1. CORPORATE INFORMATION

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

- 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.

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 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 SSAP, 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 39 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's 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 accounts of overseas subsidiaries, jointly-controlled entities and associates are now 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 transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the cash flow statement has been revised.

Further details of these changes and the prior year adjustments that have resulted from them are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 and note 36(a), respectively, to the financial statements.

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

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 no change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 34 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") disclosures previously included in the Report of the Directors, which 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, except for the periodic remeasurement of investment properties and equity investments as further explained below.

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 and 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 results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies
A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

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

Joint venture companies (cont'd)

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities 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.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights 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.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities 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. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than a separately identified asset on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill, to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 goodwill accounting policy above.

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

Goodwill (cont'd)

On disposal of subsidiaries, associates or jointly-controlled entities, 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. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, 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 investment properties and 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 assets, the expenditure is capitalised as an additional cost of that asset.

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

Fixed assets and depreciation (cont'd)
Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land	2% - 5%
Buildings	2.5% - 5%
Plant and machinery	10% - 25%
Tools, moulds and equipment	10% - 50%
Furniture and office equipment	12.5% - 50%
Motor vehicles	18% - 33-1/3%

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
Construction in progress represents buildings under construction. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Investment properties
Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Intangible assets
Publishing rights
Purchased publishing rights are stated at cost less accumulated amortisation and any impairment losses, and are amortised on the straight-line basis over their estimated useful lives of 20 years.

Deferred development costs
All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

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

Intangible assets (cont'd)

Deferred development costs (cont'd)

Deferred development costs are stated at cost less accumulated amortisation and any impairment losses, and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding four years, commencing from the date when the products are put into commercial production.

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.

Long term investments

Long term investments are stated at cost less any impairment losses, on an individual investment basis.

Short term investments

Short term investments are investments in equity securities held for trading purposes. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis, as determined by the directors having regard to the prices of the most recent reported sales or purchases of the securities, or professional valuations performed at the end of each financial year. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

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.

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 assets 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 leases 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 are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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

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.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

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 scheme 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 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.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for certain 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 separate defined contribution retirement benefits scheme for those employees who are 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 vesting fully, the ongoing contributions payable by the Group are reduced by the relevant amount of the forfeited employer contributions.

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

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, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities 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.

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, jointly-controlled entities and associates 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 36(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 multimedia content and services and software and hardware designs, when the services are rendered;

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

Revenue recognition (continued)

(c) circulation income, when the magazines are delivered;

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

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

(f) dividend income, when the shareholders' right to receive payment has been established.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of 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 other 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 the products 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 the other business segments. Summary details of the business segments are as follows:

(a) the telecom products segment engages in the manufacture and sale of telecom products and accessories;

(b) the baby care products segment manufactures and sells baby care products;

(c) the corporate segment comprises corporate income and expense items; and

(d) the "others" segment comprises, principally, the Group's network equipment business which engages in the trading of network equipment and the provision of related consultancy services; and multimedia business which provides multimedia content and services and publishes magazines.

4. SEGMENT INFORMATION (cont'd)

In determining the Group's geographical segments, revenues 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.

(a) Business segments

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

Group
2002

HK$' million	Telecom products	Baby care products	Corporate and others	Eliminations	Consolidated
Segment revenue:					
Sales to external customers	2,864	166	85	–	3,115
Intersegment sales	–	–	–	–	–
Other revenue from external sources	–	–	41	–	41
Total revenue	2,864	166	126	–	3,156
Segment results	167	6	(847)	–	(674)
Interest income					15
Unallocated revenue					599
Unallocated expenses					(141)
Loss from operating activities					(201)
Finance costs					(27)
Share of profits and losses of:					
Jointly-controlled entities	–	–	5	–	5
Associates	–	–	(33)	–	(33)
Loss before tax					(256)
Tax					(7)
Loss before minority interests					(263)
Minority interests					6
Net loss from ordinary activities attributable to shareholders					(257)

4. SEGMENT INFORMATION (cont'd)

(a) Business segments (cont'd)

Group
2001

HK$' million	Telecom products	Baby care products	Corporate and others	Eliminations	Consolidated
Segment revenue:					
Sales to external customers	2,851	156	88	–	3,095
Intersegment sales	–	–	9	(9)	–
Other revenue from external sources	–	–	48	–	48
Total revenue	2,851	156	145	(9)	3,143
Segment results	140	7	(794)	–	(647)
Interest income					11
Unallocated revenue					62
Unallocated expenses					(56)
Loss from operating activities					(630)
Finance costs					(36)
Share of profits and losses of:					
Jointly-controlled entities	–	–	9	–	9
Associates	–	–	(9)	–	(9)
Loss before tax					(666)
Tax					(6)
Loss before minority interests					(672)
Minority interests					(13)
Net loss from ordinary activities attributable to shareholders					(685)

4. SEGMENT INFORMATION (cont'd)

(a) Business segments (cont'd)

