NOTES TO FINANCIAL STATEMENTS

31 December 2003

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 and health care products; and
- magazine publishing (disposed of during the year).

2. Impact of New and Revised Statements of Standard Accounting Practice ("SSAP") and Interpretations

The following new and revised SSAP and Interpretations are effective for the first time for the current year's financial statements and have had a significant impact thereon:

- SSAP 12 (Revised): "Income taxes"
- Interpretation 18: "Consolidation and equity method — Potential voting rights and allocation of ownership interests"
- Interpretation 20: "Income taxes — Recovery of revalued non-depreciable assets"

These SSAP and Interpretations 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 and Interpretations are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the 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; and

- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

2. Impact of New and Revised Statements of Standard Accounting Practice ("SSAP") and Interpretations *(Continued)*

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 31 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 31 to the financial statements.

Interpretation 18 requires consideration of the existence and effect of all potential voting rights that are presently exercisable or presently convertible in preparing consolidated financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment properties in the deferred tax calculated under SSAP 12.

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 2003. 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.

3. Summary of Significant Accounting Policies *(Continued)*

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;

(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.

3. Summary of Significant Accounting Policies *(Continued)*

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.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, 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 the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

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.

3. Summary of Significant Accounting Policies *(Continued)*

Impairment of assets *(Continued)*

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.

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% — 6%
Buildings	2.5% — 6%
Plant and machinery	10% — 30%
Tools, moulds and equipment	10% — 20%
Furniture and office equipment	10% — 20%
Motor vehicles	15% — 30%

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.

3. Summary of Significant Accounting Policies *(Continued)*

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.

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.

3. Summary of Significant Accounting Policies *(Continued)*

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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

3. Summary of Significant Accounting Policies *(Continued)*

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.

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 schemes are not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

3. Summary of Significant Accounting Policies *(Continued)*

Employee benefits *(Continued)*

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

In addition to the MPF Scheme, the Group operates a 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.

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 ruling 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 ruling 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.

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.

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.

3. Summary of Significant Accounting Policies *(Continued)*

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) circulation income, when the magazines are delivered;

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

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

(e) 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 or capital reserve 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, accessories and components;

4. Segment Information *(Continued)*

(b) the baby and health care products segment engages in the manufacture and sale of baby and health care products; and

(c) the corporate and others segment comprises corporate income and expense items and the publishing of magazines.

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/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Telecom products		Baby and health care products		Corporate and others		Eliminations		Consolidated	
HK$'million	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002 (Restated)
Segment revenue:										
Sales to external customers	3,224	2,864	157	166	52	85	—	—	3,433	3,115
Other revenue	—	—	—	—	32	41	—	—	32	41
Total revenue	3,224	2,864	157	166	84	126	—	—	3,465	3,156
Segment results	215	167	19	6	(86)	(847)	—	—	148	(674)
Interest income									8	15
Unallocated revenue									5	599
Unallocated expenses									(12)	(141)
Profit/(loss) from operating activities									149	(201)
Finance costs									(8)	(27)
Share of profits and losses of:										
Jointly-controlled entities	—	—	—	—	—	5			—	5
Associates	—	—	—	—	(200)	(33)			(200)	(33)
Loss before tax									(59)	(256)
Tax									(12)	(9)
Loss before minority interests									(71)	(265)
Minority interests									(47)	6
Net loss from ordinary activities attributable to shareholders									(118)	(259)

4. Segment Information *(Continued)*

(a) Business segments *(Continued)*

Group

HK$'million	Telecom products 2003	Telecom products 2002	Baby and health care products 2003	Baby and health care products 2002	Corporate and others 2003	Corporate and others 2002	Eliminations 2003	Eliminations 2002	Consolidated 2003	Consolidated 2002 (Restated)
Segment assets	2,335	2,847	98	87	5,500	5,657	(4,499)	(5,454)	3,434	3,137
Interests in associates	—	—	—	—	297	496	—	—	297	496
Unallocated assets									9	3
Total assets									3,740	3,636
Segment liabilities	2,190	2,621	37	24	3,311	3,581	(4,499)	(5,454)	1,039	772
Unallocated liabilities									305	409
Total liabilities									1,344	1,181
Other segment information:										
Capital expenditure	149	153	6	5	137	34	—	—	292	192
Depreciation	92	84	3	2	27	36	—	—	122	122
Amortisation	30	31	—	—	1	16	—	—	31	47
Impairment losses recognised directly in the profit and loss account	—	—	—	2	2	316	—	—	2	318
Other non-cash expenses	42	56	—	—	16	528	—	—	58	584

4. Segment Information *(Continued)*

(b) Geographical segments

The following table presents revenue information for the Group's geographical segments. Over 90% of the Group's assets are located in the People's Republic of China (the "PRC") including Hong Kong. Accordingly, no analysis of assets and capital expenditures by geographical segments is presented.

