

# Chairman's Letter

## Financial Highlights

	Six months ended 30 June		Inc/(dec)
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	
Turnover	1,659,694	741,282	124%
Earnings/(Loss) before interest, tax, depreciation and amortisation ("EBITDA")	32,556	(34,032)	N/A
Loss attributable to shareholders	(17,173)	(84,542)	(80%)

## 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\$1,659.7 million for the six months ended 30 June 2004, representing a large increase of 124% over the corresponding period last year.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") during the period amounted to HK\$32.5 million, as compared to a negative EBITDA of HK\$34.0 million in last period. The significant improvement was attributable to the increase in sales and the continuous improvement in the control of costs.

The Group's loss attributable to shareholders for the period amounted to HK\$17.2 million (inclusive of an amortisation of goodwill of approximately HK\$22.3 million), representing a large decrease of 80% over the corresponding period last year. The significant improvement was attributable to the reasons mentioned above as well as our successful selling and marketing strategy for our mobile phone products in the domestic market. Without the amortisation of goodwill, the Group would have recorded a net profit of approximately HK\$5.1 million.

## Interim dividend

The directors do not recommend payment of an interim dividend for the six months ended 30 June 2004 (30 June 2003: nil).

## Chairman's Letter

### Review of operations

In the first half of the year, the mobile phone business of the Group recorded encouraging results. Although the business environment in 2004 remained difficult and that price reduction was still a pressure for the mobile phone market, the mobile phone business of the Group recorded a net profit during this period. New mobile phone models incorporating sophisticated features such as dual-screen LCD displays, extra long stand-by time (up to 18 days) and inlet digital camera, were launched and were well-received by the market. The Group has received significant volume of sales orders during the reporting period as a result of our innovative products and successful selling and marketing strategy. In the future, we will continue to develop more innovative and quality products pegged at competitive selling prices in order to increase our market share in the mobile phone industry.

### Asset injection agreement

On 5 March 2004, we entered into a conditional agreement with Haier to acquire from Haier its washing machine business. The asset injection will broaden the Group's revenue base and result in the Group's diversification into the white goods business. We also intend to exercise a call option to acquire from Haier the remaining 35.5% interest in Pegasus Qingdao.

The asset injection is subject to, among other things, the approval of the independent shareholders and regulatory approvals. Please refer to our announcement dated 2 April 2004 for details of the asset injection. The asset injection is now in progress and that Haier and we hope to complete the acquisition of the washing machine business by the Company as soon as possible.

After the completion of the proposed transactions, Haier will become the controlling shareholder of the Company. Haier also intends to inject its remaining white goods businesses into the Company in the future with a view to positioning the Company as the listed flagship for its white goods business. The Company will consider this potential acquisition of the remaining white goods businesses at the relevant time, subject to, among other things, the satisfactory completion of due diligence on their financial and business operation, the negotiation of a legally binding acquisition agreement and the receipt of all applicable governmental, regulatory and shareholders' approvals in Hong Kong and the PRC.

**Mak Shiu Tong, Clement**

*Chairman*

Hong Kong, 10 September 2004

# Financial Review

## Results Summary

Turnover of the Group for the six months ended 30 June 2004 was HK\$1,659.7 million (30 June 2003: HK\$741.3 million). The significant increase in turnover as compared to the corresponding period last year was attributable to the satisfactory performance of the Group's mobile phone business in the domestic market during the period as a result of our innovative and quality products launched to market. Selling and marketing strategy of the Group's mobile phone business is also successful and led to increase in recognition of the Group's products by the customers and the consumers.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") during the period amounted to HK\$32.5 million, as compared to a negative EBITDA of HK\$34.0 million in last period. The significant improvement was attributable to the increase in sales and the continuous improvement in the control of costs.

Loss attributable to shareholders for the period amounted to HK\$17.2 million, representing a large decrease of 80% over the corresponding period last year. The significant improvement was attributable to the reasons mentioned above as well as our successful selling and marketing strategy for our mobile phone products in the domestic market. Without the amortisation of goodwill of approximately HK\$22.3 million during the period, the Group would have recorded a net profit of approximately HK\$5.1 million.

