1. CORPORATE INFORMATION

The registered office of Haier Electronics Group Co., Ltd. is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

During the year, the principal activities of the Group comprised the manufacture and sale of mobile phones and trading of raw materials.

Subsequent to the year end, on 28 January 2005, the Group acquired the entire issued share capital of Haier Holdings (BVI) Limited and Qingdao Haier Investment and Development Holdings (BVI) Limited (collectively referred to as "Haier BVI"). The principal activities of Haier BVI and their subsidiaries are the manufacture and sale of washing machines under the brand name of "Haier".

2. CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at a special general meeting of the Company held on 13 December 2004 and approved by the Registrar of Companies in Bermuda, the name of the Company was changed from Haier-CCT Holdings Limited to Haier Electronics Group Co., Ltd. with effect from 31 January 2005.

3. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by Hong Kong Institute of Certified Public Accountants, 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.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

Goodwill

Goodwill arising on the acquisition of subsidiaries 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 not exceeding 20 years.

On disposal of subsidiaries, 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.

The carrying amount of goodwill 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.

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

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 and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

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.

Fixed assets and depreciation

Fixed assets, other than 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 asset, 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. The principal annual rates used for this purpose are as follows:

Buildings	4.5%
Leasehold improvements	50%
Plant and machinery	9%
Tools, moulds and equipment	18%
Furniture, fixtures and office equipment	18% – 20%
Motor vehicles	20%

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.

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

Construction in progress

Construction in progress represents a building under construction and equipment pending installation. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of the fixed assets when completed and ready for use.

Intangible assets

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Research and 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.

Operating leases

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.

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.

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

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, 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 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 deductible temporary differences associated with investments in subsidiaries, 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.

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

Income tax (cont'd)

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.

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.

Share option schemes

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 is 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 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. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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

Employee benefits (cont'd)

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. 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 administrated 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 were 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 vest fully, the ongoing contributions payable by the Group are reduced by the relevant amount of the forfeited employer contributions.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

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 are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into 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.

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

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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to costs that is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income and is released to the profit and loss account over the expected useful life of the relevant asset by equal annual instalments.

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

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

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws 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.

5. 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 manufactures and sells mobile phones; and

(b) the corporate and others 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, and assets are attributed to the segments based on the location of the assets.

5. SEGMENT INFORMATION (cont'd)

(a) Business segments

The following tables present revenue and loss and certain asset, liability and expenditure information for the Group's business segments.

	Telecom products		Corporate and others		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**3,152,725**	1,664,638	**–**	–	**3,152,725**	1,664,638
Other revenue	**9,206**	3,148	**1,376**	–	**10,582**	3,148
Total revenue	**3,161,931**	1,667,786	**1,376**	–	**3,163,307**	1,667,786
Segment results	**33,777**	(25,666)	**(5,111)**	(8,309)	**28,666**	(33,975)
Interest income					**969**	2,157
Amortisation and impairment of goodwill	**(44,542)**	(815,087)	**–**	–	**(44,542)**	(815,087)
Finance costs					**(12,151)**	(18,845)
Loss before tax					**(27,058)**	(865,750)
Tax					**(4,328)**	1,653
Loss before minority interests					**(31,386)**	(864,097)
Minority interests					**(11,079)**	7,733
Net loss from ordinary activities attributable to shareholders					**(42,465)**	(856,364)

5. SEGMENT INFORMATION (cont'd)

(a) Business segments (cont'd)

	Telecom products		Corporate and others		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**2,055,655**	2,181,342	**138,126**	150,520	**2,193,781**	2,331,862
Unallocated assets					**7,818**	8,624
Total assets					**2,201,599**	2,340,486
Segment liabilities	**761,714**	468,815	**2,162**	1,400	**763,876**	470,215
Unallocated liabilities					**147,869**	549,037
Total liabilities					**911,745**	1,019,252
Other segment information:						
Capital expenditure	**73,239**	194,176	**–**	–	**73,239**	194,176
Depreciation	**33,434**	23,648	**75**	75	**33,509**	23,723
Amortisation	**45,123**	84,017	**–**	–	**45,123**	84,017
Impairment of goodwill	**–**	732,226	**–**	–	**–**	732,226
Write off of fixed assets	**987**	5,197	**–**	–	**987**	5,197
Write off of intangible assets	**–**	1,128	**–**	–	**–**	1,128
Provision for obsolete and slow-moving inventories	**18,430**	55,544	**–**	–	**18,430**	55,544

5. SEGMENT INFORMATION (cont'd)

(b) Geographical segments

The following table presents revenue information for the Group's geographical segments.

