

Financial highlights

	Six months ended 30 June		Increase
	2003	2002	
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	
Turnover	741,282	177,905	317%
Gross profit/(loss)	(564)	42,433	N/A
Loss attributable to shareholders	(84,542)	(3,137)	2,595%

Chairman's letter

I am pleased to report that Haier-CCT Holdings Limited (the "Company") and its subsidiaries (together the "Group") recorded a revenue of approximately HK\$741.3 million for the six months ended 30 June 2003, representing an increase of 317% over the corresponding period last year, which was mainly contributed by Pegasus Telecom (Qingdao) Co. Ltd. ("Pegasus Qingdao") which became a 64.5% subsidiary of the Group in October 2002.

Gross loss during the period amounted to HK\$0.6 million, as compared with a gross profit of HK\$42.4 million in last period. The gross loss was due to a provision for slow-moving stock amounted to HK\$63.3 million made during the period. Without such provision, the Group's gross profit during the period would have been HK\$62.7 million.

The Group's loss attributable to shareholders for the period amounted to HK\$84.5 million. The loss was mainly attributable to the above mentioned provision for stocks and the amortisation of goodwill amounting to HK\$40.9 million arising from the acquisition of the mobile phone business.

Interim dividend

The directors do not recommend payment of an interim dividend for the six months ended 30 June 2003 (30 June 2002: nil).

Review of operations

Subsequent to the acquisition of the 100% interest in Pegasus Telecom (Hong Kong) Co. Ltd. ("Pegasus HK") in 2001 and the 64.5% interest in Pegasus Qingdao in 2002, the mobile phone business has become the major revenue source of the Group.

In the first half of the year, the business environment for handset business was difficult. On one hand, the mobile phone market in China was adversely affected by the threat of atypical pneumonia worldwide. On the other hand, the market was further hampered by the price reduction strategy adopted by the majority of mobile phone manufacturers and the entrance of new mobile phone manufacturers into the PRC market. The combined impact of these factors have led the Group accumulating inventory of certain models of its products at a higher level than originally anticipated and a provision was made for these slow-moving stocks. With the outbreak of atypical pneumonia now firmly under control worldwide, the mobile phone market has been witnessing a gradual recovery and sales orders of the Group have, likewise, witnessed a steady increase. We expect that the handset market would continue to improve, and that the cost of material would be gradually reduced in the second half of the year. We expect that the effect of the price reduction of products by other manufacturers will therefore be offset by the Group by a continuing reduction in its cost of material and that sales of handsets would bring in reasonable margin.

In the second quarter, new mobile phone models under the Cai Zhi Xing and Cai Duo Xing series were launched by the Group which incorporates popular features such as colour screens and special features such as firewalls for incoming calls. The Group has so far received encouraging sales orders for these new models. The Group has also entered into the OEM manufacturing of mobile phones for a famous European brand for export sales in Europe. The OEM orders that the Group received so far has been encouraging. This signifies that the quality of our products is up to international standard. We firmly believe that OEM business will bring in significant revenue and has great potential to grow.

Review of operations (cont'd)

Given the continuing growth of the mobile phone market in China, there has been a steady increase of interest among both foreign and domestic companies to secure a foothold in this huge and profitable market. We firmly believe however that domestic companies with their understanding of the Mainland market will continue to increase their market share in the Mainland. We remain optimistic and confident towards the future of the mobile phone business in China. With our firm and determined strategy and experience in the mobile phone market in China and overseas, we are committed to developing innovative, quality products for our customers and will continue to introduce original and useful features via new products in order to strengthen our customer base and capture more market share.

Latest development

In order to reduce the risk of accumulating excessive inventories, the Group now only produces according to sales orders already received. In the second half of the year, the Group has put additional effort in launching new products and that series of new products with new technology and features will be launched by the Group in the remainder of the year. On one hand, we are actively expanding our market in China through sales of mobile phones under the Haier brand. On the other hand, the Group's OEM business also performs and expands satisfactorily. In future, we will work with other international customers in manufacturing and distributing mobile phones globally under recognised international brands, with a view to increasing our market share in the mobile phone market worldwide and in China.

In February 2003, Haier informed the Board that they are considering a further asset injection into the Group, which may include part or all of their white goods domestic appliances business. Among other things, the possible asset injection will depend on regulatory matters and approvals in China and Hong Kong. If the asset injection proceeds, this will enlarge the Group's asset and revenue bases.

The Group will continue to strengthen its business in the mobile phone industry so as to increase the value of the Company and returns to our shareholders.

Mak Shiu Tong, Clement

Chairman

Hong Kong, 19 September 2003

Financial review

Results summary

Turnover of the Group for the six months ended 30 June 2003 was HK\$741.3 million (30 June 2002: HK\$177.9 million). The increase in turnover as compared with the corresponding period last year was attributable to the mobile phone business, including the contribution from Pegasus Qingdao which became a 64.5% subsidiary of the Group through the acquisition of further interest by the Group in 2002. Turnover of the discontinued operations in 2002 was derived from the baby care products business which was sold by the Group to CCT Telecom Holdings Limited ("CCT Telecom") in March 2002.

Gross loss during the period amounted to HK\$0.6 million, as compared with a gross profit of HK\$42.4 million in last period. The gross loss was due to a provision for slow-moving stock amounted to HK\$63.3 million made during the period due to poor market as a result of the outbreak of the atypical pneumonia and the price reduction. Without such provision, the Group's gross profit during the period will amount to HK\$62.7 million.