Group
2002

HK$' million	Telecom products	Baby care products	Corporate and others	Eliminations	Consolidated
Segment assets	2,847	87	5,657	(5,454)	3,137
Interests in associates	–	–	496	–	496
Interests in jointly-controlled entities	–	–	–	–	–
Total assets	2,847	87	6,153	(5,454)	3,633
Segment liabilities	2,621	24	3,581	(5,454)	772
Unallocated liabilities	235	1	169	–	405
Total liabilities	2,856	25	3,750	(5,454)	1,177
Other segment information:					
Capital expenditure	153	5	34	–	192
Deprecation	84	2	36	–	122
Amortisation	31	–	16	–	47
Impairment losses recognised directly in the profit and loss account	–	2	316	–	318
Other non-cash expenses	56	–	528	–	584

2001

HK$' million	Telecom products	Baby care products	Corporate and others	Eliminations	Consolidated
Segment assets	2,399	78	9,377	(7,413)	4,441
Interests in associates	–	–	83	–	83
Interests in jointly-controlled entities	–	–	119	–	119
Total assets	2,399	78	9,579	(7,413)	4,643
Segment liabilities	1,785	17	6,397	(7,413)	786
Unallocated liabilities	216	2	292	–	510
Total liabilities	2,001	19	6,689	(7,413)	1,296
Other segment information:					
Capital expenditure	164	1	143	–	308
Deprecation	51	3	66	–	120
Amortisation	45	–	1	–	46
Impairment losses recognised directly in the profit and loss account	–	–	157	–	157
Other non-cash expenses	34	1	586	–	621

4. SEGMENT INFORMATION (cont'd)

(b) Geographical segments

The following table presents revenue regarding the Group's geographical segments for the years ended 31 December 2002 and 2001. Over 90% of the Group's assets are located in the People's Republic of China ("PRC"), including Hong Kong.

Group
2002

HK$' million	United States of America	PRC, including HK	European Union	Others	Consolidated
Segment revenue:					
Sales to external customers	2,198	447	155	315	3,115
Other revenue from external sources	–	41	–	–	41
Total revenue	2,198	488	155	315	3,156

2001

HK$' million	United States of America	PRC, including HK	European Union	Others	Consolidated
Segment revenue:					
Sales to external customers	1,783	767	365	180	3,095
Other revenue from external sources	–	48	–	–	48
Total revenue	1,783	815	365	180	3,143

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; income from the provision of multimedia content and services, magazine publishing, and telecom related consultancy services.

Revenue from the following activities has been included in turnover:

HK$'million	2002	2001
Manufacture and sale of telecom products and accessories	2,864	2,851
Trading of telecom and network equipment and provision of related consultancy services	2	34
Manufacture and sale of baby care products	166	156
Provision of multimedia content and services, and magazine publishing	83	54
Interest income	15	11
	3,130	3,106

6. LOSS FROM OPERATING ACTIVITIES

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

	Group	
HK$'million	2002	2001
Depreciation	122	120
Minimum lease payments under operating leases in respect of land and buildings	15	8
Research and development costs:		
Deferred expenditure amortised *	31	45
Current year expenditure	60	65
Amortisation of goodwill **	16	1
Auditors' remuneration	5	5
Staff costs (excluding directors' remuneration - note 8)***		
Wages and salaries	252	215
Pension scheme contributions	9	6
Impairment of an investment in a jointly-controlled entity	–	33
Bad and doubtful debt provisions on trade receivables	2	44
Bad and doubtful debt provisions on other receivables	2	2
Loss on disposal of fixed assets, net	9	10
Write off of deferred development costs **	41	24
Provision for slow-moving and obsolete stocks*	6	–
Impairment of other assets	2	–
and after crediting:		
Gross rental income from investment properties	3	8
Dividend income from listed equity investments	–	2

* The amortisation of deferred development expenditure and provision for slow-moving and obsolete stocks are included in "Cost of sales" on the face of the consolidated profit and loss account.

** The amortisation of goodwill and write off of deferred development costs for the year are included in "Other operating expenses" on the face of the consolidated profit and loss account.

*** The effect of forfeited contributions on the Group's contributions to the pension schemes for the year, and the amounts of forfeited contributions available to reduce contributions in future years, were not material.

7. FINANCE COSTS

	Group	
HK$'million	2002	2001
Interest on bank loans and overdrafts wholly repayable within five years	15	11
Interest on bank loans repayable after five years	3	8
Interest on convertible note	8	13
Interest on finance leases	1	4
	27	36

8. DIRECTORS' REMUNERATION

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

	Group	
HK$'million	2002	2001
Fees:		
Executive directors	–	–
Independent non-executive directors	–	–
	–	–
Executive directors' other emoluments:		
Salaries, allowances and benefits in kind	18	19
Performance related bonuses	8	11
Pension scheme contributions	1	1
	27	31

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

	Number of directors	
	2002	2001
Nil - HK$1,000,000	5	4
HK$2,500,001 - HK$3,000,000	1	–
HK$3,000,001 - HK$3,500,000	–	1
HK$4,500,001 - HK$5,000,000	–	1
HK$5,000,001 - HK$5,500,000	–	1
HK$6,000,001 - HK$6,500,000	1	–
HK$17,500,001 - HK$18,000,000	1	1
	8	8

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

During the year, no share options of the Company were granted to the directors in respect of their services to the Group.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2001: four) directors, details of whose remuneration are set out in note 8 above. The details of the remuneration of the remaining two (2001: one) non-director, highest paid employees are as follows:

	Group	
HK$' million	2002	2001
Salaries, allowances and benefits in kind	6	3
Performance related bonus	2	1
Pension scheme contributions	–	–
	8	4

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

	Number of employees	
	2002	2001
HK$3,500,001 - HK$4,000,000	1	1
HK$4,500,001 - HK$5,000,000	1	-
	2	1

During the year, no share options of the Company were granted to the two non-director, highest paid employees in respect of their services to the Group.