	Hong Kong		Mainland China		European Union		Unallocated		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**154,457**	1,005	**2,885,239**	1,361,655	**75,137**	299,695	**37,892**	2,283	**3,152,725**	1,664,638
Other revenue	**1,739**	242	**8,843**	2,906	**–**	–	**–**	–	**10,582**	3,148
Total revenue	**156,196**	1,247	**2,894,082**	1,364,561	**75,137**	299,695	**37,892**	2,283	**3,163,307**	1,667,786

No further geographical segment information is presented as over 90% of the Group's assets are located in Mainland China.

6. TURNOVER

Turnover represents the net invoiced value of goods sold, net of value-added tax and after allowances for returns and trade discounts.

Revenue from the following activities has been included in turnover:

Group

	2004	2003
	HK$'000	HK$'000
Manufacture and sale of mobile phones	**3,143,385**	1,664,471
Trading of raw materials	**9,340**	167
	3,152,725	1,664,638

7. LOSS FROM OPERATING ACTIVITIES

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

	Notes	2004 HK$'000	2003 HK$'000
Cost of inventories sold		**3,042,610**	1,587,154
Depreciation	16	**33,509**	23,723
Amortisation of intangible assets*	17	**581**	1,156
Research and development costs*		**28,045**	11,302
Goodwill:			
Amortisation for the year**	18	**44,542**	82,861
Impairment arising during the year**	18	**–**	732,226
		44,542	815,087
Auditors' remuneration		**2,100**	1,400
Staff costs (including directors' remuneration – note 9):			
Wages and salaries		**20,090**	11,909
Net pension scheme contributions		**3,308**	2,774
		23,398	14,683
Minimum lease payments under operating leases:			
Land and buildings		**713**	1,373
Plant and machinery		**25**	2,301
		738	3,674
Provision for obsolete and slow-moving inventories*		**18,430**	55,544
Write off of fixed assets***	16	**987**	5,197
Write off of intangible assets***	17	**–**	1,128
Foreign exchange losses/(gains), net		**(133)**	2,428
Gross rental income		**(1,137)**	(474)
Less: Outgoings		**–**	–
Net rental income		**(1,137)**	(474)
Government subsidies#		**(4,963)**	–
Interest income		**(969)**	(2,157)
Gain on disposal of fixed assets		**(10)**	–

7. LOSS FROM OPERATING ACTIVITIES (cont'd)

* The amortisation of intangible assets, research and development costs and provision for obsolete and slow-moving inventories for the year are included in "Cost of sales" on the face of the consolidated profit and loss account.

** The amortisation and impairment of goodwill for the year are disclosed on the face of the consolidated profit and loss account.

*** The write off of fixed assets and write off of intangible assets for the year are included in "Other operating expenses" on the face of the consolidated profit and loss account.

\# The subsidies were received from the relevant authorities of Qingdao Municipality as an encouragement for export sales made by one of the Group's subsidiaries in Mainland China.

8. FINANCE COSTS

Group

	2004	2003
	HK$'000	HK$'000
Interest on bank and other loans wholly repayable within five years	**12,151**	18,845

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance, is as follows:

Group

	2004	2003
	HK$'000	HK$'000
Executive directors:		
Fees	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**–**	–
Performance related bonuses	**–**	–
Pension scheme contributions	**–**	–
	–	–
Independent non-executive directors:		
Fees	**540**	300

9. DIRECTORS' REMUNERATION (cont'd)

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

	Number of directors	
	2004	2003
Nil – HK$1,000,000	**10**	9

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any director (2003: Nil), details of whose remuneration are set out in note 9 above. Details of the remuneration of the five (2003: five) non-director, highest paid employees for the year are as follows:

Group

	2004	2003
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**4,600**	2,498
Performance related bonuses	**–**	–
Pension scheme contributions	**62**	75
	4,662	2,573

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

	Number of employees	
	2004	2003
Nil – HK$1,000,000	**4**	5
HK$2,000,001 to HK$2,500,000	**1**	–
	5	5

11. TAX

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 year (2003: Nil).

The Group has two subsidiaries established in the PRC as a Sino-foreign equity joint venture and a wholly-foreign owned enterprise, respectively. These subsidiaries are entitled to preferential tax treatments, including full exemption from PRC corporate income tax for two years starting from its first profit-making year and a 50% reduction for the following three consecutive years.