Group

	United States of America		PRC, including HK		European Union		Others		Consolidated	
HK$'million	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Segment revenue:										
Sales to external customers	2,222	2,198	637	447	119	155	455	315	3,433	3,115
Other revenue	—	—	32	41	—	—	—	—	32	41
Total revenue	2,222	2,198	669	488	119	155	455	315	3,465	3,156

5. Turnover

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

Revenue from the following activities has been included in turnover:

HK$'million	2003	2002
Manufacture and sale of telecom products and accessories	3,224	2,864
Trading of telecom and network equipment and provision of related consultancy services	—	2
Manufacture and sale of baby and health care products	157	166
Provision of multimedia content and services, and magazine publishing	52	83
Interest income	8	15
	3,441	3,130

6. Profit/(Loss) from Operating Activities

The Group's profit/(loss) from operating activities is arrived at after charging:

		Group	
HK$'million	*Notes*	2003	2002
Depreciation	*14*	122	122
Minimum lease payments under operating leases			
in respect of land and buildings		5	15
Research and development costs:			
Deferred expenditure amortised*	*15*	30	31
Current year expenditure	*15*	47	60
Amortisation of goodwill**	*16*	1	16
Auditors' remuneration		5	5
Staff costs (excluding directors' remuneration			
— note 8)***			
Wages and salaries		275	252
Pension scheme contributions		5	9
Bad and doubtful debt provisions on trade receivables		—	2
Bad and doubtful debt provisions on other receivables		—	2
Loss on disposal of fixed assets, net		1	9
Write off of fixed assets		18	—
Write off of deferred development costs **	*15*	15	41
Provision for slow-moving and obsolete stocks *		8	6
Impairment of other assets		—	2
and after crediting:			
Gross rental income from investment properties		1	3

* The amortisation of deferred development costs and the 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	2003	2002
Interest on bank loans and overdrafts		
wholly repayable within five years	3	15
Interest on bank loans repayable after five years	4	3
Interest on convertible notes	1	8
Interest on finance leases	—	1
	8	27

8. Directors' Remuneration

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

	Group	
HK$'million	2003	2002
Fees:		
Executive directors	—	—
Independent non-executive directors	—	—
	—	—
Executive directors' other emoluments:		
Salaries, allowances and benefits in kind	14	18
Performance related bonuses	12	8
Pension scheme contributions	1	1
	27	27

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

	Number of directors	
	2003	2002
Nil — HK$1,000,000	4	5
HK$2,500,001 — HK$3,000,000	—	1
HK$3,500,001 — HK$4,000,000	1	—
HK$6,000,001 — HK$6,500,000	—	1
HK$6,500,001 — HK$7,000,000	1	—
HK$17,000,001 — HK$17,500,000	1	—
HK$17,500,001 — HK$18,000,000	—	1
	7	8

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

During the year, 10,500,000 share options were granted to the directors in respect of their services to the Group, and the details of which are set out in note 33 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

9. Five Highest Paid Employees

The five highest paid employees during the year included three (2002: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2002: two) non-director, highest paid employees for the year are as follows:

	Group	
HK$'million	2003	2002
Salaries, allowances and benefits in kind	6	6
Performance related bonuses	2	2
Pension scheme contributions	—	—
	8	8

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

	Number of employees	
	2003	2002
HK$3,000,001 — HK$3,500,000	1	—
HK$3,500,001 — HK$4,000,000	—	1
HK$4,000,001 — HK$4,500,000	1	—
HK$4,500,001 — HK$5,000,000	—	1
	2	2

During the year, 1,000,000 share options were granted to a non-director, highest paid employee in respect of his service to the Group, further details of which are included in the disclosures in note 33 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise, included in the above non-director, highest paid employees' remuneration disclosures.

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 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. 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.

10. Tax *(Continued)*

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	2003	2002 (Restated)
Group:		
Current — Hong Kong:		
Charge for the year	14	8
Overprovision in prior years	—	(1)
Current — Elsewhere	5	—
Deferred — *note 31*	(6)	2
	13	9
Share of tax attributable to associates	(1)	—
Total tax charge for the year	12	9

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and its subsidiaries and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group — 2003

HK$'million	Hong Kong	%	Mainland China	%	Total	%
Profit/(loss) before tax	(290)		231		(59)	
Tax at the statutory or applicable tax rate	(51)	17.5	55	24.0	4	(6.8)
Income not subject to tax	(3)	1.0	(48)	(20.8)	(51)	86.5
Expenses not deductible for tax	57	(19.6)	5	2.1	62	(105.1)
Tax losses recognised as deferred tax assets	(6)	2.1	—	—	(6)	10.2
Tax losses not recognised	11	(3.8)	—	—	11	(18.6)
Tax exemption	—	—	(8)	(3.6)	(8)	13.5
Tax charge at the Group's effective rate	8	(2.8)	4	1.7	12	(20.3)

10. Tax *(Continued)*

Group — 2002

HK$'million	Hong Kong	%	Mainland China	%	Total	%
Profit/(loss) before tax	(347)		91		(256)	
Tax at the statutory or applicable tax rate	(56)	16.0	22	24.0	(34)	13.3
Adjustment in respect of current tax of previous periods	(1)	0.3	—	—	(1)	0.4
Income not subject to tax	(101)	29.1	—	—	(101)	39.5
Expenses not deductible for tax	157	(45.1)	7	7.7	164	(64.1)
Tax losses not recognised	10	(2.9)	—	—	10	(3.9)
Tax exemption	—	—	(29)	(31.7)	(29)	11.3
Tax charge at the Group's effective rate	9	(2.6)	—	—	9	(3.5)

11. Net Loss From Ordinary Activities Attributable to Shareholders

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was approximately HK$195 million (2002: net profit of HK$1 million). The Group's share of the profits and losses for the year retained by the associates amounted to losses of HK$200 million (2002: HK$33 million).