10. TAX

The Company is exempted from tax in the Cayman Islands until 2010. 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, interpretations and practices in respect thereof.

Certain PRC subsidiaries of the Group, which are categorised as wholly foreign owned enterprises, are entitled to preferential tax treatments including full exemption from the PRC income tax for two years starting from their first profit-making year following by a 50% reduction for the next three consecutive years.

	Group	
HK$'million	2002	2001
Group:		
Hong Kong:		
Provision for the year	8	9
Overprovision in prior years	(1)	(4)
	7	5
Share of tax attributable to associates	–	1
Tax charge for the year	7	6

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit 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$1 million (2001: net loss of HK$425 million). The Group's share of the profits and losses for the year retained by the jointly-controlled entities and associates amounted to profits of HK$5 million and losses of HK$33 million, respectively (2001: profits of HK$9 million and losses of HK$9 million, respectively).

12. DIVIDENDS

HK$'million	2002	2001
Interim - HK$0.01 (2001: Nil) per ordinary share	4	–
Proposed final - HK$0.02 (2001: Nil) per ordinary share	8	–
	12	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. 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$257 million (2001: loss of HK$685 million), and the weighted average number of 422,105,230 (2001: 409,734,112) ordinary shares in issue during the year.

The diluted loss per share for the years ended 31 December 2002 and 31 December 2001 are not shown as the potential ordinary shares outstanding during the year had no dilution effect on the basic loss per share and the impact of the potential ordinary shares was anti-dilutive for the year ended 31 December 2001.

14. FIXED ASSETS

Group

HK$' million	Investment properties	Leasehold land and buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total
Cost or valuation:								
At 1 January 2002	58	1,385	246	117	108	17	–	1,931
Additions	–	19	45	34	26	4	4	132
Acquisition of subsidiaries	–	8	–	–	2	–	–	10
Disposals	(1)	(1)	(23)	(37)	(13)	(1)	–	(76)
Disposal of subsidiaries	–	–	(9)	(14)	(10)	(3)	–	(36)
Transfers	(44)	48	–	–	–	–	(4)	–
At 31 December 2002	13	1,459	259	100	113	17	–	1,961
Analysis of cost or valuation:								
At cost	–	1,459	259	100	113	17	–	1,948
At 31 December 2002 valuation	13	–	–	–	–	–	–	13
	13	1,459	259	100	113	17	–	1,961
Accumulated depreciation and impairment:								
At 1 January 2002	–	249	104	76	57	8	–	494
Depreciation provided during the year	–	46	40	17	16	3	–	122
Impairment during the year recognised in the profit and loss account	–	3	–	–	–	–	–	3
Disposals	–	–	(15)	(32)	(8)	(1)	–	(56)
Disposal of subsidiaries	–	–	(5)	(5)	(3)	(1)	–	(14)
At 31 December 2002	–	298	124	56	62	9	–	549
Net book value:								
At 31 December 2002	13	1,161	135	44	51	8	–	1,412
At 31 December 2001	58	1,136	142	41	51	9	–	1,437

14. FIXED ASSETS (cont'd)

The net book values of the fixed assets of the Group held under finance leases included in the total amounts of tools, moulds and equipment, furniture and office equipment and motor vehicles as at 31 December 2002, were Nil (2001: HK$1,000,000), HK$3,800,000 (2001: HK$3,000,000), and HK$2,600,000 (2001: HK$5,000,000), respectively.

The Group's land and building included above are held under the following lease terms:

HK$'million	Hong Kong	Elsewhere	Total
Long term leases	209	-	209
Medium term leases	65	887	952
	274	887	1,161

The Group's investment properties included above are held under the following lease terms:

HK$'million	Hong Kong	Elsewhere	Total
Long term leases	13	-	13

The Group's investment properties were revalued on 31 December 2002 by Grant Sherman Appraisal Limited and E. N. Surveyors & Co., independent professionally qualified valuers, on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 39(a) to the financial statements.

