46,000).

## 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:

	Percentage of the Group's total			
	Sales		Purchases	
	2002	2001	2002	2001
The largest customer	59	56		
Five largest customers in aggregate	78	79		
Five largest suppliers in aggregate			<30	<30

None of the directors of the Company or any of their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

## REPORT OF THE DIRECTORS

### DIRECTORS

The directors of the Company during the year and up to the date of this Annual Report were as follows:

***Executive directors:***

Mak Shiu Tong Clement

Cheng Yuk Ching Flora

Tam Ngai Hung Terry

William Donald Putt

Tsoi Tong Hoo Tony (resigned on 20 February 2002)

***Independent non-executive directors:***

Samuel Olenick

Tam King Ching Kenny

Lau Ho Man Edward

In accordance with the articles of association of the Company, Messrs. Cheng Yuk Ching Flora and Samuel Olenick 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 articles of association of the Company.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 15 of the Annual Report.

### DIRECTORS' SERVICE CONTRACTS

During the year, no director had a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

### SHARE OPTION SCHEME

On 28 February 2002, the share option scheme adopted by the Company on 25 May 2001 (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 any 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 13,850,000 share options outstanding under the Old Share Option Scheme. No options has been granted by the Company under the New Share Option Scheme during the year.

**SHARE OPTION SCHEME (continued)**

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.

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 the shareholders' approval of the 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, excluding the independent non-executive director(s) of the 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 the shareholders' approval of the 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 (continued)

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 HK\$	Price of the Company's shares (Note 2)	
	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 HK\$	At exercise date of share options HK\$
<b>Executive directors</b>										
Mak Shiu	5,000,000	-	-	-	5,000,000	13/8/2001	16/8/2001 - 15/8/2003	2.936 <sup>#</sup>	0.720	-
Tong Clement										
Cheng Yuk	1,250,000	-	-	-	1,250,000	13/8/2001	16/8/2001 - 15/8/2003	2.936 <sup>#</sup>	0.720	-
Ching Flora										
Tam Ngai	750,000	-	-	-	750,000	11/6/2001	13/6/2001 - 12/6/2003	3.732 <sup>#</sup>	0.920	-
Hung Terry										
	1,250,000	-	-	-	1,250,000	13/8/2001	16/8/2001 - 15/8/2003	2.936 <sup>#</sup>	0.720	-
Tsoi Tong	1,250,000	-	-	(1,250,000)	-	13/8/2001	16/8/2001 - 15/8/2003	2.936 <sup>#</sup>	0.720	-
Hoo Tony*										
	9,500,000	-	-	(1,250,000)	8,250,000					
<b>Other employees</b>										
In aggregate	125,000	-	-	(125,000)	-	11/6/2001	13/6/2001 - 12/6/2003	3.732 <sup>#</sup>	0.920	-
	625,000	-	-	-	625,000	27/6/2001	29/12/2001 - 28/6/2003	3.553 <sup>#</sup>	0.890	-
	1,000,000	-	-	(750,000)	250,000	30/6/2001	30/6/2001 - 30/12/2003	3.533 <sup>#</sup>	0.850	-
	750,000	-	-	-	750,000	8/8/2001	8/2/2002 - 7/8/2003	3.085 <sup>#</sup>	0.730	-
	4,775,000	-	-	(800,000)	3,975,000	13/8/2001	16/2/2002 - 15/8/2003	2.936 <sup>#</sup>	0.720	-
	7,275,000	-	-	(1,675,000)	5,600,000					
	16,775,000	-	-	(2,925,000)	13,850,000					

**SHARE OPTION SCHEME (continued)**

Notes:

- 1. *The vesting period of the share options is from the date of grant until the commencement of the exercise period.*
- 2. *The price of the Company's shares as at the date of grant of the share options is the closing price of the Company's shares as listed on the Stock Exchange on the trading day immediately prior to the date of grant of the share options. The price of the Company's shares as at the date of exercise of the share options is the weighted average of the closing prices of the Company's shares as listed on the Stock Exchange immediately before the dates on which the share options were exercised.*
- # *Adjusted to take into account of the share consolidation, rights issue and bonus issue of the Company in December 2001.*
- \* *Mr. Tsoi Tong Hoo Tony resigned as an executive director of the Company on 20 February 2002.*

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 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**

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:

**(i) The Company**

Name of director	Notes	Number of ordinary shares in the Company beneficially held and nature of interest		
		Personal	Family	Corporate
Mak Shiu Tong Clement	(1)	856,000	1,407,500	83,998,441
Cheng Yuk Ching Flora		9,876,713	-	-
Samuel Olenick	(2)	-	-	125,000
William Donald Putt		171,500	-	-

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN SHARES AND WARRANTS (continued)