	2004	2003
	HK$'000	HK$'000
Group:		
Current – Hong Kong:		
Underprovision in prior years	**–**	1,130
Current – Mainland China:		
Charge for the year	**5,382**	1,935
Overprovision in prior years	**(1,860)**	–
Deferred (note 27)	**806**	(4,718)
Total tax charge/(credit) for the year	**4,328**	(1,653)

11. TAX (cont'd)

A reconciliation of the tax charge/(credit) applicable to profit/(loss) before tax using the statutory or applicable rates for the locations in which the Company and its subsidiaries are domiciled to the tax charge/(credit) at the effective tax rates, and a reconciliation of the statutory or applicable rates to the effective tax rates, are as follows:

Group – 2004

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit/(loss) before tax	**(50,814)**		**23,756**		**(27,058)**	
Tax at the statutory or applicable tax rate	**(8,892)**	**17.5**	**5,702**	**24.0**	**(3,190)**	**11.8**
Expenses not deductible for tax	**7,639**	**(15.0)**	**1,923**	**8.1**	**9,562**	**(35.3)**
Overprovision in prior years	**–**	**–**	**(1,860)**	**(7.8)**	**(1,860)**	**6.9**
Tax losses not recognised	**1,253**	**(2.5)**	**2,827**	**11.8**	**4,080**	**(15.1)**
Tax exemption	**–**	**–**	**(4,264)**	**(17.9)**	**(4,264)**	**15.7**
Tax charge at the Group's effective rate	**–**	**–**	**4,328**	**18.2**	**4,328**	**(16.0)**

Group – 2003

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Loss before tax	(839,218)		(26,532)		(865,750)	
Tax at the statutory or applicable tax rate	(146,863)	17.5	(6,368)	24.0	(153,231)	17.7
Income not subject to tax	(266)	–	(160)	0.6	(426)	0.1
Expenses not deductible for tax	143,047	(17.0)	5,680	(21.4)	148,727	(17.2)
Adjustments in respect of current tax of previous periods	1,130	(0.1)	–	–	1,130	(0.1)
Tax losses not recognised	4,082	(0.5)	–	–	4,082	(0.5)
Tax exemption	–	–	(1,935)	7.3	(1,935)	0.2
Tax charge/(credit) at the Group's effective rate	1,130	(0.1)	(2,783)	10.5	(1,653)	0.2

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, was HK$44,427,000 (2003: HK$869,485,000) (note 30(b)).

13. DIVIDEND

No dividend has been paid or declared by the Company during the year (2003: Nil).

14. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$42,465,000 (2003: HK$856,364,000), and the weighted average of 9,964,026,198 (2003: 9,963,179,734) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2004 and 2003 have not been disclosed, as the share options and warrants outstanding during those years had an anti-dilutive effect on the basic loss per share for those years.

15. RELATED PARTY TRANSACTIONS

In addition to transactions and balances detailed in notes 16, 21, 22, 23, 24 and 26 to the financial statements, the Group had the following material transactions with Haier Group Corporation ("Haier"), Qingdao Haier Investment and 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.

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

	Notes	**2004 HK$'000**	2003 HK$'000
Sales of mobile phones	(i)	**2,747,869**	1,197,120
Purchases of materials	(ii)	**1,786,847**	81,388
Utility service fee expenses	(iii)	**4,657**	3,724
General security service fee expenses	(iii)	**136**	439
Human resources service fee expenses	(iii)	**38**	159
Legal consultancy service fee expenses	(iii)	**–**	64
Interest expenses	(iii)	**3,442**	3,346
Interest income	(iii)	**143**	73
Rental income	(iv)	**1,137**	474

15. RELATED PARTY TRANSACTIONS (cont'd)

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 Telecom (Qingdao) Co., Ltd. ("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 bidding price plus 2.6% commission.

(iii) The utility service fee expenses, legal consultancy service fee expenses, human resources service fee expenses, general security service fee expenses and interest expenses were charged by Qingdao Haier Energy Power Co., Ltd. ("Haier Energy"), Qingdao Haier Intellectual Property Rights and Legal Services Centre ("Haier Legal"), Qingdao Haier Human Resources Development Co., Ltd. ("Haier Human Resources"), Qingdao Haier Security Services Co., Ltd. ("Haier Security") and Haier Group Finance Co., Ltd. ("Haier Finance"), respectively, in accordance with the terms and conditions set out in the service agreement (the "Service Agreement") entered into between Pegasus Qingdao, Haier Energy, Haier Legal, Haier Human Resources, Haier Security and Haier Finance on 10 January 2003. The interest income was received from Haier Finance in accordance with the terms and conditions set out in the Service Agreement.