15. INTANGIBLE ASSETS

HK$'million	Deferred development costs	Publishing rights	Total
Cost:			
At 1 January 2002	81	2	83
Additions	60	–	60
Write off	(65)	–	(65)
At 31 December 2002	76	2	78
Accumulated amortisation:			
At 1 January 2002	48	–	48
Amortisation provided during the year	31	–	31
Write back	(24)	–	(24)
At 31 December 2002	55	–	55
Net book value:			
At 31 December 2002	21	2	23
At 31 December 2001	33	2	35

16. GOODWILL

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

Group

HK$'million	
Cost:	
At 1 January 2002	386
Acquisition of subsidiaries	29
Disposal of subsidiaries	(374)
At 31 December 2002	41
Accumulated amortisation:	
At 1 January 2002	1
Amortisation provided during the year	16
Disposal of subsidiaries	(15)
At 31 December 2002	2
Net book value:	
At 31 December 2002	39
At 31 December 2001	385

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves.

The amounts of the goodwill remaining in consolidated reserves as at 31 December 2002, arising from the acquisitions of subsidiaries and associates prior to 1 January 2001, are as follows:

Group

HK$'million	Goodwill eliminated against consolidated retained profits
Cost:	
At beginning of year	952
Disposal/deemed disposal of associates	(148)
Disposal of subsidiaries	(21)
At 31 December 2002	783
Accumulated impairment:	
At beginning of year and as at 31 December 2002	680
Net amount:	
At 31 December 2002	103
At 31 December 2001	272

17. INTERESTS IN SUBSIDIARIES

HK$'million	Company 2002	2001
Unlisted shares, at cost	–	25
Due from subsidiaries	4,477	4,810
Due to subsidiaries	(600)	(716)
	3,877	4,119
Provision for impairment	(1,898)	(2,024)
	1,979	2,095

The balances with the subsidiaries are unsecured, interest-free and are repayable on demand.

As at 31 December 2002, the unlisted shares, at cost, amounted to HK$85.

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
CCT Marketing Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	–	100	Trading of telecom products
CCT Telecom (HK) Limited	Hong Kong	HK$2,600,000 Ordinary	–	100	Sourcing of telecom products
CCT Tech International Limited*# ("CCT Tech International")	Bermuda	HK$108,384,036 Ordinary	–	41.52##	Investment holding
Electronic Sales Limited	Hong Kong	HK$5,948,000 Ordinary	–	41.52##	Sale of telecom products
Full Triumph International Limited	British Virgin Islands	US$1 Ordinary	–	100	Property holding
Goldbay Investments Limited	Hong Kong	HK$2 Ordinary	–	100	Property holding
Huge Partner Limited	Hong Kong	HK$10,000 Ordinary	–	100	Property holding

17. INTERESTS IN SUBSIDIARIES (cont'd)

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
Neptune Holding Limited	Hong Kong	HK$10,000,000 Non-voting** class 'A' shares HK$1,000,000 Voting class 'B' shares	–	100	Trading of plastic casings and parts
Wiltec Industries Limited	Hong Kong	HK$100 Ordinary HK$1,000,000 Deferred***	–	100	Sale of baby care products
Huiyang CCT Telecommunications Products Co., Ltd.	People's Republic of China	HK$80,000,000 Registered****	–	100	Manufacturing of telecom products
Huiyang CCT Plastic Products Co., Ltd.	People's Republic of China	HK$48,600,000 Registered****	–	100	Manufacturing of plastic casings and parts

* *Listed on The Stock Exchange of Hong Kong Limited.*

** *The non-voting shares carry no rights to dividends and no rights to vote at general meetings.*

*** *The non-voting deferred shares carry no rights to dividends, to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding-up.*

**** *Registered under the laws of the PRC as a wholly foreign owned enterprise.*

\# *Acquired during the year.*

\#\# *CCT Tech International and Electronic Sales Limited are accounted for as subsidiaries since the Company has the power to cast the majority of votes at meetings of the board of directors in these companies.*

During the year, the Group acquired CCT Tech International Limited. Further details of the acquisition are included in note 36(e) to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the company, 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 of the company, result in particulars of excessive length.

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
HK$'million	2002	2001
Share of net assets	–	95
Due from a jointly-controlled entity	–	24
	–	119

Prior year balance represented the Group's 49% interest in Pegasus Telecom (Qingdao) Co., Ltd. ("Pegasus Qingdao") (formerly known as Haier CCT (Qingdao) Telecom Co., Ltd.). During the year, the Group disposed of its 49% interest in Pegasus Qingdao pursuant to an acceleration agreement dated 8 August 2002 (as amended by a supplemental agreement dated 15 August 2002), further details of which are set out in note 41(b) to the financial statements.

19. INTERESTS IN ASSOCIATES

	Group	
HK$'million	2002	2001
Share of net assets	917	46
Unrealised profits arising from the disposal of subsidiaries (Note)	(421)	–
Loans to associates	–	59
Due from associates	–	22
	496	127
Provision against loans to associates	–	(44)
	496	83

Note: The unrealised profits arising from the disposal of subsidiaries to an associate are released to the consolidated profit and loss account to match against the Group's share of goodwill amortisation arising from the acquisition of certain subsidiaries by an associate from the Group.