Loss attributable to shareholders for the period amounted to HK\$84.5 million (30 June 2002: HK\$3.1 million). The increase in loss during the period was mainly due to the stock provision mentioned above and the amortisation of goodwill amounting to HK\$40.9 million arising from the acquisition of the mobile phone business. We anticipate that the business environment in the second half of the year will be improving and measures have been taken to control risk of excessive inventories.

Analysis by business segment

Following the acquisition of a 100% interest in Pegasus HK in 2001 and a 64.5% interest in Pegasus Qingdao in 2002, the Group has successfully reformed into a mobile phone manufacturer and distributor. During the period ended 30 June 2003, the entire revenue of the Group was derived from the mobile phone business, including the OEM business, which recorded an operating loss of HK\$44.6 million (30 June 2002: an operating profit of HK\$33.6 million) before amortisation of goodwill, finance costs and tax charge. The operating loss was caused by the provision for stocks mentioned above.

Analysis by geographical segment

Due to the change of the Group's principal business to mobile phones business after its reformation, the principal geographical segment has changed accordingly. The Mainland of the People's Republic of China ("PRC") is now the major market of the Group and accounted for approximately 72% (30 June 2002: 40%) of the Group's revenue for the period. Europe became the second, which accounted for approximately 27% (30 June 2002: 18%) of the Group's revenue, and was mainly arose from the OEM business for the period.

Liquidity and financial resources

The Group had HK\$406 million (31 December 2002: HK\$375 million) in cash balance as at 30 June 2003. Outstanding bank loans amounted to HK\$386 million (31 December 2002: HK\$140 million) as at 30 June 2003. All of the bank borrowings of the Group were arranged on a short-term basis for ordinary business of the Group and are repayable within one year. The large pool of cash, together with available banking facilities, provides the Group with sufficient resources for business growth and expansion. There is no material effect of seasonality on the Group's borrowings requirements.

The Group had authorised capital commitments amounting to approximately HK\$116.3 million (31 December 2002: HK\$232.8 million) at 30 June 2003 in respect of the building of a new mobile phone factory in Qingdao, the PRC, in order to increase the Group's production capacity.

The Group's gearing ratio, calculated on the basis of the Group's total borrowings over total capital employed (ie, total borrowings plus equity), at 30 June 2003 was 16% (31 December 2002: 6%).

Financial Review (cont'd)

Change in use of proceeds

In December 2001, the Company made two placements of shares in order to restore the public float, raising total net proceeds of HK\$430 million in December 2001 and January 2002. The proposed use of proceeds was detailed in an announcement by the Company dated 19 December 2001, which has subsequently been revised as announced on 18 November 2002.

On 21 May 2003, the Board announced that it has approved further change of application of the proceeds. The following table sets out the use of proceeds as previously announced and the proposed revised use of proceeds as announced on 21 May 2003.

	As announced on 21 May 2003 (current revised use) HK\$'000	As announced on 18 November 2002 (1st revised use) HK\$'000	As announced on 19 December 2001 (original use) HK\$'000
Research and development for mobile phone and telecom products operation	40,000	40,000	50,000
Potential acquisition of distribution network in the PRC and overseas	—	80,000	160,000
Capital expenditure for mobile phone operations	250,000	170,000	50,000
Development of the Group's distribution of corded and domestic cordless phone operations	—	—	50,000
Marketing and advertising	10,000	10,000	40,000
Working capital	130,000	130,000	80,000
Total	430,000	430,000	430,000

It is intended that the above funds set aside for capital expenditure will be used for the building of a new mobile phone factory in Qingdao.

Treasury management

The Group employs a conservative approach to cash management and risk control. To achieve better risk control and efficient fund management, the Group's treasury activities are centralised. Most of the Group's receipts and payments are made in Renminbi and Hong Kong dollars. Cash is generally placed in short term deposits denominated either in Renminbi and Hong Kong dollars. At 30 June 2003, all of the Group's outstanding borrowings were denominated in Renminbi and were principally made on a floating rate basis. Foreign currency risk is not significant as liabilities in Renminbi will be matched by the Group's earnings, most of which are also denominated in Renminbi. The Group does not have any significant interest rate risk.

Major corporate shareholding structure of the Company

At 30 June 2003, the Company was beneficially owned as to 43.6% by CCT Telecom and 29.9% by Haier.

Employees and remuneration policy

The total number of employees in the Group as at 30 June 2003 was around 1,094. Remuneration packages are normally reviewed on an annual basis. Apart from salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonuses. Share options may also be granted to eligible employees and persons of the Group. At 30 June 2003, there were outstanding share options of approximately 894 million.

Significant investment

The Group did not hold any significant investment at 30 June 2003 (31 December 2002: nil).

Acquisition and disposal of material subsidiaries and associates

There was no acquisition and disposal of material subsidiaries and associates during the period.

Pledge of assets

No assets of the Group were pledged at 30 June 2003 (31 December 2002: nil).

Contingent liabilities

The Group did not have any significant contingent liabilities at 30 June 2003 (31 December 2002: nil).

