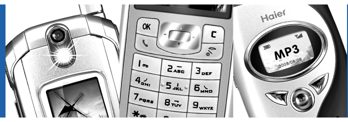


FINANCIAL REVIEW

During the year, the entire revenue of the Group was derived from the telecom products business engaged in the manufacture and sale of mobile handsets.

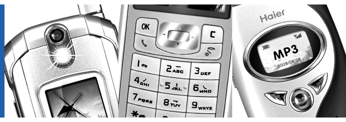
In 2004, the business environment for mobile handset business remained very competitive, especially since the last quarter of 2004. Foreign branded manufacturers adopted a price reduction strategy which helped them to take back some of the market share they lost in previous years from domestic branded manufacturers. The over capacity and over supply situation continued, with inventories continued to build up especially along the distribution channel.

Despite such unfavourable factors, the Group achieved remarkable results during the year. Turnover rose substantially by 89% from HK$1,665 million in 2003 to HK$3,153 million in 2004. The Group continued to increase its market share and strengthen its market position. Gross profit amounted to HK$63.1 million, up substantially by 565% from 2003, with a gross profit margin of 2% against only 0.57% in 2003. This was mainly due to the substantial reduction in stock provision by 67% from HK$55.5 million in 2003 to HK$18.4 million in 2004, as a result of our improved inventory control.

It should also be noted the gross profit margin is not comparable to other manufacturers. Pursuant to the products distribution agreement made with Qingdao Haier Telecommunications Co., Ltd. ("Haier Telecom", a member of Haier Group), started from late 2002, most of the products are sold to Haier Telecom at costs of raw materials (at market price) plus a processing fee, while Haier Telecom is responsible for all the selling and marketing charges. Thus, the Group earns a lower gross profit margin than other manufacturers but does not incur any selling and distribution expenses. The arrangement also reduced the business risks of the Group as it is not responsible for the inventory ordered by Haier Telecom.

Administrative expenses increased by a modest 9.2%, despite the sharp rise in volume, as a result of stringent cost control by the Group.

Net loss attributable to shareholders in 2004 amounted to HK$42.5 million, which was after charging a non-cash amortisation of goodwill of HK$44.5 million (It should be noted that pursuant to HKFRS 3 "Business Combinations" recently issued by HKICPA which is effective for the year ending 31 December 2005 in respect of the Company, goodwill acquired in a business combination will no longer be subject to amortisation, but will instead be subject to test for impairment periodically). The net loss in 2004 was 95% lower than the net loss of HK$856.4 million in 2003, which figure was after charging an impairment of goodwill of HK$732.2 million. The impairment was made in 2003 after considering the intense competition in the mobile handset market by the management. For 2004, although competition in the market place intensified, after considering the strengthening of Group's position in the market place over the past year and in view of the positive responses of our new products in the market, the Board had determined that there was no need to make further impairment in the carrying value of goodwill.



Despite a net loss being reported, on an operating level, the Group's mobile handset business has started to turn profitable in 2004. EBITDA and operating profit before amortisation and impairment of goodwill for 2004 amounted to HK$63.7 million and HK$29.6 million, respectively, against negative figures of HK$6.9 million and HK$31.8 million, respectively, for 2003. The rise in volume, the reduction in stock provision, and stringent cost control had turned the Group into a profit making position on the operating level. This turnaround has once again proved the success of the Group's mobile handset business despite intense competition in the market place.

Mainland China is the major market of the Group and accounted for 92% of the Group's turnover for the year (2003: 82%). Due to the strong demand for the Group's products in the domestic PRC market, exports dropped by 12% to HK$267 million in 2004. To diversify the Group's revenue base and to capitalise on the renowned "Haier" brand name in the overseas markets, the Group intends to put additional efforts into exploring overseas markets in 2005, especially in the Middle East, South Asia and Europe.

LIQUIDITY AND FINANCIAL RESOURCES

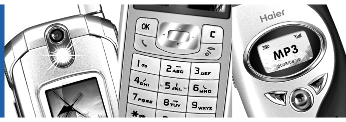
The Group has maintained a healthy financial and liquidity position with a current ratio of 117% at 31 December 2004 (2003: 117%). At 31 December 2004, the Group had a cash balance of HK$141 million (2003: HK$267 million) and total bank and other loans of approximately HK$147 million (2003: HK$549 million). All of the borrowings of the Group were arranged on a short-term basis for the ordinary business of the Group and were repayable within one year.

Net debt balance (borrowings less cash balance) amounted to HK$6 million as at 31 December 2004, down substantially by 98% from HK$282 million as at 31 December 2003. This was largely due to the strong operating performance of the Group during the year, resulting in net cash inflow from operating activities of HK$376 million for the year ended 31 December 2004, against a net cash outflow from operating activities of HK$316 million in 2003.

The large pool of cash, the low level of debt together with the strong cash flows from the operations, provide the Group with substantial resources for its operations and business growth.

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

The Group had contracted capital commitments amounting to HK$4.4 million as at 31 December 2004.



CAPITAL STRUCTURE AND GEARING RATIO

At 31 December 2004, the Group maintained a very low gearing ratio (total borrowings over shareholders' equity) of 12% (2003: 44%).

Bank and other loans of HK$147 million as at 31 December 2004 were borrowed by a subsidiary of the Company for working capital purposes and are denominated in Renminbi, repayable within one year, and bear interest at floating rates.

TREASURY POLICIES

The Group employs a conservative approach to cash management and risk controls. Most of the Group's receipts and payments are in Renminbi and Hong Kong dollars. Cash is generally placed in short term deposits denominated either in Renminbi or Hong Kong dollars. At 31 December 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 stays at low level and is relatively stable. The Group does not have any financial instruments for hedging purposes.

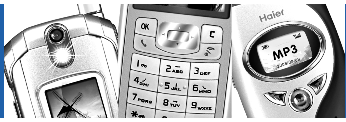
EMPLOYEES AND REMUNERATION POLICY

The total number of employees of the Group as at 31 December 2004 was 1,040, representing an increase of 8% as compared to last year end due to expansion in business. Total staff costs (including directors' remuneration) for the year ended 31 December 2004 amounted to HK$23.4 million (2003: HK$14.7 million).

The Group ensures that the remuneration packages for its employees are competitive and employees are generally remunerated with a fixed monthly income, which is normally reviewed on an annual basis, plus performance related bonuses. Employees are also provided with benefits including provident fund and medical insurance. The Group maintains a share option scheme as an incentive to attract and retain talented employees. At 31 December 2004, there were outstanding share options entitling the grantees to subscribe for approximately 883.5 million new shares of the Company.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investment at 31 December 2004.



MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

On 5 March 2004, the Group entered into a conditional agreement with the Haier Group to acquire from the Haier Group its washing machine business for a consideration of Rmb1.1 billion (HK$1.035 billion) and the Group also announced its intention to exercise a call option to acquire from the Haier Group the remaining 35.5% interest in Pegasus Qingdao for a consideration of HK$468.6 million (collectively the "Asset Injection"). A circular in connection with the Asset Injection was issued to the shareholders of the Company on 18 November 2004. The Asset Injection was approved by the shareholders in a special general meeting on 13 December 2004 and was completed subsequent to the balance sheet date on 28 January 2005. Please refer to the section headed "Post Balance Sheet Events" in note 34 to the financial statements below for further details. Save as disclosed above, the Group did not have any material acquisition or disposal of subsidiaries or associates during the year ended 31 December 2004.

CHARGE OF ASSETS

At 31 December 2004, bank deposits of approximately HK$16.8 million were pledged to secure general banking facilities granted to a subsidiary of the Group.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2004.