Particulars of the principal associates during the year, all held indirectly through subsidiaries, are as follows:

Name	Business Structure	Place of incorporation and operations	Nominal value of issued share capital	Percentage of ownership interest attributable to the Group 2002	2001	Principal activities
Haier-CCT Holdings Limited* ("Haier-CCT")	Corporate	Bermuda	HK$996,229,100 Ordinary	43.6	53.52	Investment holding
Modernet Company Limited**	Corporate	British Virgin Islands	US$1 Ordinary	–	25	Investment holding
Team Work Corporation Limited***	Corporate	British Virgin Islands	US$100 Ordinary	–	40	Provision of agency services and movie production

19. INTERESTS IN ASSOCIATES (continued)

* *Listed on The Stock Exchange of Hong Kong Limited.*

** *The ownership interest was passively diluted below 20% during the year and was reclassified as long term investment in the consolidated financial statements as the Group ceased to be in a position to exercise significant influence over the company upon the dilution.*

*** *The entire interest was disposed during the year.*

The above table lists the associates of the Group 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 associates would, in the opinion of the directors, result in particulars of excessive length.

Included in the Group's share of the net assets of its associates are the share of net assets of Haier-CCT which, in the opinion of the directors, is material in the context of the Group's financial statements. Details of the net assets of Haier-CCT and its subsidiaries (collectively referred as to the "Haier-CCT Group") and their respective results are set out below:

HK$'million	As at 31 December 2002
Non-current assets	1,789
Current assets	832
Current liabilities	(438)
Minority interests	(82)
	2,101

HK$'million	Year ended 31 December 2002
Turnover	500
Loss before tax	(73)
Tax	–
Loss before minority interests	(73)
Minority interests	6
Net loss from ordinary activities attributable to shareholders	(67)

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

The above amounts are extracted from the published audited financial statements of Haier-CCT for the year ended 31 December 2002.

20. OTHER ASSETS

	Group	
HK$'million	2002	2001
Club memberships, at cost	14	14
Provision for impairment	(2)	–
	12	14

21. INVESTMENTS

HK$'million	Group 2002	Group 2001	Company 2002	Company 2001
Long term investments				
Unlisted equity investments, at cost	317	499	–	–
Provisions for impairment	(313)	(131)	–	–
	4	368	–	–
Short term investments				
Listed equity investments, at market value:				
Hong Kong	4	90	–	–
Elsewhere	11	20	11	20
	15	110	11	20
Unlisted equity investments, at fair value	–	354	–	–
	15	464	11	20

As at 31 December 2002, the number of shares of the following companies held by the Group exceeded 20% of their respective total issued shares:

Name	Place of incorporation	Description and value of shares held	Percentage holding
Tradeeasy Holdings Limited*	Cayman Islands	HK$4,201,183 Ordinary	23.34
Sendo Holdings PLC	United Kingdom	GBP31,526,000 Ordinary GBP31,474,000 Preference	32.1

* *Listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.*

22. INVENTORIES

HK$'million	Group 2002	Group 2001
Raw materials	41	65
Work in progress	34	32
Finished goods	47	24
	122	121

The carrying amount of inventories carried at net realisable value included in the above balance was Nil (2001: Nil).

23. TRADE AND BILLS RECEIVABLES

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

	Group 2002		Group 2001	
HK$'million	Balance	Percentage	Balance	Percentage
Current to 30 days	212	40	195	50
31 to 60 days	162	30	100	25
61 to 90 days	140	26	66	17
Over 90 days	24	4	33	8
	538	100	394	100

The Group allows an average credit period of 30-90 days to its trade customers.

Included in the Group's trade and bills receivables at 31 December 2001 were trade receivables of approximately HK$19 million due from Pegasus Qingdao, the Group's former jointly-controlled entity. The balance arose from transactions relating to the sales of raw materials pursuant to the terms and conditions set out in an agreement and a supplemental agreement dated 3 July 2001 and 15 August 2001, respectively.

During the year, the Group disposed of its entire 49% interest in Pegasus Qingdao pursuant to an acceleration agreement dated 8 August 2002. Further details of the transactions are set out in note 41(b) to the financial statements.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
HK$'million	2002	2001	2002	2001
Prepayments	42	3	–	–
Deposits and other receivables	64	83	1	5
	106	86	1	5

25. CASH AND CASH EQUIVALENTS

	Group		Company	
HK$'million	2002	2001	2002	2001
Cash and bank balances	196	472	7	5
Time deposits	670	665	438	435
	866	1,137	445	440
Less: Time deposits pledged for bank borrowings	(83)	(180)	(17)	(52)
	783	957	428	388

26. TRADE AND BILLS PAYABLES

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

	Group 2002		Group 2001	
HK$'million	Balance	Percentage	Balance	Percentage
Current to 30 days	198	32	208	39
31 to 60 days	114	19	111	21
61 to 90 days	113	19	80	15
Over 90 days	180	30	136	25
	605	100	535	100

Included in trade and bills payables at 31 December 2001 were trade payables of approximately HK$52 million due to Pegasus Qingdao, the Group's former jointly-controlled entity. The balance arose from transactions relating to the purchases of mobile phones pursuant to the terms and conditions set out in a letter of intent and a supplemental agreement dated 3 July 2001 and 15 August 2001, respectively.