Interim Results

Unaudited interim results

The board of directors of the Company is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2003 together with the comparative figures for the corresponding period in 2002 as follows:

Condensed consolidated profit and loss account

For the six months ended 30 June 2003

	Notes	Six months ended 30 June 2003 (Unaudited) HK\$'000	Six months ended 30 June 2002 (Unaudited) HK\$'000
TURNOVER			
Continuing operations		741,282	150,643
Discontinued operations	3	—	27,262
		741,282	177,905
Cost of sales		(741,846)	(135,472)
Gross profit/(loss)		(564)	42,433
Other revenue		2,747	12,269
Gain on disposal of a discontinued operation	3	—	2,240
Administrative expenses		(36,204)	(18,531)
Other operating expenses		(11)	(1,765)
Depreciation and amortisation	4	(53,745)	(36,965)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		(87,777)	(1,571)
Continuing operations		(87,777)	(1,571)
Discontinued operations		—	1,252
Finance costs		(6,190)	(319)
LOSS BEFORE TAX		(93,967)	(2,467)
TAX	5	1,704	—
Continuing operations		—	(670)
Discontinued operations		1,704	(670)
LOSS BEFORE MINORITY INTERESTS		(92,263)	(3,137)
Minority interests		7,721	—
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(84,542)	(3,137)
LOSS PER SHARE	7		
Basic		(0.85) cents	(0.03) cents
Diluted		(0.85) cents	(0.03) cents

Condensed consolidated balance sheet

At 30 June 2003

		30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
	<i>Notes</i>		(Restated)
NON-CURRENT ASSETS			
Fixed assets	8	296,048	222,880
Intangible assets		6,160	6,787
Goodwill		1,518,419	1,559,348
Deferred tax assets		8,416	3,906
		1,829,043	1,792,921
CURRENT ASSETS			
Inventories		334,588	306,851
Trade and bills receivables	9	217,453	129,614
Prepayments, deposits and other receivables		5,156	20,892
Tax recoverable		—	171
Cash and cash equivalents		406,470	374,888
		963,667	832,416
CURRENT LIABILITIES			
Trade and bills payables	10	259,554	244,121
Tax payable		2,245	—
Other payables and accruals		50,090	54,111
Interest-bearing bank and other loans		385,859	140,187
		697,748	438,419
NET CURRENT ASSETS		265,919	393,997
TOTAL ASSETS LESS CURRENT LIABILITIES		2,094,962	2,186,918
MINORITY INTERESTS		75,593	83,314
		2,019,369	2,103,604
CAPITAL AND RESERVES			
Issued capital	11	996,402	996,229
Reserves		1,022,967	1,107,375
		2,019,369	2,103,604

Interim Results (cont'd)

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2003

	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Retained profits/ (accumulated losses) (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2003					
As previously reported	996,229	70,040	967,319	67,497	2,101,085
Prior year adjustment: SSAP 12 (Revised) "Income Taxes"	—	—	—	2,519	2,519
As restated	996,229	70,040	967,319	70,016	2,103,604
Exercise of share options	173	134	—	—	307
Loss for the period	—	—	—	(84,542)	(84,542)
At 30 June 2003	996,402	70,174	967,319	(14,526)	2,019,369
At 1 January 2002					
Placement of shares	36,800	73,600	—	—	110,400
Exercise of share options	133	95	—	—	228
Share issue expenses	—	(3,655)	—	—	(3,655)
Transfer of share premium and contributed surplus to offset accumulated losses - <i>Note (a)</i>	—	(253,813)	(910,231)	1,164,044	—
Loss for the period	—	—	—	(3,137)	(3,137)
At 30 June 2002	893,929	70,040	865,019	131,248	1,960,236

Note (a)

During the period ended 30 June 2002, a special resolution was passed at the annual general meeting of the Company held on 17 May 2002 to approve the set off of accumulated losses in the amounts of HK\$253,813,000 and HK\$910,231,000 against the share premium account and the contributed surplus account of the Company, respectively.

Condensed consolidated cash flow statement

For the six months ended 30 June 2003

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(122,850)	(12,608)
INVESTING ACTIVITIES*	(85,357)	(20,159)
FINANCING ACTIVITIES	239,789	103,806
INCREASE IN CASH AND CASH EQUIVALENTS	31,582	71,039
Cash and cash equivalents at beginning of period	374,888	370,107
CASH AND CASH EQUIVALENTS AT END OF PERIOD	406,470	441,146
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	209,179	11,424
Time deposits with original maturity of less than three months when acquired	197,291	429,722
	406,470	441,146

* The amount in 2003 mainly represented cash outflow for capital expenditure related to the manufacturing business.

Notes:

1. Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No.25 "Interim Financial Reporting" and the presentation and accounting policies used are consistent with those used in the Group's annual financial statements for the year ended 31 December 2002, except that the Group has adopted SSAP 12 (Revised) "Income Taxes" which became effective on 1 January 2003.

Upon adoption of SSAP 12 (Revised), full provision was made for deferred tax using the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit of the corresponding period, with limited exceptions. In prior periods, partial provision was made for deferred tax using the income statement liability method whereby deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

The change in accounting policy has resulted in an increase in the Group's deferred tax assets by HK\$4,510,000 and HK\$3,906,000, and an increase in the Group's minority interests by HK\$1,601,000 and HK\$1,387,000 as at 30 June 2003 and 31 December 2002, respectively. As a consequence, the Group's net loss attributable to shareholders for the period ended 30 June 2003 has been decreased by HK\$2,909,000 and the Group's retained profits at 1 January 2003 has been increased by HK\$2,519,000.

2. Segment information

Segment information is presented by way of two segment formats:

- (i) on a primary segment reporting basis, by business segment; and
- (ii) on a secondary segment reporting basis, by geographical segment.

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

- (a) the telecom products segment sources raw materials, manufactures and distributes mobile phones and provides technical and management services and software and hardware designs;
- (b) the baby care products segment manufactures and sells baby care products which was discontinued in March 2002; and
- (c) the corporate and other segment includes general corporate income and expense items.

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

Interim Results (cont'd)

2. Segment information (cont'd)

(a) Business segments

The following table presents revenue and profit information regarding the Group's business segments for the period ended 30 June 2003 and 2002.