12. Dividends

HK$'million	2003	2002
Interim — HK$0.015 (2002: HK$0.01) per ordinary share	6	4
Proposed final — HK$0.015 (2002: HK$0.02) per ordinary share	6	8
	12	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$118 million (2002 (restated): HK$259 million), and the weighted average number of 422,105,230 (2002: 422,105,230) ordinary shares in issue during the year.

13. Loss Per Share *(Continued)*

The diluted loss per share amount for the year ended 31 December 2003 is not shown as the potential ordinary shares outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

The diluted loss per share amount for the year ended 31 December 2002 is not shown as the potential ordinary shares outstanding during that year had no dilution effect on the basic loss per share for that year.

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 2003	13	1,459	259	100	113	17	—	1,961
Additions	—	12	48	26	18	5	136	245
Acquisition of subsidiaries	—	—	—	—	1	—	—	1
Disposals	(3)	(8)	—	—	(1)	(3)	—	(15)
Write off	—	(19)	—	—	—	—	—	(19)
Disposal of subsidiaries	—	—	—	—	(10)	—	—	(10)
Reclassification	—	(2)	—	—	2	—	—	—
Deficit on revaluation	(3)	—	—	—	—	—	—	(3)
Transfers	—	136	—	—	—	—	(136)	—
At 31 December 2003	7	1,578	307	126	123	19	—	2,160
Analysis of cost or valuation:								
At cost	—	1,578	307	126	123	19	—	2,153
At 31 December 2003 valuation	7	—	—	—	—	—	—	7
	7	1,578	307	126	123	19	—	2,160
Accumulated depreciation and impairment:								
At 1 January 2003	—	298	124	56	62	9	—	549
Depreciation provided during the year	—	49	38	16	16	3	—	122
Impairment during the year recognised in the profit and loss account	—	2	—	—	—	—	—	2
Disposals	—	(3)	—	—	(1)	(1)	—	(5)
Write off	—	(1)	—	—	—	—	—	(1)
Disposal of subsidiaries	—	—	—	—	(4)	—	—	(4)
At 31 December 2003	—	345	162	72	73	11	—	663
Net book value:								
At 31 December 2003	7	1,233	145	54	50	8	—	1,497
At 31 December 2002	13	1,161	135	44	51	8	—	1,412

14. Fixed Assets *(Continued)*

Company

HK$'million	Furniture and office equipment
Cost:	
Transfer from subsidiaries and at 31 December 2003	1
Accumulated depreciation:	
Depreciation provided during the year and at 31 December 2003	—
Net book value:	
At 31 December 2003	1

The net book value of the fixed assets of the Group held and under finance leases included in the total amounts of tools, moulds and equipment and motor vehicles as at 31 December 2003, amounted to approximately HK$1,600,000 (2002: HK$3,800,000) and HK$1,900,000 (2002: HK$2,600,000), respectively.

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

HK$'million	Hong Kong	Elsewhere	Total
Long term leases	194	—	194
Medium term leases	63	976	1,039
	257	976	1,233

The Group's investment properties are situated in Hong Kong and held under long term leases.

The Group's investment properties were revalued on 31 December 2003 by E. N. Surveyors & Co., independent professionally qualified valuers, on an open market, existing use basis.

15. Intangible Assets

Group

HK$'million	Deferred development costs	Publishing rights	Total
Cost:			
At 1 January 2003	76	2	78
Additions	47	—	47
Write off	(38)	—	(38)
Disposal of subsidiaries	—	(2)	(2)
At 31 December 2003	85	—	85
Accumulated amortisation:			
At 1 January 2003	55	—	55
Amortisation provided during the year	30	—	30
Write back	(23)	—	(23)
At 31 December 2003	62	—	62
Net book value:			
At 31 December 2003	23	—	23
At 31 December 2002	21	2	23

16. Goodwill

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

Group

HK$'million	
Cost:	
At 1 January 2003	41
Acquisition of subsidiaries	11
Deemed disposal/disposal of subsidiaries	(25)
At 31 December 2003	27
Accumulated amortisation:	
At 1 January 2003	2
Amortisation provided during the year	1
Deemed disposal/disposal of subsidiaries	(2)
At 31 December 2003	1
Net book value:	
At 31 December 2003	26
At 31 December 2002	39

16. Goodwill *(Continued)*

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

The net amount of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was approximately HK$103,000,000 as at 1 January 2003 and 31 December 2003. The net amount of goodwill is stated at its cost of HK$783,000,000, less cumulative impairment of approximately HK$680,000,000 which arose in prior years.