## Analysis by Business Segment

Manufacture and sale of mobile phones was the only major business segment of the Group during the period, accordingly, no separate business segment analysis is available.

## Analysis by Geographical Segment

The Mainland of the People's Republic of China ("PRC") is now the major market of the Group and accounted for approximately 91.9% (30 June 2003: 71.6%) of the Group's revenue for the period. Hong Kong became our second, which accounted for approximately 4.3% (30 June 2003: 1.0%) of the Group's revenue. Asia Pacific, which is our new market, came to the third, accounting for approximately 2.0% (30 June 2003: nil) of the Group's revenue. The European Union dropped from the second for the last period to the fourth for this period, accounting for approximately 1.7% (30 June 2003: 27.4%) of the Group's revenue.

## Financial Review

### Analysis by Geographical Segment (cont'd)

The increase in geographical distribution for the Mainland of the PRC from 71.6% to 91.9% was mainly due to the satisfactory performance of the Group's mobile phone business in the domestic market during the period. The penetration rate of the mobile phone market remains relatively low in China and we believe that there are plenty rooms for growth in the domestic market. This resulted in the Group's concentrating in the domestic market during the period and led to the decrease in the proportion of the revenue in other regions.

### Liquidity and Financial Resources

The financial position and liquidity of the Group remain healthy with a current ratio (current assets over current liabilities) of 113% (31 December 2003: 117%) and cash balance of HK\$205 million (31 December 2003: HK\$267 million) as at 30 June 2004. There were total banking and other facilities of approximately HK\$182.4 million at 30 June 2004 (31 December 2003: HK\$443.2 million), all of which were utilised (31 December 2003: HK\$443.2 million). 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.

There is no material effect of seasonality on the Group's borrowings requirements.

The Group had authorised capital commitments amounting to approximately HK\$12.5 million (31 December 2003: HK\$17.6 million) at 30 June 2004 representing the balance of the cost for the building of a new mobile phone factory in Qingdao.

The Group's gearing ratio, calculated on the basis of the Group's total borrowings over total capital employed, at 30 June 2004 was 19% (31 December 2003: 31%).

### Treasury Management

The Group employs a conservative approach to cash management and risk control. 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 2004, most 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, as the current interest rate in China stay at a lower level and is stable.

### **Major Corporate Shareholding Structure of the Company**

At 30 June 2004, the Company was owned as to 43.6% by CCT Telecom Holdings Limited and 29.9% by Haier.

### **Employees and Remuneration Policy**

The total number of employees in the Group as at 30 June 2004 was around 1,100. 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 2004, there were outstanding share options of approximately 883.5 million.

### **Significant Investment**

The Group did not hold any significant investment at 30 June 2004.

### **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**

At 30 June 2004, bank deposits of approximately HK\$12,834,000 were pledged to secure general banking facilities granted to subsidiaries of the Group (31 December 2003: HK\$1,079,000).

### **Contingent Liabilities**

The Group did not have any significant contingent liabilities at 30 June 2004.

# 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 2004 together with the comparative figures for the corresponding period in 2003 as follows.

## Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2004

	Notes	Six months ended 30 June	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
<b>TURNOVER</b>		1,659,694	741,282
Cost of sales		(1,606,640)	(741,846)
Gross profit/(loss)		53,054	(564)
Other revenue		6,419	2,747
Administrative expenses		(17,780)	(36,204)
Other operating expenses		(9,137)	(11)
Depreciation and amortisation	3	(35,042)	(53,745)
<b>LOSS FROM OPERATING ACTIVITIES</b>		(2,486)	(87,777)
Finance costs		(9,173)	(6,190)
<b>LOSS BEFORE TAX</b>		(11,659)	(93,967)
<b>TAX</b>	4	(14)	1,704
<b>LOSS BEFORE MINORITY INTERESTS</b>		(11,673)	(92,263)
Minority interests		(5,500)	7,721
<b>NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		(17,173)	(84,542)
<b>LOSS PER SHARE</b>	6		
Basic		(0.17) cents	(0.85) cents
Diluted		N/A	N/A