Group	Telecom products		Baby care products (discontinued on 4 March 2002)		Corporate and others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	741,282	150,643	—	27,262	—	—	741,282	177,905
Other revenue from external sources	1,639	5,670	—	1,382	—	4,352	1,639	11,404
Total revenue	742,921	156,313	—	28,644	—	4,352	742,921	189,309
Segment results	(44,598)	33,649	—	1,252	(3,358)	(2,099)	(47,956)	32,802
Interest income							1,108	3,105
Amortisation of goodwill							(40,929)	(36,226)
Finance costs							(6,190)	(2,148)
Loss before tax							(93,967)	(2,467)
Tax							1,704	(670)
Loss before minority interests							(92,263)	(3,137)
Minority interests							7,721	—
Net loss from ordinary activities attributable to shareholders							(84,542)	(3,137)

2. Segment information (cont'd)

(b) Geographical segments

The following table presents revenue regarding the Group's geographical segments for the period ended 30 June 2003 and 2002.

	2003			2002		
	Sales	Others	Total	Sales	Others	Total
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Mainland of the PRC	530,520	1,417	531,937	75,193	246	75,439
Hong Kong	7,429	12	7,441	38,941	11,158	50,099
Europe	203,333	—	203,333	33,809	—	33,809
United States of America	—	—	—	26,659	—	26,659
Other and unallocated	—	210	210	3,303	—	3,303
Total revenue	741,282	1,639	742,921	177,905	11,404	189,309

3. Discontinued operation

On 4 March 2002, the Company disposed of its entire interest in Current Profits Limited, a wholly-owned subsidiary of the Company which engaged in the manufacture and sale of baby care products, to CCT Telecom for a total consideration of HK\$60 million, pursuant to an agreement entered into between the Company and CCT Telecom on 14 January 2002.

Interim Results (cont'd)

4. Depreciation and amortisation

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	12,189	739
Amortisation:		
— Patents and license	627	—
— Goodwill	40,929	36,226
	53,745	36,965

5. Tax

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Hong Kong profits tax	1,150	670
PRC income tax	1,656	—
Deferred tax	(4,510)	—
Tax charge/(credit) for the period	(1,704)	670

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, practices and interpretations in respect thereof.

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

No recognition of the potential deferred tax assets relating to tax losses of the Company and certain subsidiaries has been made as the recoverability of the potential deferred tax assets is uncertain.

6. Dividend

The directors do not recommend payment of an interim dividend for the six months period ended 30 June 2003 (30 June 2002: nil).

7. Loss per share

The calculation of the basic and diluted loss per share is based on the following data:

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the purposes of basic and diluted loss per share	(84,542)	(3,137)
	Number of shares (in thousand)	
Weighted average number of ordinary shares for the purpose of basic loss per share	9,962,329	8,908,390
Bonus issue of warrants	—	893,877
Effect of dilutive share options	361	3,733
Weighted average number of ordinary shares for the purpose of diluted loss per share	9,962,690	9,806,000

8. Fixed assets

The Group acquired fixed assets of HK\$85,357,000 (six months ended 30 June 2002: HK\$1,277,000) and did not dispose of any fixed assets (six months ended 30 June 2002: HK\$453,000) for the six months ended 30 June 2003.

Interim Results (cont'd)

9. Trade and bills receivables

The Group normally allows an average credit period of 1 to 3 months to its trade customers. The aged analysis of trade and bills receivables was as follows:

	30 June 2003 (Unaudited)		31 December 2002 (Audited)	
	HK\$'000	%	HK\$'000	%
Within 1 month	114,129	52	79,211	61
1 to 2 months	70,645	33	32,380	25
2 to 3 months	32,679	15	11,404	9
Over 3 months	—	—	6,619	5
Total	217,453	100	129,614	100

10. Trade and bills payables

The aged analysis of trade and bills payables was as follows:

	30 June 2003 (Unaudited)		31 December 2002 (Audited)	
	HK\$'000	%	HK\$'000	%
Within 1 month	225,723	87	240,286	98
1 to 2 months	30,448	11	—	—
2 to 3 months	3,221	1	—	—
Over 3 months	162	1	3,835	2
Total	259,554	100	244,121	100

11. Share capital

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Authorised: 20,000,000,000 shares of HK\$0.10 each	2,000,000	2,000,000
Issued and fully paid: 9,964,016,208 (31 December 2002: 9,962,291,000) shares of HK\$0.10 each	996,402	996,229

Movements in the issued and fully paid ordinary shares during the period were as follows:

	Carrying amount (Unaudited) HK\$'000	Number of shares
At 1 January 2003	996,229	9,962,291,000
Exercise of share options	173	1,725,000
Exercise of warrants	—	208
At 30 June 2003	996,402	9,964,016,208

12. Contingent liabilities

At 30 June 2003, the Group did not have any significant contingent liabilities (31 December 2002: nil).

Interim Results (cont'd)

13. Commitments

At 30 June 2003, the Group had the following capital commitments for the acquisition of fixed assets:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Contracted, but not provided for	95,421	47,575
Authorised, but not contracted for	20,901	185,209
	116,322	232,784

14. Pledge of assets

At 30 June 2003, none of the Group's assets nor time deposits were pledged (31 December 2002: nil).

15. Related party transactions

- (a) On 10 January 2003, the Company provided a letter of indemnity to Haier Group Corporation ("Haier"), a substantial shareholder which beneficially owned 29.9% of the Company, pursuant to which the Company agreed to guarantee and counter-indemnify Haier for a maximum amount of US\$45,150,000 (equivalent to approximately HK\$352 million), representing 64.5% of the guarantee amount of US\$70,000,000 (equivalent to approximately HK\$546 million) granted by Haier to the China Construction Bank, Qingdao High Technology Park Branch, as a security to banking facilities of Pegasus Qingdao, a 64.5% subsidiary of the Company. As at 30 June 2003, approximately HK\$283.1 million (31 December 2002: HK\$74.8 million) of the above banking facilities was utilised.