During the year, the Group disposed of its entire 49% interest in Pegasus Qingdao to Haier-CCT pursuant to an acceleration agreement dated 8 August 2002. Further details of the transactions are set out in note 41(b) to the financial statements.

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
HK$'million	2002	2001	2002	2001
Other payables	62	124	5	–
Accruals	105	127	4	10
	167	251	9	10

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, an accrual was made at the balance sheet date for the expected future cost of paid annual leave earned during the year by employees, which remained untaken by the employees at the balance sheet date and is permitted to be carried forward and utilised in the following year.

This change in accounting policy has resulted in HK$4 million being included in the balance of the Group's accruals in respect of paid leave carried forward as at 31 December 2002.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

		Group	
HK$'million	Notes	2002	2001
Bank overdrafts		2	–
Current portion of bank loans		200	161
	29	202	161
Current portion of finance lease payables	30	3	4
		205	165

29. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

	Group	
HK$'million	2002	2001
Bank overdrafts:		
Secured	2	–
Bank loans:		
Secured	361	363
Bank overdrafts repayable within one year or on demand	2	–
Bank loans repayable:		
Within one year or on demand	200	161
In the second year	37	55
In the third to fifth years, inclusive	47	115
Beyond five years	77	32
	361	363
	363	363
Portion classified as current liabilities - note 28	(202)	(161)
Long term portion	161	202

30. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles for business use. These leases are classified as finance leases and have remaining lease terms ranging from one to two years.

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

HK$'million	Group Minimum lease payments 2002	Minimum lease payments 2001	Present value of minimum lease payments 2002	Present value of minimum lease payments 2001
Amounts payable:				
Within one year	3	4	3	4
In the second year	3	4	2	3
In the third to fifth years inclusive	–	2	–	2
Total minimum finance lease payments	6	10	5	9
Future finance charges	(1)	(1)		
Total net finance lease payables	5	9		
Portion classified as current liabilities - note 28	(3)	(4)		
Long term portion	2	5		

31. CONVERTIBLE NOTES

HK$'million	Group 2002	Group 2001	Company 2002	Company 2001
Convertible notes	20	120	–	120

(a) In October 2002, the Company redeemed HK$120 million worth of the convertible notes which were issued in the prior year.

(b) On 19 July 2002, CCT Technology Holdings Limited, an indirect non-wholly owned subsidiary of the Company, issued convertible notes with an aggregate principal amount of HK$20 million to an independent third party and which were subsequently replaced by the convertible notes issued by CCT Tech International (an indirect non-wholly owned subsidiary of the Company) on 4 November 2002. The convertible notes provide the holder the option of a right to convert the principal amount into ordinary shares of CCT Tech International on any business day being five business days prior to the maturity of the convertible notes at HK$0.01 per share. The convertible notes bear interest at the rate of 5% per annum and will mature on the second anniversary of the date of their issue.

32. DEFERRED TAX

HK$'million	Group 2002	2001
Balance at beginning of year	3	4
Credit for the year	–	(1)
At 31 December	3	3

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:

HK$'million	Provided 2002	2001	Not provided 2002	2001
Accelerated depreciation allowances	3	3	16	11
Tax losses	–	–	(55)	(53)
	3	3	(39)	(42)

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 revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

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

33. SHARE CAPITAL

HK$'million	Company 2002	2001
Authorised:		
2,000,000,000 (2001: 800,000,000) ordinary shares of HK$0.10 (2001: HK$5.00) each	200	4,000
Issued and fully paid :		
422,105,230 (2001: 422,105,230) ordinary shares of HK$0.10 (2001: HK$5.00) each	42	2,110

33. SHARE CAPITAL (continued)

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

	Number of ordinary shares of HK$0.10 each (in millions)	Issued capital HK$'million
At 1 January 2002	422	2,110
Capital reduction (Note)	–	(2,068)
As 31 December 2002	422	42

Note:

Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 8 April 2002, the nominal value of each of the 422,105,230 issued ordinary shares of the Company was reduced by HK$4.90, from HK$5.00 to HK$0.10 per ordinary share (the "Capital Reduction"). Accordingly, the Company's then existing issued share capital of HK$2,110 million was reduced by HK$2,068 million to HK$42 million.

The credit arising from the Capital Reduction, in the sum of HK$2,068 million, was first applied towards the elimination of the accumulated losses of up to HK$934 million of the Company and the balance of such credit was credited to a capital reserve of the Company.

The 377,894,770 unissued ordinary shares of HK$5.00 each of the Company was cancelled and the authorised share capital of the Company was immediately thereafter increased to HK$200,000,000 by the subsequent creation of 1,577,894,770 unissued new ordinary shares of HK$0.10 each that the authorised share capital of the Company thereafter consists of 2,000,000,000 ordinary shares of HK$0.10 each.

Details of the Company's share option scheme are included in note 34 to the financial statements.

34. 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 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 in compliance with the new amendments to the Listing Rules in respect of the share option scheme 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 option has been granted by the Company under the New Share Option Scheme during the year.