**Condensed Consolidated Balance Sheet**

At 30 June 2004

	Notes	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	7	416,736	388,136
Intangible assets		4,212	4,503
Goodwill		720,096	742,367
Deferred tax assets		14,766	8,624
		1,155,810	1,143,630
<b>CURRENT ASSETS</b>			
Inventories		668,245	341,128
Trade and bills receivables	8	349,781	523,929
Prepayments, deposits and other receivables		112,894	63,826
Pledged deposits		12,834	1,079
Cash and cash equivalents		205,315	266,894
		1,349,069	1,196,856
<b>CURRENT LIABILITIES</b>			
Trade payables	9	871,273	445,655
Tax payable		4,504	109
Other payables and accruals		28,748	24,560
Interest-bearing bank and other loans, unsecured		290,787	548,928
		1,195,312	1,019,252
<b>NET CURRENT ASSETS</b>			
		153,757	177,604
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		1,309,567	1,321,234
<b>MINORITY INTERESTS</b>			
		81,080	75,580
		1,228,487	1,245,654
<b>CAPITAL AND RESERVES</b>			
Issued capital	10	996,403	996,402
Reserves		232,084	249,252
		1,228,487	1,245,654

## Interim Results

### Consolidated Statement of Changes in Equity

For the six months ended 30 June 2004

	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Reserve funds* (Unaudited) HK\$'000	Retained profits/ (accumulated losses) (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2003	996,229	70,040	967,319	—	68,123	2,101,711
Exercise of share options	173	134	—	—	—	307
Net loss for the period	—	—	—	—	(84,542)	(84,542)
At 30 June 2003	996,402	70,174	967,319	—	(16,419)	2,017,476
Transfer from retained profits	—	—	—	1,880	(1,880)	—
Net loss for the period	—	—	—	—	(771,822)	(771,822)
At 31 December 2003	996,402	70,174	967,319	1,880	(790,121)	1,245,654
Exercise of share warrants	1	5	—	—	—	6
Loss for the period	—	—	—	—	(17,173)	(17,173)
At 30 June 2004	996,403	70,179	967,319	1,880	(807,294)	1,228,487

\* In accordance with the relevant People's Republic of China (the "PRC") laws and regulations applicable to Sino-foreign joint venture enterprises and wholly foreign-owned enterprises, a subsidiary of the Company in the PRC is required to transfer a certain percentage of its net profit for the year to reserve funds. These funds are non-distributable. For the purpose of determining the appropriations to these funds, the net profit is determined in accordance with the applicable financial rules and regulations in the PRC.



**Condensed Consolidated Cash Flow Statement**

For the six months ended 30 June 2004

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	258,350	(122,850)
<b>INVESTING ACTIVITIES</b>	(52,621)	(85,357)
<b>FINANCING ACTIVITIES</b>	(267,308)	239,789
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(61,579)	31,582
Cash and cash equivalents at beginning of period	266,894	374,888
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	205,315	406,470
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	75,831	209,179
Time deposits with original maturity of less than three months when acquired	129,484	197,291
	205,315	406,470

## Interim Results

### Notes:

#### 1. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with the Hong Kong Statement of Standard Accounting Practice 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 2003.

#### 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 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 other business segments. Summary details of the business segments are as follows:

- (a) the telecom products segment manufactures and sells mobile phones; and
- (b) 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.

## 2. SEGMENT INFORMATION (cont'd)

### (a) Business segments

The following table presents revenue and profit/(loss) information regarding the Group's business segments for the period ended 30 June 2004 and 2003.

	Telecom products		Corporate and others		Consolidated	
	2004	2003	2004	2003	2004	2003
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	1,659,694	741,282	—	—	1,659,694	741,282
Other revenue	5,846	1,639	—	—	5,846	1,639
Total revenue	1,665,540	742,921	—	—	1,665,540	742,921
Segment results	21,513	(44,598)	(2,301)	(3,358)	19,212	(47,956)
Interest income					573	1,108
Amortisation of goodwill					(22,271)	(40,929)
Finance costs					(9,173)	(6,190)
Loss before tax					(11,659)	(93,967)
Tax					(14)	1,704
Loss before minority interests					(11,673)	(92,263)
Minority interests					(5,500)	7,721
Net loss from ordinary activities attributable to shareholders					(17,173)	(84,542)

## Interim Results

### 2. SEGMENT INFORMATION (cont'd)

(b) Geographical segments

The following table presents revenue information regarding the Group's geographical segments for the period ended 30 June 2004 and 2003.