17. Interests in Subsidiaries

	Company	
HK$'million	2003	2002
Unlisted shares, at cost	424	—
Due from subsidiaries	4,118	4,477
Due to subsidiaries	(600)	(600)
	3,942	3,877
Provision for impairment	(2,102)	(1,898)
	1,840	1,979

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	—	34.25#	Trading of telecom products
CCT Telecom (HK) Limited	Hong Kong	HK$2,600,000 Ordinary	—	34.25#	Sourcing of telecom products
CCT Tech International Limited ("CCT Tech")@	Bermuda/ Hong Kong	HK$131,384,226 Ordinary	—	34.25#	Investment holding

17. Interests in Subsidiaries *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Electronic Sales Limited	Hong Kong	HK$5,948,000 Ordinary	—	34.25#	Sale of telecom products
Full Triumph International Limited	British Virgin Islands/ Hong Kong	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
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^	—	34.25#	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
Innovative Industrial Limited~	Hong Kong	HK$1,000,000 Ordinary	—	60	Sale of soft toys
Pollister Limited~	British Virgin Islands	US$10,000 Ordinary	—	60	Investment holding

17. Interests in Subsidiaries *(Continued)*

* 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.

@ Listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

~ Acquired during the year.

^ Registered as a wholly foreign-owned enterprise under the PRC laws.

These companies are accounted for as subsidiaries by virtue of the Company's control over them.

During the year, the Group acquired Pollister Limited and Innovative Industrial Limited. Further details of the acquisitions are included in note 35(c) 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 Associates

	Group	
HK$'million	2003	2002
Share of net assets	543	917
Unrealised profits arising from the disposal of subsidiaries *(Note)*	(246)	(421)
	297	496

Note: These unrealised profits arose from the Group's disposal of certain subsidiary companies to an associate at a gain in the prior year. The attributable amount of unrealised profits is released to the consolidated profit and loss account to the extent that the corresponding goodwill recorded by the associate is amortised or impaired.

Particulars of the associate, 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 2003	2002	Principal activities
Haier-CCT Holdings Limited ("Haier-CCT")*	Corporate	Bermuda/ Hong Kong	HK$996,401,657 Ordinary	43.6	43.6	Investment holding

* Listed on the Stock Exchange.

18. Interests in Associates *(Continued)*

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 to as the "Haier-CCT Group") and their respective results are set out below:

	As at 31 December 2003 *HK$'million*	As at 31 December 2002 *HK$'million* (Restated)
Non-current assets	1,144	1,791
Current assets	1,197	832
Current liabilities	(1,019)	(438)
Minority interests	(76)	(83)
	1,246	2,102

	Year ended 31 December 2003 *HK$'million*	Year ended 31 December 2002 *HK$'million* (Restated)
Turnover	1,665	500
Loss before tax	(866)	(73)
Tax	2	1
Loss before minority interests	(864)	(72)
Minority interests	8	6
Net loss from ordinary activities attributable to shareholders	(856)	(66)

The above amounts are extracted from the published audited financial statements of Haier-CCT for the year ended 31 December 2003.

19. Other Assets

	Group	
HK$'million	2003	2002
Club memberships, at cost	14	14
Provision for impairment	(2)	(2)
	12	12

20. Investments

	Group		Company	
HK$'million	2003	2002	2003	2002
Long term investments				
Unlisted equity investments, at cost	317	317	—	—
Provision for impairment	(313)	(313)	—	—
	4	4	—	—
Short term investments				
Listed equity investments, at market value:				
Hong Kong	3	4	—	—
Elsewhere	—	11	—	11
	3	15	—	11

As at 31 December 2003, 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	32.1
		GBP31,474,000 Preference	

* Listed on the Growth Enterprise Market of the Stock Exchange.

21. Inventories

	Group	
HK$'million	2003	2002
Raw materials	45	41
Work in progress	47	34
Finished goods	86	47
	178	122

21. Inventories *(Continued)*

The carrying amount of inventories carried at net realisable value included in the above balance was nil (2002: Nil) as at the balance sheet date.

22. Trade and Bills Receivables

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

	Group			
	2003		2002	
HK$'million	Balance	Percentage	Balance	Percentage
Current to 30 days	274	42	212	40
31 to 60 days	199	30	162	30
61 to 90 days	164	25	140	26
Over 90 days	18	3	24	4
	655	100	538	100

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

23. Prepayments, Deposits and Other Receivables

	Group		Company	
HK$'million	2003	2002	2003	2002
Prepayments	36	42	—	—
Deposits and other receivables	27	64	3	1
	63	106	3	1

24. Cash and Cash Equivalents and Pledged Time Deposits

	Group		Company	
HK$'million	2003	2002	2003	2002
Cash and bank balances	379	196	18	7
Time deposits	594	670	361	438
	973	866	379	445
Less: Time deposits pledged for bank borrowings	(100)	(83)	—	(17)
	873	783	379	428