15. Related party transactions (cont'd)

- (b) On 15 May 2003, the Company entered into an agreement with Pegasus Qingdao and Qingdao Haier Investment Development Co., Limited ("Qingdao Haier"), a subsidiary of Haier. Pursuant to the agreement,
- (i) the Company shall establish a new wholly foreign owned enterprise ("Newco") in Qingdao, the PRC, with a total investment amount of RMB250 million and which shall be engaged in the manufacture of mobile phones;
 - (ii) the Company shall invest RMB250 million in Newco, which will be utilised for the building of a new mobile phone factory in Qingdao; and
 - (iii) the loan agreement entered into on 15 November 2002 between the Company, Pegasus Qingdao and Qingdao Haier has been terminated.
- (c) During the period, the Group had the following material transactions with Haier and/or its subsidiaries:

	<i>Notes</i>	For the six months ended 30 June 2003 (Unaudited) HK\$'000
Utility service fee expenses	(i)	1,939
Human resources service fee expenses	(i)	103
General security service fee expenses	(i)	210
Interest expenses	(ii)	1,668
Interest income	(ii)	27
Sales of mobile phones	(iii)	464,609
Purchase of materials	(iv)	61,466

15. Related party transactions (cont'd)

Notes:

- (i) The utility service fee expenses, human resources services fee expenses and general security service fee expenses were charged by Qingdao Haier Energy Power Co., Ltd. ("Haier Energy"), Qingdao Haier Human Resources Development Co., Ltd. ("Haier Human Resources") and Qingdao Haier Security Service Co., Ltd. ("Haier Security"), respectively, in accordance with the terms and conditions set out in the services agreement (the "Services Agreement") entered into between Pegasus Qingdao, Haier Energy, Haier Human Resources, Haier Security, Qingdao Haier Intellectual Property Legal Service Centre ("Haier Legal") and Haier Group Finance Co., Ltd. ("Haier Finance") on 10 January 2003. The utility service fees, human resources service fees and general security service fees were charged on actual cost basis.
 - (ii) The interest expenses were charged by and the interest income were received from Haier Finance in accordance with the terms and conditions set out in the Services Agreement. The interests were determined with reference to the standard rates published by the People's Bank of China.
 - (iii) The sales of mobile phones were made in accordance with the terms and conditions set out in the products distribution agreement entered into between Pegasus Qingdao and Qingdao Haier Telecommunications Co., Ltd. on 10 January 2003. The sales were determined based on the costs of the raw materials plus processing fee ranging between 5% to 40% of the purchase price of the materials.
 - (iv) The purchases of raw materials were made in accordance with the terms and conditions set out in the materials procurement agreement entered into between Pegasus Qingdao and Qingdao Haier International Trade Co., Ltd. and Qingdao Haier Materials Procurement Co., Ltd. on 10 January 2003. The purchases were determined based on the consolidated and integrated tender and bidding price plus 2.6% commission.
- (d) On 14 January 2002, the Company and CCT Telecom entered into a sale and purchase agreement pursuant to which CCT Telecom agreed to acquire from the Company the entire interest in Current Profits Limited, a then wholly-owned subsidiary of the Company, at a total purchase price of HK\$60,000,000. The purchase price was payable by CCT Telecom by way of a set-off against the entire amount of the HK\$60,000,000 loan note issued by the Company on 17 December 2001 to an indirect wholly-owned subsidiary of CCT Telecom. The transaction was completed on 4 March 2002. Current Profits Limited and its subsidiaries are engaged in the manufacture and sale of baby care products.

15. Related party transactions (cont'd)

- (e) During the six months ended 30 June 2002, Pegasus Qingdao and Coreland Limited ("Coreland") was a jointly-controlled entity and a subsidiary of CCT Telecom, respectively. The Group had the following material transactions with Pegasus Qingdao and Coreland during that period, and thus the transactions were classified as related party transactions. After the acquisition of controlling interests in Coreland and Pegasus Qingdao on 26 September 2002 and 2 October 2002 respectively, Coreland and Pegasus Qingdao became subsidiaries of the Company. Any transactions between the Group and Coreland and/or Pegasus Qingdao after the respective dates are eliminated on consolidation.

	<i>Notes</i>	For the six months ended 2002 (Unaudited) HK\$'000
Purchase of mobile phones	(i)	34,596
Sales of raw materials	(ii)	75,193
Technical and management service fee income	(iii)	30,000
Software and hardware design fee income	(iv)	2,255

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 HK, a subsidiary of the Company, 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%.

15. Related party transactions (cont'd)

- (iii) The technical and management service fee income from Coreland was charged in accordance with the terms and conditions set out in a technical service and management agreement and a supplemental agreement (collectively the "Management Agreements") entered into between Foreland Agents Limited (a subsidiary of the Company) and Coreland on 21 September 2000 and 27 August 2001, respectively.
- (iv) The software and hardware design fee income from Pegasus Qingdao was charged in accordance with the terms and conditions set out in the Sourcing Agreements, and at rates in the range of 2% to 10% of the retail prices of mobile phones produced by Pegasus Qingdao.

16. Comparative figures

As further explained in note 1 to the condensed consolidation financial statements, due to the adoption of the revised SSAP 12 during the period, the accounting treatment and presentation of certain items in the condensed financial statements have been revised to comply with the new requirements. Accordingly, a prior year adjustment has been made and certain comparative figures have been restated to conform with the current period's presentation.