The purpose of the New Share Option Scheme is to provide incentives and rewards to the eligible participants who contribute to the succes 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, partner, business associate who, in 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.

34. SHARE OPTION SCHEME (cont'd)

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

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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 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 the shareholders' approval in advance in a general meeting.

34. SHARE OPTION SCHEME (cont'd)

The following share options were outstanding under the Old Share Option Scheme during the year:

Name or category of participant	Number of share options: Outstanding as at 1 January 2002	Granted during the year	Exercised during the year	Lapsed during the year	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 HK$	Price of Company's shares (Note 2): At grant date of share options HK$	At exercise date of share options HK$
Directors											
	750,000	–	–	–	–	750,000	11/6/2001	13/6/2001-12/6/2003	3.732	0.920	–
	8,750,000	–	–	(1,250,000)	–	7,500,000	13/8/2001	16/8/2001-15/8/2003	2.936	0.720	–
	9,500,000			(1,250,000)	–	8,250,000					
Other employees In aggregate	125,000	–	–	(125,000)	–	–	11/6/2001	13/6/2001-12/6/2003	3.732	0.920	–
	625,000	–	–	–	–	625,000	27/6/2001	29/12/2001-28/6/2003	3.553	0.890	–
	1,000,000	–	–	(750,000)	–	250,000	30/6/2001	30/6/2001-30/12/2003	3.533	0.850	–
	750,000	–	–	–	–	750,000	8/8/2001	8/2/2002-7/8/2003	3.085	0.730	–
	4,775,000	–	–	(800,000)	–	3,975,000	13/8/2001	16/2/2002-15/8/2003	2.936	0.720	–
	7,275,000	–	–	(1,675,000)		5,600,000					
	16,775,000			(2,925,000)		13,850,000					

Notes:

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

No share option has been granted under the New Share Option Scheme adopted by the Company on 28 February 2002 during the year.

35. RESERVES

(a) Group

The amounts 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 39 of the financial statements.

Certain amounts of goodwill arising on the acquisition of subsidiaries and associate in prior years remain eliminated against consolidated retained profits, as further detailed in note 16 to the financial statements.

(b) Company

HK$'million	Notes	Share premium account	Capital reserve	Retained profits/ (accumulated losses)	Total
Balance at 1 January 2001		3,127	–	(1,324)	1,803
Placement of shares		5	–	–	5
Bonus issue of shares		(1,055)	–	–	(1,055)
Share issue expenses		(4)	–	–	(4)
Repurchases of shares		(4)	–	–	(4)
Net loss for the year		–	–	(425)	(425)
At 31 December 2001 and beginning of year		2,069	–	(1,749)	320
Capital reduction	33	–	2,068	–	2,068
Capital reduction against accumulated losses	33	–	(934)	934	–
Transfer to accumulated losses		(815)	–	815	–
Profit for the year		–	–	1	1
Interim dividend	12	(4)	–	–	(4)
Proposed final dividend	12	–	(8)	–	(8)
At 31 December 2002		1,250	1,126	1	2,377

Note:
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 the 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) maintained in the reserve accounts which is available for distribution.

The Company's capital reserve was credited through the reduction of share capital on 8 April 2002. Further details are set out in note 33 to the financial statements.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year adjustments

SSAP 15 (Revised) was adopted during the current year, as 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, dividend paid and interest received are now included in cash flows from operating 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$61 million, 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 entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the finance leases of HK$2 million (2001: HK$7 million).

(c) Restricted cash and cash equivalent balances

Certain of the Group's time deposits are pledged to a bank to secure bank overdrafts and bank loans granted to the Group, as further explained in note 38 to the financial statements.

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

(d) Disposal/deemed disposal of subsidiaries

HK$'million	2002	2001
Net assets disposed of:		
Fixed assets	22	–
Interests in jointly-controlled entities	124	–
Interests in associates	61	–
Goodwill	359	–
Cash and bank balances	305	–
Trade and bills receivables	13	–
Inventories	30	–
Prepayments, deposits and other receivables	117	–
Trade and bills payables	(58)	–
Other payables and accruals	(127)	–
Finance lease payables	(1)	–
Tax payable	(1)	–
Minority interests	(810)	–
	34	–
Reclassification to interests in associates	(597)	–
Reversal of goodwill upon disposal of a subsidiary	21	–
Net gains on disposal/deemed disposal of subsidiaries	599	–
	57	–
Satisfied by:		
Cash	57	–

An analysis of net outflow of cash and cash equivalents in respect of the disposal/deemed disposal of subsidiaries is as follows:

HK$'million	2002	2001
Cash consideration	57	–
Cash and bank balances disposed of	(305)	–
Net outflow of cash and cash equivalents in respect of the disposal/deemed disposal of subsidiaries	(248)	–

The subsidiaries disposed of during the year contributed HK$223 million to turnover and HK$37 million to the consolidated loss after tax and before minority interests for the year ended 31 December 2002.