	2004			2003		
	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	1,526,083	5,515	1,531,598	530,520	1,417	531,937
Hong Kong	70,619	—	70,619	7,429	12	7,441
European Union	28,737	—	28,737	203,333	—	203,333
Asia Pacific	33,906	—	33,906	—	—	—
Others and unallocated	349	331	680	—	210	210
<b>Total revenue</b>	<b>1,659,694</b>	<b>5,846</b>	<b>1,665,540</b>	<b>741,282</b>	<b>1,639</b>	<b>742,921</b>

### 3. DEPRECIATION AND AMORTISATION

	Six months ended 30 June	
	2004	2003
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Depreciation	12,480	12,189
Amortisation:		
- Patents and license	291	627
- Goodwill	22,271	40,929
	<b>35,042</b>	<b>53,745</b>

**4. TAX**

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Current - Hong Kong	—	1,150
Current - Elsewhere	6,156	1,656
Deferred tax	(6,142)	(4,510)
<b>Tax charge/(credit) for the period</b>	<b>14</b>	<b>(1,704)</b>

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the periods ended 30 June 2004 and 2003. Hong Kong profits tax of HK\$1,150,000 for the period ended 30 June 2003 represented mainly under-provision of tax in prior years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Certain subsidiaries of the Group established in the PRC, which are either categorised as a Sino-foreign equity joint venture enterprise or a wholly-foreign owned enterprise, are entitled to preferential tax treatments including full exemption from PRC corporate income tax for two years starting from its first profit-making year following by a 50% reduction for the next consecutive three years.

The Group has tax losses arising in Hong Kong 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 the Company and subsidiaries that have been loss-making for some time.

**5. DIVIDEND**

The directors do not recommend payment of an interim dividend for the six months period ended 30 June 2004 (30 June 2003: nil).

## Interim Results

### 6. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of HK\$17,173,000 (six months ended 30 June 2003: loss of HK\$84,542,000), and the weighted average of 9,964,024,334 (six months ended 30 June 2003: 9,962,329,238) ordinary shares in issue during the period.

Diluted loss per share amounts for each of the periods ended 30 June 2004 and 2003 have not been disclosed, as the share options and warrants outstanding during these periods had an anti-dilutive effect on the basic loss per share for these periods.

### 7. FIXED ASSETS

The Group acquired fixed assets of HK\$40,895,000 (six months ended 30 June 2003: HK\$85,357,000) and did not dispose of any fixed assets (six months ended 30 June 2003: nil) for the six months ended 30 June 2004.

### 8. TRADE AND BILLS RECEIVABLES

The Group normally allows an average credit period of 30 to 90 days to its trade customers. The aged analysis of trade and bills receivables is as follows:

	30 June 2004 (Unaudited)		31 December 2003 (Audited)	
	HK\$'000	%	HK\$'000	%
Within 1 month	230,589	66	482,056	92
1 to 2 months	46,513	13	35,744	7
2 to 3 months	10,796	3	2,888	—
Over 3 months	61,883	18	3,241	1
Total	349,781	100	523,929	100

Included in the Group's trade and bills receivables are amounts due from affiliates of Haier of HK\$236,814,000 (31 December 2003: HK\$246,352,000), which are repayable on similar credit terms to those offered to the major customers of the Group. Further details in respect of the sales to these related parties are set out in note 15 to the financial statements.

## 9. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	30 June 2004 (Unaudited)		31 December 2003 (Audited)	
	HK\$'000	%	HK\$'000	%
Within 1 month	535,983	62	363,792	82
1 to 2 months	311,726	36	47,343	10
2 to 3 months	9,352	1	8,688	2
Over 3 months	14,212	1	25,832	6
<b>Total</b>	<b>871,273</b>	<b>100</b>	<b>445,655</b>	<b>100</b>

Included in the Group's trade payables are trade payables of HK\$714,632,000 (31 December 2003: HK\$4,174,000) due to affiliates of Haier, which are repayable on similar credit terms to those offered by the affiliates of Haier to their major customers. Further details of the purchases from these related parties are set out in note 15 to the financial statements.