Directors' interests

As at 30 June 2003, the directors and the chief executive of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

Interests and short positions in the shares, underlying shares and debentures of the Company

(i) Long position in the shares of the Company:

Name of director	Number of ordinary shares beneficially held and nature of interest			Approximate percentage of total shareholding (%)
	Personal	Family	Corporate	
Mak Shiu Tong Clement (<i>Note</i>)	20,574,412	1,150,391	85,494,864	1.08
Tam Ngai Hung Terry	10,000,000	—	—	0.10

Note: The family interest of Mr Mak Shiu Tong Clement in 1,150,391 shares in the Company was held by his wife, Ms Yiu Yu Ying, and the corporate interest of Mr Mak Shiu Tong Clement in 85,494,864 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 Part XV of the SFO.

Disclosure of Interests (cont'd)

Directors' interests (cont'd)

Interests and short positions in the shares, underlying shares and debentures of the Company (cont'd)

(ii) Long position in the underlying shares of equity derivatives of the Company:

Name of director	Amount of 2004 warrants* beneficially held and nature of interest			Number of total underlying shares	Approximate percentage of total shareholding (%)
	Personal HK\$	Family HK\$	Corporate HK\$		
Mak Shiu Tong Clement (Note)	1,069,869.32	59,820.28	4,444,651.64	10,719,887	0.11
Tam Ngai Hung Terry	520,000.00	—	—	1,000,000	0.01

* The 2004 warrants in the Company entitle the holders thereof to subscribe for its shares at a subscription price of HK\$0.52 per share, subject to adjustments, until 26 February 2004 (the "2004 Warrants").

Note: The family interest of Mr Mak Shiu Tong Clement in the 2004 Warrants in an aggregate amount of HK\$59,820.28 in the Company was held by his wife, Ms Yiu Yu Ying, and the corporate interest of Mr Mak Shiu Tong Clement in the 2004 Warrants in an aggregate amount of HK\$4,444,651.64 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 Part XV of the SFO.

Directors' interests (cont'd)

Interests and short positions in the shares, underlying shares and debentures of the Company (cont'd)

- (ii) Long position in the underlying shares of equity derivatives of the Company (cont'd):

Name of director	Date of grant of share options	Exercise period of share options	Share options in the Company		Number of total underlying shares	Approximate percentage of total shareholding (%)
			Exercise price per share	Number of share options outstanding		
			HK\$			
Mak Shiu Tong Clement	16/8/2002	16/8/2003 - 15/8/2007	0.156	89,000,000	89,000,000	0.89
Tam Ngai Hung Terry	16/8/2002	16/8/2003 - 15/8/2007	0.156	89,000,000	89,000,000	0.89
Wu Ke Song	19/11/2002	19/11/2003 - 18/11/2007	0.150	89,000,000	89,000,000	0.89
Chai Yong Sen	19/11/2002	19/11/2003 - 18/11/2007	0.150	89,000,000	89,000,000	0.89
Cui Shao Hua	19/11/2002	19/11/2003 - 18/11/2007	0.150	89,000,000	89,000,000	0.89
Liang Hai Shan	19/11/2002	19/11/2003 - 18/11/2007	0.150	89,000,000	89,000,000	0.89
Man Wei Dong	19/11/2002	19/11/2003 - 18/11/2007	0.150	89,000,000	89,000,000	0.89
Lam Kin Kau Mark	16/8/2002	16/8/2003 - 15/8/2007	0.156	5,000,000	5,000,000	0.05
Fung Hoi Wing Henry	16/8/2002	16/8/2003 - 15/8/2007	0.156	5,000,000	5,000,000	0.05

Save as disclosed above, as at 30 June 2003, none of the directors and the chief executive of the Company and/or any of their respective associates had any interest and short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

Disclosure of Interests (cont'd)

Substantial shareholders' interests

As at 30 June 2003, the following persons (other than the directors or the chief executive of the Company) had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

(i) Long position in the shares of the Company:

Name of shareholder	Notes	Number of ordinary shares held	Approximate percentage of total shareholding (%)
CCT Telecom Holdings Limited	(1)	4,346,772,486	43.62
Soaring Profit Holdings Limited	(2)	4,346,772,486	43.62
Info-net International Corp.		899,000,000	9.02
Greatway International Corp.		880,172,486	8.83
Clear Access Agents Limited		810,000,000	8.13
Super Control Investments Limited		733,600,000	7.36
Invest Paradise Group Limited		700,000,000	7.03
Haier Group Corporation	(3)	2,983,000,000	29.94
Qingdao Haier Collective Asset Management Association	(4)	2,983,000,000	29.94
Qingdao Haier Investment & Development Co. Limited	(5)	2,983,000,000	29.94
Qingdao Haier International Trading Co., Ltd.	(6)	1,960,000,000	19.67
Haier (Hong Kong) Company Limited	(7)	1,960,000,000	19.67
Orient Rich (H.K.) Limited		1,960,000,000	19.67

Notes:

- (1) The interest disclosed comprises 4,346,772,486 shares beneficially owned by Soaring Profit Holdings Limited through the subsidiaries as disclosed in note (2) below. Soaring Profit Holdings Limited is a wholly-owned subsidiary of CCT Telecom Holdings Limited ("CCT Telecom").