24. Cash and Cash Equivalents and Pledged Time Deposits *(Continued)*

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$13 million (2002: HK$20 million). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. Trade and Bills Payables

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

	Group			
	2003		2002	
HK$'million	Balance	Percentage	Balance	Percentage
Current to 30 days	212	25	198	32
31 to 60 days	227	27	114	19
61 to 90 days	164	20	113	19
Over 90 days	238	28	180	30
	841	100	605	100

26. Other Payables and Accruals

	Group		Company	
HK$'million	2003	2002	2003	2002
Other payables	67	62	—	5
Accruals	131	105	5	4
	198	167	5	9

27. Interest-Bearing Bank and Other Borrowings

		Group	
HK$'million	*Notes*	2003	2002
Bank overdrafts — secured		—	2
Current portion of bank loans		129	200
	28	129	202
Current portion of finance lease payables	*29*	1	3
		130	205

28. Interest-Bearing Bank Loans And Overdrafts

	Group	
HK$'million	2003	2002
Bank overdrafts:		
Secured	—	2
Bank loans:		
Secured	253	361
	253	363
Bank overdrafts repayable within one year or on demand	—	2
Bank loans repayable:		
Within one year or on demand	129	200
In the second year	18	37
In the third to fifth years, inclusive	44	47
Beyond five years	62	77
	253	361
	253	363
Portion classified as current liabilities — *note 27*	(129)	(202)
Non-current portion	124	161

29. Finance Lease Payables

The Group leases certain of its tools, moulds and equipment and 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 total future minimum lease payments under finance leases and their present value were as follows:

Group

HK$'million	Minimum lease payments 2003	Minimum lease payments 2002	Present value of minimum lease payments 2003	Present value of minimum lease payments 2002
Amounts payable:				
Within one year	1	3	1	3
In the second year	1	3	1	2
Total minimum finance lease payments	2	6	2	5
Future finance charges	—	(1)		
Total net finance lease payables	2	5		
Portion classified as current liabilities — *note 27*	(1)	(3)		
Non-current portion	1	2		

30. Convertible Notes

HK$'million	Group 2003	2002
2004 Convertible notes — *note (a)*	8	20
2005 Convertible notes — *note (b)*	10	—
	18	20
Portion classified as current liabilities	(8)	—
Non-current portion	10	20

30. Convertible Notes *(Continued)*

(a) On 19 July 2002, CCT Technology Holdings Limited, an indirect non-wholly owned subsidiary of the Company, issued convertible notes with aggregate principal amounts of HK$20 million to an independent third party and which were subsequently replaced by the convertible notes in the same amount issued by CCT Tech on 4 November 2002. The convertible notes provide the holder the option right to convert the principal amount into ordinary shares of CCT Tech of HK$0.01 each on any business day being five business days prior to the maturity of the convertible notes at a conversion price of HK$0.01 per share.

The principal amounts of the convertible notes bear interest at 5% per annum and the convertible notes will mature on the second anniversary of the date of their issue.

In June 2003, a principal amount of HK$12 million convertible notes were converted into 1,200,000,000 shares of CCT Tech of HK$0.01 each at conversion price of HK$0.01 per share.

(b) On 14 May 2003, CCT Tech issued convertible notes with aggregate principal amounts of HK$21 million through a placing agent to several independent places. The convertible notes provide the holders option right to covert the principal amount into ordinary shares of CCT Tech at HK$0.01 each on any business day being five business days prior to the maturity of the convertible notes at a conversion price of HK$0.01 per share.

The principal amounts of the convertible notes bear interest at 2% per annum and the convertible notes will mature on the second anniversary of the date of their issue.

In June 2003, a principal amount of HK$11 million convertible notes were converted into 1,100,000,000 shares of CCT Tech of HK$0.01 each at a conversion price of HK$0.01 per share.

31. Deferred Tax

The movement in deferred tax liabilities and assets during the year is as follows:

Deferred tax liabilities

Group

HK$'million	2003 Accelerated tax depreciation
At 1 January 2003	
As previously reported	3
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	4
As restated	7
Deferred tax charged to the profit and loss account during the year — *note 10*	—
Gross deferred tax liabilities at 31 December 2003	7

31. Deferred Tax *(Continued)*

Deferred tax assets

Group

HK$'million	2003 Losses available for offset against future taxable profit
At 1 January 2003	
As previously reported	—
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	3
As restated	3
Deferred tax credited to the profit and loss account during the year — *note 10*	6
Gross deferred tax assets at 31 December 2003	9
Net deferred tax assets at 31 December 2003	2

Deferred tax liabilities

Group

HK$'million	2002 Accelerated tax depreciation
At 1 January 2002	
As previously reported	3
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	4
As restated	7
Deferred tax charged to the profit and loss account during the year — *note 10*	—
Gross deferred tax liabilities at 31 December 2002	7

31. Deferred Tax *(Continued)*

Deferred tax assets

Group

HK$'million	2002 Losses available for offset against future taxable profit
At 1 January 2002	
As previously reported	—
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	5
As restated	5
Deferred tax charged to the profit and loss account during the year — *note 10*	(2)
Gross deferred tax assets at 31 December 2002	3
Net deferred tax liabilities at 31 December 2002	4