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

(e) Acquisition of subsidiaries

HK$'million	2002	2001
Net assets acquired:		
Fixed assets	10	–
Intangible assets	–	2
Cash and bank balances	18	–
Trade receivables	5	3
Trade payables	(10)	(1)
Bank loan	(2)	–
Other payables and accruals	(2)	(1)
Minority interests	(17)	–
	2	3
Goodwill on acquisition (note 16)	29	12
	31	15
Satisfied by:		
Cash	20	5
Incidental cost	5	–
Reclassification from interests in associates	6	–
Reclassification from other assets	–	10
	31	15

An analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries

HK$'million	2002	2001
Cash paid	(25)	(5)
Cash and bank balances acquired	18	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(7)	(5)

On 17 May 2002, the Group acquired a 49% interest in CCT Tech International at a cash consideration of HK$20 million. CCT Tech International and its subsidiaries (collectively referred as to "CCT Tech International Group") are engaged in the manufacture and sale of telecom products.

Since its acquisition, the CCT Tech International Group contributed approximately HK$106 million to the Group's turnover and a post-acquisition profit of approximately HK$98 million to the Group's loss before minority interests for the year ended 31 December 2002.

The subsidiary acquired in the prior year contributed HK$14 million to the Group's turnover and HK$1 million to the consolidated loss after tax and before minority interests for the year ended 31 December 2001.

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

(f) Purchase of minority interests in subsidiaries

HK$'million	2002	2001
Net assets acquired:		
Minority interests	–	3
Goodwill on acquisition	–	1
	–	4
Satisfied by:		
Cash	–	4

(g) Disposal of partial interests in subsidiaries

HK$'million	2002	2001
Net assets disposed of:		
Minority interests	–	31
Gain on disposal	–	16
	–	47
Satisfied by:		
Cash	–	47

37. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
HK$'million	2002	2001	2002	2001
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	–	–	646	360
Guarantee given to an independent third party in respect of a rental arrangement	–	–	40	–
	–	–	686	360

As at 31 December 2002, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$360 million (2001: HK$360 million).

In addition to the above, the Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$7 million as at 31 December 2002, as further explained in note 3 to the financial statements. The contingent liability has arisen as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

38. PLEDGE OF ASSETS

At the balance sheet date, the Group's bank borrowings were secured by:

(i) Pledges of the Group's fixed deposits amounting to approximately HK$83 million (2001: HK$180 million);

(ii) Fixed charges over certain of the Group's leasehold land and buildings with an aggregate net book value amounting to approximately HK$277 million (2001: HK$295 million); and

(iii) Corporate guarantees given by the Company aggregating approximately HK$360 million (2001: HK$360 million).

As at 31 December 2001, there were fixed charges over listed securities with market value of approximately HK$88 million pledged against the Group's bank borrowings. The listed securities were fully disposed of during the year.

39. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2002, the Group had total future minimum lease receivables under non-cancelable operating leases with its tenants falling due as follows:

	Group	
HK$'million	2002	2001
Within one year	–	1

(b) As lessee

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, Group had total future minimum lease payments under non-cancelable operating leases in respect of land and buildings falling due as follows:

	Group	
HK$'million	2002	2001
Within one year	5	8
In the second to fifth years, inclusive	3	1
	8	9

40. COMMITMENTS

In addition to the operating lease commitments detailed in note 39(b) above, the Group and the Company had the following commitments at the balance sheet date:

Capital commitments contracted, but not provided for in respect of:

	Group		Company	
HK$'million	2002	2001	2002	2001
Construction in progress	56	-	-	-
Purchases of plant and machinery, equipment and motor vehicles	4	1	-	-
Leasehold improvements	-	2	-	-
	60	3	-	-

In addition, the Group's share of the associates, own capital commitments, which are not included in the above, were as follows:

	Group	
HK$'million	2002	2001
Contracted, but not provided for	20	-
Authorised, but not contracted for	81	-
	101	-

41. RELATED PARTY TRANSACTIONS

(a) 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, a then wholly-owned subsidiary of Haier-CCT, at a total purchase price of HK$60,000,000. The purchase price was payable by the Company on 17 December 2001 by way of a set-off against the entire amount of the HK$60,000,000 loan note issued by Haier-CCT 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.

The above transaction is also disclosed under the "Connected transactions" section in the Report of Directors on pages 32 to 34.

(b) 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;

41. RELATED PARTY TRANSACTIONS (cont'd)

(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 interests in Pegasus Qingdao.

The above transactions are also disclosed under the "Connected transactions" section in the Report of Directors on pages 32 and 34.

(c) 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., Ltd. ("Pegasus HK") and Pegasus Qingdao on 3 July 2001 and 15 August 2001, respectively.

The purchase prices are 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.

41. RELATED PARTY TRANSACTIONS (cont'd)

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 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 transaction was made up to the date of the Group's disposal of the entire interest in Coreland to Haier-CCT.

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 services fee under the Management Agreements did not exceed the monthly service fee specified in the Management Agreements. Details of the transactions are also disclosed under the "Connected transactions" section in the Report of the Directors on pages 32 to 34.

42. COMPARATIVE AMOUNTS

As further explained in note 2 to the 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 prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

43. APPROVAL OF THE FINANCIAL STATEMENTS

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