Pursuant to the Service Agreement, the utility service fees, legal consultancy service fees, human resources service fees and general security service fees were charged with reference to actual costs incurred. The interests were determined with reference to the standard rates published by the People's Bank of China.

The average daily balance of the Group's loan from Haier Finance (plus interest) and deposits in Haier Finance (plus interest) for each of the twelve months ended 31 December 2004 did not exceed RMB150 million (equivalent to approximately HK$140 million) and RMB30 million (equivalent to approximately HK$28 million), respectively.

(iv) The monthly rental was calculated by reference to rentals of properties in the proximate locations as quoted by the Company's directors.

The above transactions, except the rental income described in (iv) above, were defined as "Ongoing Connected Transactions" in the circular to the shareholders of the Company dated 17 March 2003 and were approved by the shareholders at a special general meeting of the Company on 2 April 2003.

15. RELATED PARTY TRANSACTIONS (cont'd)

(b) On 22 June 2004, Haier provided a corporate guarantee of US$15,000,000 (equivalent to HK$117,000,000) to the Bank of Communications, Qingdao Branch, as a security for banking facilities granted to Pegasus Qingdao for the period from 22 June 2004 to 22 September 2004. The guarantee was automatically released when the corresponding loan was repaid on 22 September 2004.

(c) 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 31 December 2004, the above banking facilities were fully utilised.

16. FIXED ASSETS

Group

	Buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Tools, moulds and equipment HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:								
At 1 January 2004	128,515	312	277,101	29,039	1,967	1,384	473	438,791
Additions	2,197	–	19,476	50,958	–	–	608	73,239
Disposals	–	–	–	–	–	(351)	–	(351)
Write off	–	(312)	–	(416)	(1,967)	–	–	(2,695)
Transfers	–	–	–	891	–	–	(891)	–
At 31 December 2004	**130,712**	**–**	**296,577**	**80,472**	**–**	**1,033**	**190**	**508,984**
Accumulated depreciation:								
At 1 January 2004	7,326	312	33,749	7,504	1,004	760	–	50,655
Provided during the year	5,831	–	20,181	6,828	392	277	–	33,509
Disposals	–	–	–	–	–	(211)	–	(211)
Write off	–	(312)	–	–	(1,396)	–	–	(1,708)
At 31 December 2004	**13,157**	**–**	**53,930**	**14,332**	**–**	**826**	**–**	**82,245**
Net book value:								
At 31 December 2004	**117,555**	**–**	**242,647**	**66,140**	**–**	**207**	**190**	**426,739**
At 31 December 2003	121,189	–	243,352	21,535	963	624	473	388,136

16. FIXED ASSETS (cont'd)

As at 31 December 2004, the land use rights of the two parcels of land occupied by the Group in Mainland China were not acquired by and registered under the name of the respective subsidiaries of the Company. As at 31 December 2004, the Group is in the process of negotiating with Haier for the acquisition of these two parcels of land use right.

As at 31 December 2004, all of the Group's buildings, situated in Mainland China, do not have building ownership certificates registered under the name of the respective subsidiaries of the Company.

On 3 February 2004, Haier issued an undertaking to the Company pursuant to which Haier agreed to provide other suitable properties to the Group to ensure the continuing operations of the respective subsidiaries of the Company and indemnify the Group for any moving cost/loss incurred, if, for any reason, the respective subsidiaries were not able to continue using the buildings before the related acquisition and registration procedures were completed.

In addition, on 1 June 2004, Haier issued another undertaking to the Company pursuant to which Haier agreed to provide a further indemnity to the Group to bear any losses arising from the above defective land use right and property title issues.

In the opinion of the directors, the Group is entitled to lawfully and validly occupy and use the buildings for its daily operations, notwithstanding the fact that the related land use rights have not been acquired by and registered under the name of the respective subsidiaries of the Company and the application procedures for the building ownership certificates have not yet been completed.