The Group has tax losses arising in Hong Kong of HK$281 million (2002: HK$313 million) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax assets as at 31 December 2003 and 2002 by HK$9 million and HK$3 million, respectively and an increase in the Group's deferred tax liabilities as at 31 December 2003 and 2002 by HK$4 million and HK$4 million, respectively. As a consequence, the consolidated net losses attributable to shareholders for the years ended 31 December 2003 and 2002 have been decreased and increased by HK$6 million and HK$2 million, respectively, and the consolidated retained profits at 1 January 2003 and accumulated losses at 1 January 2002 have been decreased by HK$1 million and HK$1 million, respectively, as detailed in the consolidated statement of changes in equity.

32. Share Capital

Shares

HK$'million	Company 2003	2002
Authorised:		
2,000,000,000 (2002: 2,000,000,000) ordinary shares of HK$0.10 (2002: HK$0.10) each	200	200
Issued and fully paid:		
422,105,230 (2002: 422,105,230) ordinary shares of HK$0.10 (2002: HK$0.10) each	42	42

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

	Number of ordinary shares of HK$0.10 each *(in millions)*	Issued share capital *HK$'million*
At 1 January 2002	422	2,110
Capital reduction *(Note)*	—	(2,068)
As 31 December 2002 and 2003	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 the capital reserve of the Company.

The 377,894,770 unissued ordinary shares 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.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

33. Share Option Scheme

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 on 28 February 2002 to comply with the new amendments to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in respect of the share option schemes of a listed company. As a result, the Company may no longer grant any further shares options under the Old Share Option Scheme. However, all shares options granted prior to the termination of the Old Share Option Scheme will remain in full force and effect. Unless otherwise cancelled or amended, the New Share Option Scheme will remain in force for 10 years from the date of the adoption. As at 31 December 2003, there were 42,200,000 share options outstanding under the New Share Option Scheme and there were no outstanding share options under the Old Share Option Scheme. Based on these outstanding share options, the total number of shares available for issue is 42,200,000, which represents approximately 10% of the existing issued share capital of the Company as at the date of this report.

The purpose of the New Share Option Scheme is to provide incentives and rewards to the eligible participants who contribute to the success of the Group's operation. Eligible participants of the New Share Option Scheme include any employee, executive or officer of the Group (including executive and non-executive directors of the Group) and any supplier, consultant, agent, adviser, shareholder, customer, partner or business associate who, at the sole discretion of the board of directors of the Company (the "Board"), has contributed to the Group.

Pursuant to the New Share Option Scheme, the maximum number of shares in respect of which share 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 share options granted under the New Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding share options) to each eligible participant in any 12-month period is limited to 1% of the shares of the Company in issue as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the shareholders' approval of the Company at a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to the approval in advance by the independent non-executive directors of the Company, excluding the independent non-executive director(s) of the Company who is/are the grantee(s) of the share options. In addition, any share option granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue as at the date of grant or with an aggregate value (based on the closing price of the Company's shares as at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to the issue of a circular by the Company and the shareholders' approval of the Company in advance at a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options or the expiry date of the New Share Option Scheme, whichever is earlier.

33. Share Option Scheme *(Continued)*

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

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

	Number of share options							
Name or category of participant	Outstanding as at 1 January 2003	Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year	Outstanding as at 31 December 2003	Date of grant of share options *(Note 1)*	Exercise period of share options	Exercise price per share *(Note 2)* HK$
Executive directors								
Mak Shiu Tong, Clement	5,000,000	—	—	(5,000,000)	—	13/8/2001	16/8/2001 — 15/8/2003	2.936
Cheng Yuk Ching, Flora	1,250,000	—	—	(1,250,000)	—	13/8/2001	16/8/2001 — 15/8/2003	2.936
Tam Ngai Hung, Terry	750,000	—	—	(750,000)	—	11/6/2001	13/6/2001 — 12/6/2003	3.732
	1,250,000	—	—	(1,250,000)	—	13/8/2001	16/8/2001 — 15/8/2003	2.936
	8,250,000	—	—	(8,250,000)	—			
Other employees								
In aggregate	625,000	—	—	(625,000)	—	27/6/2001	29/12/2001 — 28/6/2003	3.553
	250,000	—	—	(250,000)	—	30/6/2001	30/6/2001 — 30/12/2003	3.533
	750,000	—	—	(750,000)	—	8/8/2001	8/2/2002 — 7/8/2003	3.085
	3,975,000	—	—	(3,975,000)	—	13/8/2001	16/2/2002 — 15/8/2003	2.936
	5,600,000	—	—	(5,600,000)	—			
	13,850,000	—	—	(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 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.