## 10. SHARE CAPITAL

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Authorised:		
20,000,000,000 shares of HK\$0.10 each	2,000,000	2,000,000
Issued and fully paid:		
9,964,027,945 (31 December 2003: 9,964,016,574) shares of HK\$0.10 each	996,403	996,402

## Interim Results

### 10. SHARE CAPITAL (cont'd)

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 2004	996,402	9,964,016,574
Exercise of warrants	1	11,371
At 30 June 2004	996,403	9,964,027,945

### 11. CONTINGENT LIABILITIES

At 30 June 2004, the Group did not have any significant contingent liabilities (31 December 2002: nil).

### 12. OPERATING LEASE ARRANGEMENT

The Group leases part of its buildings under an operating lease arrangement, with the lease negotiated for a term of one year.

At 30 June 2004, the Group has total future minimum lease receivables under the non-cancellable operating lease with its tenants falling due as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Within one year	852	284



### 13. COMMITMENTS

In addition to the operating lease arrangement detailed in note 12 above, the Group and the Company had the following commitments at 30 June 2004:

	Group		Company	
	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Contracted, but not provided for:				
- Acquisition of fixed assets	11,405	17,441	—	—
- Capital contribution payable to a wholly-owned subsidiary in the PRC	—	—	13,972	31,606
	11,405	17,441	13,972	31,606
Authorised, but not contracted for:				
- Acquisition of fixed assets	1,087	140	—	—
	12,492	17,581	13,972	31,606

### 14. PLEDGE OF ASSETS

At 30 June 2004, bank deposits of approximately HK\$12,834,000 were pledged to secure general banking facilities granted to subsidiaries of the Group (31 December 2003: HK\$1,079,000).

### 15. RELATED PARTY TRANSACTIONS

During the period, the Group had the following material transactions with Haier Group Corporation (“Haier”), Qingdao Haier Investment & Development Co., Ltd. (“Haier Investment”), and their subsidiaries. Haier and Haier Investment are substantial shareholders of the Company. Haier and Haier Investment, and their subsidiaries (hereinafter referred to as the “affiliates of Haier”) are companies that have certain key management personnel in common with the Company.

## Interim Results

### 15. RELATED PARTY TRANSACTIONS (cont'd)

- (a) During the period, the Group had the following material transactions with Haier and the affiliates of Haier:

	Notes	Six months ended	
		2004 HK\$'000	2003 HK\$'000
Sales of mobile phones	(i)	1,425,693	464,609
Purchases of materials	(ii)	1,146,606	61,466
Utility service fee expense	(iii)	2,144	1,939
General security service fee expenses	(iii)	108	210
Human resources service fee expenses	(iii)	19	103
Interest expenses	(iv)	2,918	1,668
Interest income	(iv)	5	27
Rental income	(v)	568	—

Notes:

- (i) 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 materials plus a processing fee ranging from 5% to 40% of the purchase price of the materials.

- (ii) The purchases of materials were made in accordance with the terms and conditions set out in the materials procurement agreement entered into between Pegasus Qingdao, Qingdao Haier International Trading Co., Ltd. and Qingdao Haier Parts Procurement Co., Ltd. on 10 January 2003.

The purchases were determined based on the lower of the average market price or the consolidated and the integrated tender and the bidding price plus 2.6% commission.

## 15. RELATED PARTY TRANSACTIONS (cont'd)

- (iii) The utility service fee expenses, human resources service 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 Services Co., Ltd. (“Haier Security”), respectively, in accordance with the terms and conditions set out in the service agreement (the “Service Agreement”) entered into between Pegasus Qingdao, Haier Energy, Qingdao Haier Intellectual Property Rights and Legal Centre, Haier Human Resources, Haier Security 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 an actual cost basis.