#### (ii) Associated corporation - Haier-CCT Holdings Limited ("Haier-CCT")

Name of director	Notes	Number of ordinary shares in Haier-CCT beneficially held and nature of interest			Amount of 2004 warrants* in Haier-CCT beneficially held and nature of interest		
		Personal	Family	Corporate	Personal HK\$	Family HK\$	Corporate HK\$
Mak Shiu Tong Clement	(3)	20,574,412	1,150,391	85,494,864	1,069,869.32	59,820.28	4,444,651.64
Cheng Yuk Ching Flora		19,312,498	–	–	1,004,249.48	–	–
Tam Ngai Hung Terry		10,000,000	–	–	520,000.00	–	–
Samuel Olenick	(4)	–	–	130,548	–	–	6,788.08
William Donald Putt		179,112	–	–	9,313.72	–	–

Notes:

- (1) The family interest of Mr. Mak Shiu Tong Clement in 1,407,500 shares in the Company was held by his wife, Ms. Yiu Yu Ying, and the corporate interest of Mr. Mak Shiu Tong Clement in 83,998,441 shares in the Company was 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. These interests in the shares of the Company have also been disclosed under the section of "Substantial Shareholders' Interests" below.
- (2) Mr. Samuel Olenick was deemed to be interested in 125,000 shares in the Company under the provisions of the SDI Ordinance.
- (3) 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 Haier-CCT 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 Haier-CCT 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.
- (4) Mr. Samuel Olenick was deemed to be interested in 130,548 shares and in the 2004 warrants in an aggregate amount of HK\$6,788.08 in Haier-CCT under the provisions of the SDI Ordinance.

\* The 2004 warrants in Haier-CCT 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

#### (i) 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.

**DIRECTORS' RIGHTS TO ACQUIRE ORDINARY SHARES (continued)**

**(ii) Associated corporation - Haier-CCT**

Name of director	Number of share options in Haier-CCT					
	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	Exercise price per share option HK\$
Mak Shiu Tong Clement	-	89,000,000	-	-	89,000,000	0.156
Cheng Yuk Ching Flora	-	89,000,000	-	-	89,000,000	0.156
Tam Ngai Hung Terry	-	89,000,000	-	-	89,000,000	0.156
William Donald Putt	-	5,000,000	-	-	5,000,000	0.156

*Note: The above share options were granted on 16 August 2002 which are exercisable during the period from 16 August 2003 to 15 August 2007.*

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	Number of ordinary shares held	Approximate percentage of the Company's issued share capital (%)
Capital Interest Limited ( <i>Note</i> )	83,998,441	19.90
Yiu Yu Ying ( <i>Note</i> )	1,407,500	0.34
Mak Shiu Tong Clement	856,000	0.20
	<u>86,261,941</u>	<u>20.44</u>

*Note: Under the provisions of the SDI Ordinance, Mr. Mak Shiu Tong Clement, a director of the Company, was deemed to control or have an interest in Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons had beneficial interests. Mr. Mak Shiu Tong Clement was also deemed to have an interest in the shares owned by his wife, Ms. Yiu Yu Ying. These interests in the shares of the Company have also been disclosed under the section of "Directors' Interests in Shares and Warrants" above.*

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.



### CONNECTED TRANSACTIONS

During the year, the Company had transactions with connected persons as defined in the Listing Rules, which constituted connected transactions under Chapter 14 of the Listing Rules. Details of the transactions are as follows:

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

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

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

**CONNECTED TRANSACTIONS (continued)**

- (3) During the year, the Group had the following material transactions with Pegasus Qingdao up to the date of the Group's disposal of the entire interest in Pegasus Qingdao to Haier-CCT:

**Group**

HK\$'million	Notes	2002	2001
Purchases of mobile phones	(i)	35	192
Sales of raw materials	(ii)	78	254
Software and hardware design fee income	(iii)	2	15

*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 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.*

In addition to the above, Foreland Agents Limited ("Foreland Agents"), an indirect wholly-owned subsidiary of Haier-CCT, charged Coreland a technical and management service fee of approximately HK\$44 million in accordance with the terms and conditions set out in a technical service and management agreement and a supplemental agreement (collectively the "Management Agreements") entered into between Foreland Agents and Coreland on 21 September 2000 and 27 August 2001, respectively.

The above transactions occurred prior to the completion of the exercise of the CCT Technology Option and the PRC JV Option by Haier-CCT were defined as "ongoing connected transactions" in a circular to the shareholders of the Company dated 29 August 2001 and were approved by shareholders at an extraordinary general meeting of the Company held on 14 September 2001.

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 indicated in notes (i), (ii) and (iii) above were:

## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS (continued)

- (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;
- (c) conducted on terms no less favourable than terms available to third parties; and
- (d) conducted in accordance with the Export Agreements or the Sourcing Agreements (as the case may be).

In respect of the technical and management service fee of approximately HK\$44 million set out above, the independent non-executive directors of the Company have reviewed and confirmed that it was:

- (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 shareholders of the Company were concerned; and
- (c) conducted in accordance with the Management Agreements.

### 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 articles of association of the Company.

### AUDIT COMMITTEE

Pursuant to the requirements of the Listing Rules, the Company has established an audit committee comprising three independent non-executive directors of the Company. A set of written terms of reference, which described the authority and duties of the audit committee, was adopted by the 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