33. Share Option Scheme *(Continued)*

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

Name or category of participant	Number of share options: Outstanding as at 1 January 2003	Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year	Outstanding as at 31 December 2003	Date of grant of share options	Exercise period of share options	Exercise price per share *(Note 1)* *HK$*	Price of the shares of the Company at grant date of share options *(Note 2)* *HK$*
Executive directors									
Mak Shiu Tong, Clement	—	420,000	—	—	420,000	17/3/2003	17/3/2003 — 16/3/2008	0.750	0.760
Cheng Yuk Ching, Flora	—	4,200,000	—	—	4,200,000	17/3/2003	17/3/2003 — 16/3/2008	0.750	0.760
Tam Ngai Hung, Terry	—	4,200,000	—	—	4,200,000	17/3/2003	17/3/2003 — 16/3/2008	0.750	0.760
William Donald Putt	—	420,000	—	—	420,000	17/3/2003	17/3/2003 — 16/3/2008	0.750	0.760
	—	9,240,000	—	—	9,240,000				
Independent non-executive directors									
Samuel Olenick	—	420,000	—	—	420,000	17/3/2003	17/3/2003 — 16/3/2008	0.750	0.760
Tam King Ching, Kenny	—	420,000	—	—	420,000	17/3/2003	17/3/2003 — 16/3/2008	0.750	0.760
Lau Ho Man, Edward	—	420,000	—	—	420,000	17/3/2003	17/3/2003 — 16/3/2008	0.750	0.760
	—	1,260,000	—	—	1,260,000				
Other employees									
In aggregate	—	31,700,000	—	—	31,700,000	17/3/2003	17/3/2003 — 16/3/2008	0.750	0.760
	—	31,700,000	—	—	31,700,000				
	—	42,200,000	—	—	42,200,000				

Notes:

1. 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.

2. The price of the shares of the Company as at the date of grant of the share options is the closing price of the shares of the Company as listed on the Stock Exchange on the trading day immediately before the date on which the share options were granted.

33. Share Option Scheme *(Continued)*

The financial impact of the share options granted is not recorded in the balance sheet of the Company or the Group until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding share options.

The directors of the Company do not consider it appropriate to disclose a theoretical value of the share options granted to the directors and the employees of the Company during the year because a number of factors crucial for the valuation cannot be determined. Accordingly, any valuation of the share options based on various speculative assumptions would not be meaningful, but would be misleading to the shareholders of the Company.

34. 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 38 of the financial statements.

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

The Group's capital reserve was created from the reduction of share capital on 8 April 2002. Further details are set out in note 32 to the financial statements.

(b) Company

HK$'million	*Note*	Share premium account	Capital reserve	Retained profits/ (accumulated losses)	Total
Balance at 1 January 2002		2,069	—	(1,749)	320
Capital reduction	*32*	—	1,134	934	2,068
Transfer to accumulated losses		(815)	—	815	—
Profit for the year		—	—	1	1
2002 interim dividend		(4)	—	—	(4)
Proposed 2002 final dividend		—	(8)	—	(8)
At 31 December 2002 and beginning of year		1,250	1,126	1	2,377
Loss for the year		—	—	(195)	(195)
2003 interim dividend		—	(6)	—	(6)
Proposed 2003 final dividend		—	(6)	—	(6)
At 31 December 2003		1,250	1,114	(194)	2,170

34. Reserves *(Continued)*

(b) Company *(Continued)*

Note:

Under the Companies Law (2002 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 and when 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 and capital reserve of the Company. As at 31 December 2003, the Company had a net credit balance of approximately HK$2,176 million (2002: HK$2,385 million) maintained in the reserve accounts which is available for distribution.

The Company's capital reserve was created from the reduction of share capital on 8 April 2002. Further details are set out in note 32 to the financial statements.

35. Notes to the Consolidated Cash Flow Statement

(a) 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$1 million (2002: HK$2 million).

(b) Disposal/deemed disposal of subsidiaries

HK$'million	2003	2002
Net assets disposed of:		
Fixed assets	6	22
Intangible assets	2	—
Interests in jointly-controlled entities	—	124
Interests in associates	—	61
Goodwill	—	359
Cash and bank balances	2	305
Trade and bills receivables	10	13
Inventories	—	30
Prepayments, deposits and other receivables	2	117
Trade and bills payables	(11)	(58)
Other payables and accruals	(4)	(127)
Finance lease payables	—	(1)
Tax payable	—	(1)
Minority interests	(4)	(810)
	3	34
Reclassification to interests in associates	—	(597)
Reversal of goodwill upon disposal/deemed disposal of subsidiaries	23	21
Net gains/(losses) on disposal/deemed disposal of subsidiaries	(12)	599
	14	57
Satisfied by:		
Cash	1	57
Other receivables	13	—
	14	57

35. Notes to the Consolidated Cash Flow Statement *(Continued)*

(b) Disposal/deemed disposal of subsidiaries *(Continued)*

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

HK$'million	2003	2002
Cash consideration	1	57
Cash and bank balances disposed of	(2)	(305)
Net outflow of cash and cash equivalents in respect of the disposal/deemed disposal of subsidiaries	(1)	(248)

The results of the subsidiary disposed of during the year had no significant impact on the Group's consolidated turnover or loss after tax before minority interests for the year ended 31 December 2003.