Substantial shareholders' interests (cont'd)

(i) Long position in the shares of the Company (cont'd):

Notes (cont'd):

- (2) The interest disclosed comprises 899,000,000 shares held by Info-net International Corp., 880,172,486 shares held by Greatway International Corp., 810,000,000 shares held by Clear Access Agents Limited, 733,600,000 shares held by Super Control Investments Limited, 700,000,000 shares held by Invest Paradise Group Limited and 324,000,000 shares held by Full Elite Assets Limited. Info-net International Corp., Greatway International Corp., Clear Access Agents Limited, Super Control Investments Limited, Invest Paradise Group Limited and Full Elite Assets Limited are wholly-owned subsidiaries of Soaring Profit Holdings Limited.
- (3) The interest disclosed comprises 2,983,000,000 shares beneficially owned by Qingdao Haier Collective Asset Management Association through the subsidiaries as disclosed in notes (4), (5), (6) and (7) below. Qingdao Haier Collective Asset Management Association is a wholly-owned subsidiary of Haier Group Corporation.
- (4) The interest disclosed comprises 2,983,000,000 shares beneficially owned by Qingdao Haier Investment & Development Co. Limited through the subsidiaries as disclosed in notes (5), (6) and (7) below. Qingdao Haier Investment & Development Co. Limited is a non wholly-owned subsidiary of Qingdao Haier Collective Asset Management Association.
- (5) The interest disclosed comprises 1,960,000,000 shares beneficially owned by Qingdao Haier International Trading Co., Ltd. through the subsidiaries as disclosed in notes (6) and (7) below and 1,023,000,000 shares held by Qingdao Haier Investment & Development Co. Limited. Qingdao Haier International Trading Co., Ltd. is a non wholly-owned subsidiary of Qingdao Haier Investment & Development Co. Limited.
- (6) The interest disclosed comprises 1,960,000,000 shares beneficially owned by Haier (Hong Kong) Company Limited through the subsidiary as disclosed in note (7) below. Haier (Hong Kong) Company Limited is a non wholly-owned subsidiary of Qingdao Haier International Trading Co., Ltd..
- (7) The interest disclosed comprises 1,960,000,000 shares held by Orient Rich (H.K.) Limited, which is a non wholly-owned subsidiary of Haier (Hong Kong) Company Limited.

Disclosure of Interests (cont'd)

Substantial shareholders' interests (cont'd)

(ii) Long position in the underlying shares of equity derivatives of the Company:

Name of holder of equity derivatives	Notes	Amount of the 2004 Warrants held HK\$	Number of total underlying shares	Approximate percentage of total shareholding (%)
CCT Telecom	(1)	238,512,168.96	458,677,248	4.60
Soaring Profit Holdings Limited	(2)	238,512,168.96	458,677,248	4.60
Info-net International Corp.		46,748,000.00	89,900,000	0.90
Greatway International Corp.		45,768,968.96	88,017,248	0.88
Clear Access Agents Limited		42,120,000.00	81,000,000	0.81
Super Control Investments Limited		38,147,200.00	73,360,000	0.74
Invest Paradise Group Limited		36,400,000.00	70,000,000	0.70
Haier Group Corporation	(3)	101,920,000.00	196,000,000	1.97
Qingdao Haier Collective Asset Management Association	(4)	101,920,000.00	196,000,000	1.97
Qingdao Haier Investment & Development Co. Limited	(5)	101,920,000.00	196,000,000	1.97
Qingdao Haier International Trading Co., Ltd.	(6)	101,920,000.00	196,000,000	1.97
Haier (Hong Kong) Company Limited	(7)	101,920,000.00	196,000,000	1.97
Orient Rich (H.K.) Limited		101,920,000.00	196,000,000	1.97

Notes:

- (1) The interest disclosed comprises 458,677,248 underlying shares beneficially owned by Soaring Profit Holdings Limited through the subsidiaries as disclosed in note (2) below. Soaring Profit Holdings Limited is a wholly-owned subsidiary of CCT Telecom.

Substantial shareholders' interests (cont'd)

- (ii) Long position in the underlying shares of equity derivatives of the Company (cont'd):

Notes (cont'd):

- (2) The interest disclosed comprises 89,900,000 underlying shares held by Info-net International Corp., 88,017,248 underlying shares held by Greatway International Corp., 81,000,000 underlying shares held by Clear Access Agents Limited, 73,360,000 underlying shares held by Super Control Investments Limited, 70,000,000 underlying shares held by Invest Paradise Group Limited and 56,400,000 underlying shares held by Full Elite Assets Limited. Info-net International Corp., Greatway International Corp., Clear Access Agents Limited, Super Control Investments Limited, Invest Paradise Group Limited and Full Elite Assets Limited are wholly-owned subsidiaries of Soaring Profit Holdings Limited.
- (3) The interest disclosed comprises 196,000,000 underlying shares beneficially owned by Qingdao Haier Collective Asset Management Association through the subsidiaries as disclosed in notes (4), (5), (6) and (7) below. Qingdao Haier Collective Asset Management Association is a wholly-owned subsidiary of Haier Group Corporation.
- (4) The interest disclosed comprises 196,000,000 underlying shares beneficially owned by Qingdao Haier Investment & Development Co. Limited through the subsidiaries as disclosed in notes (5), (6) and (7) below. Qingdao Haier Investment & Development Co. Limited is a non wholly-owned subsidiary of Qingdao Haier Collective Asset Management Association.
- (5) The interest disclosed comprises 196,000,000 underlying shares beneficially owned by Qingdao Haier International Trading Co., Ltd. through the subsidiaries as disclosed in notes (6) and (7) below. Qingdao Haier International Trading Co., Ltd. is a non wholly-owned subsidiary of Qingdao Haier Investment & Development Co. Limited.
- (6) The interest disclosed comprises 196,000,000 underlying shares beneficially owned by Haier (Hong Kong) Company Limited through the subsidiary as disclosed in note (7) below. Haier (Hong Kong) Company Limited is a non wholly-owned subsidiary of Qingdao Haier International Trading Co., Ltd..
- (7) The interest disclosed comprises 196,000,000 underlying shares held by Orient Rich (H.K.) Limited, which is a non wholly-owned subsidiary of Haier (Hong Kong) Company Limited.