- (iv) 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 Service Agreement. The interests were determined with reference to the standard rates published by the People’s Bank of China.
- (v) The monthly rental was calculated by reference to rentals of properties in the proximate locations as quoted by the Company’s directors.
- (b) On 5 March 2004 (as supplemented on 30 June 2004 and 31 August 2004), the Company, Haier and Haier Investment entered into a conditional agreement (the “Asset Injection Agreement”) pursuant to which the Company agreed to acquire from Haier and Haier Investment the entire share capital of Haier Holdings (BVI) Limited (“Haier BVI”), a wholly-owned subsidiary of Haier, and Qingdao Haier Investment and Development Holdings (BVI) Limited (“QD Haier BVI”), a wholly-owned subsidiary of Haier Investment, respectively, for an aggregate consideration of approximately RMB1,100 million (equivalent to approximately HK\$1,035 million), subject to adjustments (the “Asset Injection”).

The total consideration will be satisfied by the followings:

- (a) as to HK\$724,807,200 by the issue of 4,026,706,667 new shares of the Company at a price of HK\$0.18 each;
- (b) as to HK\$260,000,000 by the issue of convertible notes of the Company. The convertible notes are convertible into the shares of the Company at the conversion price of HK\$0.18 per share (subject to adjustment) at any time during the conversion period; and

## Interim Results

### 15. RELATED PARTY TRANSACTIONS (cont'd)

- (c) as to the balance of HK\$50,000,000 in cash.

Haier BVI and QD Haier BVI and their subsidiaries are principally engaged in the manufacture and sale of washing machines.

As the Asset Injection has not completed when these financial statements were approved by the directors of the Company, the financial impact of the Asset Injection cannot be reliably estimated at the date of approval of these financial statements.

- (c) On 22 June 2004, Haier provided a corporate guarantee of US\$15,000,000 (equivalent to HK\$117,000,000) to the China Construction Bank, Qingdao Haier Technology Park Branch, as a security for banking facilities granted to Pegasus Qingdao for the period from 22 June 2004 to 22 September 2004. As at 30 June 2004, the above facilities were fully utilised.
- (d) On 25 June 2004, Haier provided a corporate guarantee of RMB70,000,000 (equivalent to HK\$65,421,000) to Haier Finance as a security for banking facilities granted to Pegasus Qingdao for the period from 25 June 2004 to 24 June 2005. As at 30 June 2004, the above banking facilities were fully utilised.

### 16. POST BALANCE SHEET EVENTS

Pursuant to an acceleration agreement dated 8 August 2002 (the "Acceleration Agreement"), the Company continues to hold a call option granted by Haier to acquire the remaining 35.5% interest in Pegasus Qingdao owned by Haier Investment for a consideration at a price of HK\$468.6 million which will be satisfied by the issue of the consideration shares to Haier Investment or its nominee(s) at the agreed price of HK\$0.20 per consideration share (the "Call Option"). The Call Option is exercisable in whole or in part at any time during the period from the date of completion of the Acceleration Agreement to 31 July 2004. On 28 July 2004, it was agreed by the parties to extend the exercise period for the Call Option from 31 July 2004 to 31 December 2005.

# Disclosure of Interests

## Directors' Interests

As at 30 June 2004, 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 corporations (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 Issuers (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 positions in the shares of the Company:

Name of director	Number of shares beneficially held and nature of interest		Approximate percentage of total shareholding (%)
	Personal	Corporate	
Mak Shiu Tong, Clement (Note)	—	107,219,667	1.08
Tam Ngai Hung, Terry	10,000,000	—	0.10

Note: The shares were held by Capital Winner Investments Limited and Capital Interest Limited, which are corporations controlled by Mr. Mak Shiu Tong, Clement.

## Disclosure of Interests

### Directors' Interests (cont'd)

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

- (ii) Long positions in the underlying shares of equity derivatives of the Company - Share options:

Name of director	Date of grant of share options	Exercise period of share options	Exercise price per share HK\$	Number of share options outstanding	Number of total underlying shares	Approximate percentage of total shareholding (%)
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 2004, none of the directors and the chief executive of the Company and/or any of their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (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.

**Substantial Shareholders' Interests**

As at 30 June 2004, 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:

Long positions in the shares of the Company:

Name of shareholder	Notes	Number of 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 indirectly 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.