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

(c) Acquisition of subsidiaries

HK$'million	2003	2002
Net assets acquired:		
Fixed assets	1	10
Cash and bank balances	9	18
Trade receivables	5	5
Inventories	3	—
Deposits and other receivables	8	—
Trade payables	(2)	(10)
Bank loan	—	(2)
Other payables and accruals	(5)	(2)
Tax payable	(1)	—
Minority interests	(7)	(17)
	11	2
Goodwill on acquisition — *note 16*	11	29
	22	31

35. Notes to the Consolidated Cash Flow Statement *(Continued)*

(c) Acquisition of subsidiaries *(Continued)*

HK$'million	2003	2002
Satisfied by:		
Cash	12	20
Cash paid for incidental acquisition costs	—	5
Reclassification from interests in associates	—	6
Other receivables	7	—
Other payables	3	—
	22	31

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

HK$'million	2003	2002
Cash paid	(12)	(25)
Cash and bank balances acquired	9	18
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(3)	(7)

The subsidiaries acquired during the year had no significant contribution to the Group's consolidated turnover and loss after tax and before minority interests for the year ended 31 December 2003.

The subsidiaries acquired in the prior year contributed approximately HK$106 million to the Group's consolidated turnover and a post-acquisition profit of approximately HK$98 million to the consolidated loss after tax before minority interests for the year ended 31 December 2002.

36. Contingent Liabilities

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

	Group		Company	
HK$'million	2003	2002	2003	2002
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	—	—	183	646
Guarantee given to an independent third party in respect of a rental arrangement	45	40	45	40
	45	40	228	686

As at 31 December 2003, 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$142 million (2002: HK$360 million).

36. Contingent Liabilities *(Continued)*

(b) 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$8 million as at 31 December 2003 (2002: HK$7 million), 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 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.

37. 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$100 million (2002: HK$83 million); and

(ii) Fixed charges over certain of the Group's leasehold land and buildings with an aggregate net book value amounting to approximately HK$255 million (2002: HK$277 million).

38. Operating Lease Arrangements

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 the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings in Hong Kong falling due as follows:

	Group	
HK$'million	2003	2002
Within one year	2	5
In the second to fifth years, inclusive	2	3
	4	8

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases with initial lease terms ranging from 50 to 51 years in respect of land on which certain of the Group's factories are situated falling due as follows:

	Group	
HK$'million	2003	2002
Within one year	1	1
In the second to fifth years, inclusive	8	5
After five years	117	76
	126	82

39. Commitments

In addition to the operating lease commitments detailed in note 38 above, the Group had the following commitments at the balance sheet date:

Capital commitments:

	Group	
HK$'million	2003	2002
Contracted, but not provided for		
Construction in progress	60	56
Purchases of plant and machinery and equipment	2	4
	62	60

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	2003	2002
Contracted, but not provided for	8	20
Authorised, but not contracted for	—	81
	8	101

At the balance sheet date, the Company had no significant commitments.

40. Post Balance Sheet Events

(a) On 14 January 2004, the Group entered into a sale and purchase agreement with an independent third party to dispose of certain of its land and buildings situated in Hong Kong for a cash consideration of approximately HK$84,000,000. This transaction was completed on 27 February 2004.

(b) On 2 March 2004, the Company entered into a sale and purchase agreement with New Capital Industrial Limited ("NCIL"), a company controlled by Mr. Mak Shiu Tong, Clement, the Chairman of the Company, and his associates to dispose of the HK$45 million zero coupon convertible note issued to the Company by CCT Tech for a cash consideration of HK$45 million. This transaction was approved by the independent shareholders of the Company on 15 April 2004.

On 15 April 2004, the Company announced that a board meeting of the Company will be convened on 28 April 2004 to consider the declaration and payment of a special interim dividend in the amount of approximately HK$0.10 per share of the Company, subject to adjustment. The special dividend is to be paid out of the net sale proceeds from the disposal of the abovementioned convertible note to NCIL.

40. Post Balance Sheet Events *(Continued)*

(c) On 5 March 2004, Haier-CCT, an associate of the Group, has conditionally agreed with Haier Group, a substantial shareholder of Haier-CCT, for (i) the transfer by Haier Group of the washing machine business to Haier-CCT and; (ii) the exercise of the call option to acquire the remaining 35.5% interest in Pegasus Telecom (Qingdao) Co., Ltd. (collectively referred to as the "Asset Injection"), in exchange of cash, shares in Haier-CCT and the convertible notes at an aggregate consideration of HK$1,503,407,200. The consideration for the acquisition of the washing machine business and the proportion between the number of the consideration shares and the principal amount of the convertible notes are subject to adjustment. Upon completion of the Asset Injection but before conversion of the convertible notes to be issued by Haier-CCT, the Company's shareholding in Haier-CCT will be diluted from approximately 43.62% to approximately 26.61%.

Further details of this event are set out in Haier-CCT's press announcement dated 2 April 2004.

41. Comparative Amounts

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP 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.

42. Approval of The Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 23 April 2004.