Save as disclosed above, as at 30 June 2003, no other person (other than the directors or the chief executive of the Company) had an interest or a short position in the shares or underlying shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

Share Option Scheme

Share option scheme

On 28 February 2002, the share option scheme adopted by the Company on 24 November 1997 and subsequently amended on 4 December 1997 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted by the Company to comply with the new amendments to the 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 30 June 2003, there were 3,000,000 and 890,500,000 share options outstanding under the Old Share Option Scheme and the New Share Option Scheme respectively.

Details of the movements of share options under the Old Share Option Scheme during the period were as follows:

Name or category of participant	Number of share options				Outstanding as at 30 June 2003	Date of grant of share options (Note 1)	Exercise period of share options	Exercise price per share (Note 2)	Price of the shares of the Company at exercise date of share options (Note 3)
	Outstanding as at 1 January 2003	Granted during the period	Exercised during the period	Lapsed/Cancelled during the period					
Employees									
In aggregate	2,075,000	—	(1,075,000)	(1,000,000)	—	27/6/2001	29/12/2001 - 28/6/2003	0.170	0.289
	3,650,000	—	(650,000)	—	3,000,000	13/7/2001	13/1/2002 - 12/7/2003	0.190	0.282
	5,725,000	—	(1,725,000)	(1,000,000)	3,000,000				

Share option scheme (cont'd)

Details of the movements of share options under the Old Share Option Scheme during the period were as follows (cont'd):

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. The exercise price of the share options is subject to adjustment(s) in the case of rights or bonus share issues, or other similar changes in the share capital of the Company.
3. The price of the shares of the Company as at the date of exercise of the share options is the weighted average of the closing prices of the shares of the Company as listed on the Stock Exchange on the trading day immediately before the dates on which the share options were exercised.

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

Name or category of participant	Number of share options				Outstanding as at 30 June 2003	Date of grant of share options (Note 1)	Exercise period of share options	Exercise price per share (Note 2) HK\$
	Outstanding as at 1 January 2003	Granted during the period	Exercised during the period	Lapsed/Cancelled during the period				
Executive directors								
Mak Shiu Tong Clement	89,000,000	—	—	—	89,000,000	16/8/2002	16/8/2003 - 15/8/2007	0.156
Tam Ngai Hung Terry	89,000,000	—	—	—	89,000,000	16/8/2002	16/8/2003 - 15/8/2007	0.156
Wu Ke Song	89,000,000	—	—	—	89,000,000	19/11/2002	19/11/2003 - 18/11/2007	0.150
Chai Yong Sen	89,000,000	—	—	—	89,000,000	19/11/2002	19/11/2003 - 18/11/2007	0.150
Cui Shao Hua	89,000,000	—	—	—	89,000,000	19/11/2002	19/11/2003 - 18/11/2007	0.150
Liang Hai Shan	89,000,000	—	—	—	89,000,000	19/11/2002	19/11/2003 - 18/11/2007	0.150
Man Wei Dong	89,000,000	—	—	—	89,000,000	19/11/2002	19/11/2003 - 18/11/2007	0.150
	623,000,000	—	—	—	623,000,000			

Share Option Scheme (cont'd)

Share option scheme (cont'd)

Details of the movements of share options under the New Share Option Scheme during the period were as follows (cont'd):

Name or category of participant	Number of share options				Outstanding as at 30 June 2003	Date of grant of share options (Note 1)	Exercise period of share options	Exercise price per share (Note 2) HK\$
	Outstanding as at 1 January 2003	Granted during the period	Exercised during the period	Lapsed/ Cancelled during the period				
Independent non-executive directors								
Lam Kin Kau Mark	5,000,000	—	—	—	5,000,000	16/8/2002	16/8/2003 - 15/8/2007	0.156
Fung Hoi Wing Henry	5,000,000	—	—	—	5,000,000	16/8/2002	16/8/2003 - 15/8/2007	0.156
	10,000,000	—	—	—	10,000,000			
Other employees								
In aggregate	258,500,000 *	—	—	(1,000,000)	257,500,000*	16/8/2002	16/8/2003 - 15/8/2007	0.156
	258,500,000 *	—	—	(1,000,000)	257,500,000 *			
	891,500,000	—	—	(1,000,000)	890,500,000			

Notes:

- The vesting period of the share options is from the date of grant until the commencement of the exercise period.
 - The exercise price of the share options is subject to adjustment(s) in the case of rights or bonus share issues, or other similar changes in the share capital of the Company.
- * The balance includes 94,000,000 share options held by two former directors of the Company.

Share option scheme (cont'd)

The directors of the Company do not consider it appropriate to disclose a theoretical value of the share options granted during the period 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.



Other Information

Purchase, sale or redemption of the listed securities of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any securities (whether on the Stock Exchange or otherwise) of the Company during the six months ended 30 June 2003.

Audit committee

The audit committee had reviewed with the management the accounting principles and practices adopted by the Group and discussed financial and accounting matters including the review of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2003.

Compliance with the Code of Best Practice

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2003, in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules except that the independent non-executive directors of the Company are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation at an annual general meeting in accordance with the bye-laws of the Company.

By Order of the Board

Mak Shiu Tong, Clement

Chairman

Hong Kong, 19 September 2003