## Disclosure of Interests

### Substantial Shareholders' Interests (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) Haier Group Corporation is acting in concert with Qingdao Haier Investment & Development Co., Limited. As Qingdao Haier Investment & Development Co., Limited is holding 1,023,000,000 shares and is interested in 1,960,000,000 shares held by Orient Rich (H.K.) Limited as stated in notes (5), (6) and (7) below, Haier Group Corporation is also taken to be interested in 1,023,000,000 shares held by Qingdao Haier Investment & Development Co., Limited and 1,960,000,000 shares held by Orient Rich (H.K.) Limited.
- (4) Qingdao Haier Collective Asset Management Association is interested in 1,023,000,000 shares held by its non wholly-owned subsidiary, namely Qingdao Haier Investment & Development Co., Limited, and 1,960,000,000 shares held by Orient Rich (H.K.) Limited as stated in notes (5), (6) and (7) below.
- (5) Qingdao Haier Investment & Development Co., Limited is holding 1,023,000,000 shares and is interested in 1,960,000,000 shares held by Orient Rich (H.K.) Limited through its non wholly-owned subsidiary, namely Qingdao Haier International Trading Co., Ltd., as stated in notes (6) and (7) below.
- (6) Qingdao Haier International Trading Co., Ltd. is interested in 1,960,000,000 shares held by Orient Rich (H.K.) Limited through its non wholly-owned subsidiary, namely Haier (Hong Kong) Company Limited, as stated in note (7) below.
- (7) Haier (Hong Kong) Company Limited is interested in 1,960,000,000 shares held by Orient Rich (H.K.) Limited. Orient Rich (H.K.) Limited is a non wholly-owned subsidiary of Haier (Hong Kong) Company Limited.

Save as disclosed above, as at 30 June 2004, no other person (other than the directors or the chief executive of the Company) had any interests or short positions 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.



# Share Option Scheme

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 on 28 February 2002 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 share options under the Old Share Option Scheme. However, all share options granted prior to the termination of the Old Share Option Scheme will remain in full force and effect. As at 30 June 2004, there were 3,000,000 and 880,500,000 share options outstanding under the Old Share Option Scheme and the New Share Option Scheme respectively. Based on these outstanding share options, the total number of shares available for issue is 883,500,000, which represents approximately 8.87% of the issued share capital of the Company as at the date of this report.

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 2004	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 2004	Granted during the period	Exercised during the period	Lapsed/ Cancelled during the period				
<b>Employees</b>								
In aggregate	3,000,000	—	—	—	3,000,000	13/7/2001	13/1/2002 - 12/7/2005*	0.190
	3,000,000	—	—	—	3,000,000			

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.

\* Pursuant to the resolution of the board of directors of the Company passed on 8 July 2004, the date of expiry has been extended one year from the date of expiry of 12 July 2004 to 12 July 2005.

## Share Option Scheme

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 2004	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 2004	Granted during the period	Exercised during the period	Lapsed/ Cancelled during the period				
<b>Executive directors</b>								
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			
<b>Independent non-executive directors</b>								
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			
<b>Other employees</b>								
In aggregate	247,500,000	—	—	—	247,500,000	16/8/2002	16/8/2003 - 15/8/2007	0.156
	247,500,000	—	—	—	247,500,000			
	880,500,000	—	—	—	880,500,000			

## Share Option Scheme

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.

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 share 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 Shares of the Company**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed shares (whether on the Stock Exchange or otherwise) of the Company during the six months ended 30 June 2004.

## **Audit Committee**

The Company has established an audit committee comprising two independent non-executive directors of the Company. A set of written terms of reference which describes the authorities and duties of the audit committee, was adopted by the board of directors of the Company.

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 2004.

## **Compliance with the Code of Best Practice**

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2004, 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 any specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company.

## **Board of Directors**

As at the date of this report, the executive directors of the Company are Messrs. Mak Shiu Tong, Clement, Wu Ke Song, Chai Yong Sen, Liang Hai Shan, Tam Ngai Hung, Terry, Cui Shao Hua and Man Wei Dong and the independent non-executive directors of the Company are Messrs. Lam Kin Kau, Mark and Fung Hoi Wing, Henry.

By Order of the Board

**Mak Shiu Tong, Clement**

*Chairman*

Hong Kong, 10 September 2004