17. INTANGIBLE ASSETS

Group

	Patents and licences HK$'000
Cost:	
At 1 January and 31 December 2004	5,810
Accumulated amortisation:	
At 1 January 2004	1,307
Amortisation provided during the year	581
At 31 December 2004	**1,888**
Net book value:	
At 31 December 2004	**3,922**
At 31 December 2003	4,503

18. GOODWILL

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

Group

	HK$'000
Cost:	
At 1 January and 31 December 2004	1,635,276
Accumulated amortisation and impairment (note):	
At 1 January 2004	892,909
Amortisation provided during the year	44,542
At 31 December 2004	**937,451**
Net book value:	
At 31 December 2004	**697,825**
At 31 December 2003	742,367

18. GOODWILL (cont'd)

Note: In 2003, due to intensifying competition and price reduction of mobile phones in the mobile phone market, the Group had performed an assessment of the fair value of its interest in the mobile phone operations acquired in prior years, including the related goodwill that had been capitalised as an asset in the consolidated balance sheet as at 31 December 2003. As a result, based on the estimated value in use of the mobile phone operations, the Group recognised an impairment loss of approximately HK$732 million in the consolidated profit and loss account for the year ended 31 December 2003.

19. INTERESTS IN SUBSIDIARIES

Company

	2004	2003
	HK$'000	HK$'000
Unlisted shares, at cost	**1,963,638**	1,946,185
Due from subsidiaries	**608**	848
Due to a subsidiary	**(8,747)**	–
	1,955,499	1,947,033
Provision for impairment	**(904,028)**	(864,228)
	1,051,471	1,082,805

The amounts due from/to subsidiaries are unsecured, interest-free and are repayable on demand.

19. INTERESTS IN SUBSIDIARIES (cont'd)

Particulars of the principal subsidiaries are as follows:

Name	Place of establishment/ operations	Nominal value of registered capital	Percentage of equity directly attributable to the Company	Principal activities
Pegasus Telecom (Qingdao) Co., Ltd.*	PRC	US$12,000,000	64.5	Manufacture and sale of mobile phones
Pegasus Electronic (Qingdao) Co., Ltd.**	PRC	US$29,980,000	100	Manufacture and sale of mobile phones

* Registered as a Sino-foreign equity joint venture enterprise under the PRC law.

** Registered as a wholly-foreign owned enterprise under the PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20. INVENTORIES

Group

	2004 HK$'000	2003 HK$'000
Raw materials	**206,025**	257,916
Work in progress	**113,466**	36,670
Finished goods	**65,548**	46,542
	385,039	341,128

The carrying amount of inventories carried at net realisable value included in the above balance was approximately HK$135,705,000 (2003: HK$19,450,000) as at the balance sheet date.

21. TRADE AND BILLS RECEIVABLES

The Group normally allows an average credit period of 30 to 90 days to its trade customers. An aged analysis of the trade and bills receivables as at the balance sheet date, based on invoice date and net of provisions, is as follows:

Group

	2004		2003	
	HK$'000	**Percentage**	HK$'000	Percentage
Within 1 month	**294,282**	**63**	482,056	92
1 to 2 months	**114,605**	**25**	35,744	7
2 to 3 months	**8,108**	**2**	2,888	–
Over 3 months	**46,912**	**10**	3,241	1
	463,907	**100**	523,929	100

Included in the Group's trade and bills receivables are amounts due from the affiliates of Haier of HK$311,864,000 (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.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		**Company**	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**23,896**	5,862	**23,134**	5,485
Deposits and other receivables	**35,107**	57,964	**–**	–
	59,003	63,826	**23,134**	5,485

Included in other receivables are rental income receivable from the affiliates of Haier amounting to HK$852,000 (2003: HK$474,000). The balances of these rental income receivables are unsecured, interest-free and are repayable on demand. Further details of the rental income are set out in note 15 to the financial statements.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**26,911**	126,653	**1,168**	3,484
Time deposits	**130,435**	141,320	**113,662**	141,320
	157,346	267,973	**114,830**	144,804
Less: Pledged deposits	**(16,773)**	(1,079)	**–**	–
Cash and cash equivalents	**140,573**	266,894	**114,830**	144,804

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$42,148,000 (2003: HK$123,075,000). The RMB is not freely convertible into other currencies, however, under the PRC 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.

Included in the Group's cash and cash equivalents are deposits of approximately HK$2,876,000 (2003: HK$19,995,000) placed with Haier Finance, a financial institution approved by the People's Bank of China. The interest rate on these deposits was 0.72% per annum.

Further details of the interest income attributable to the deposits placed with Haier Finance are set out in note 15 to the financial statements.

24. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

Group

	2004		2003	
	HK$'000	**Percentage**	HK$'000	Percentage
Within 1 month	**274,371**	**37**	363,792	82
1 to 2 months	**66,313**	**9**	47,343	10
2 to 3 months	**91,457**	**12**	8,688	2
Over 3 months	**309,045**	**42**	25,832	6
	741,186	**100**	445,655	100

Included in the Group's trade payables are amounts due to the affiliates of Haier of HK$413,494,000 (2003: HK$4,174,000), which are repayable on similar credit terms to those offered by the major suppliers of the Group. Further details of the purchases from these related parties are set out in note 15 to the financial statements.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**19,733**	22,324	**–**	–
Accruals	**2,957**	2,236	**2,162**	1,400
	22,690	24,560	**2,162**	1,400

26. INTEREST-BEARING BANK AND OTHER LOANS, UNSECURED

Group

	2004 HK$'000	2003 HK$'000
Bank loans repayable within one year or on demand	–	377,757
Other loan repayable within one year or on demand – note	65,421	65,421
Trust receipts repayable within one year	81,623	105,750
	147,044	548,928

Note:

The other loan was borrowed from Haier Finance, which is guaranteed by Haier, bears interest at a rate of approximately 5% per annum and is repayable on 24 June 2005 (2003: 26 June 2004). Further details of the interest expense attributable to the loan borrowed from Haier Finance are set out in note 15 to the financial statements.

27. DEFERRED TAX

The movement in deferred tax assets (representing the provision for obsolete and slow-moving inventories) during the year is as follows:

Group

	2004 HK$'000
At 1 January 2004	**8,624**
Deferred tax charged to the profit and loss account during the year (note 11)	**(806)**
At 31 December 2004	**7,818**

Group

	2003 HK$'000
At 1 January 2003	3,906
Deferred tax credited to the profit and loss account during the year (note 11)	4,718
At 31 December 2003	8,624

27. DEFERRED TAX (cont'd)

The Group has tax losses arising in Hong Kong of HK$40,419,000 (2003: HK$36,075,000) 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.

At 31 December 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries 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.

28. SHARE CAPITAL

Shares

	2004	2003
	HK$'000	HK$'000
Authorised:		
30,000,000,000 (2003: 20,000,000,000) shares of HK$0.10 each	**3,000,000**	2,000,000
Issued and fully paid:		
9,964,027,945 (2003: 9,964,016,574) shares of HK$0.10 each	**996,403**	996,402

Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 13 December 2004, the authorised share capital of the Company was increased from HK$2,000,000,000 to HK$3,000,000,000 by the creation of 10,000,000,000 additional shares of the Company of HK$0.10 each.

28. SHARE CAPITAL (cont'd)

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

	Number of shares in issue	Issued capital HK$'000	Share premium HK$'000	Total HK$'000
At 1 January 2003	9,962,291,000	996,229	70,040	1,066,269
Exercise of share warrants	574	–	–	–
Exercise of share options (note)	1,725,000	173	134	307
At 31 December 2003 and beginning of year	9,964,016,574	996,402	70,174	1,066,576
Exercise of share warrants	11,371	1	5	6
At 31 December 2004	**9,964,027,945**	**996,403**	**70,179**	**1,066,582**

Note:

Details of the Company's share option schemes and the share options issued under the schemes are included in note 29 to the financial statements.

Warrants

On 22 February 2002, the Company made a bonus issue of warrants to the shareholders whose names appeared on the register of members of the Company on 22 February 2002, on the basis of one unit of warrant for every ten shares of HK$0.10 each in the share capital of the Company held on that date. As a result, 893,876,600 units of warrants (the "2004 warrants") in the amount of HK$464,815,832 were issued pursuant to the bonus issue. Each unit of warrant entitled the holder thereof to subscribe to new ordinary shares of the Company at an initial subscription price of HK$0.52 per share, payable in cash and subject to adjustment, at any time between 26 February 2002 and 26 February 2004 (both dates inclusive).

During the year, 11,371 warrants were exercised for 11,371 shares at HK$0.52 per share. On 26 February 2004, all outstanding 2004 warrants expired and the subscription rights attaching to the 2004 warrants which had not been exercised by 26 February 2004 expired and lapsed.

29. SHARE OPTION SCHEMES

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 further options under the Old Share Option Scheme. However, all options granted prior to the termination of the Old Share Option Scheme will remain in full force and effect. Unless otherwise cancelled or amended, the New Share Option Scheme will remain in force for 10 years from the date of adoption. As at 31 December 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.

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

29. SHARE OPTION SCHEMES (cont'd)

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 (and if required, the independent non-executive directors of the holding company), excluding the independent non-executive director(s) of the Company and the holding company who is/are the grantee(s) of the 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 shares of the Company 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 if required, the holding company) and the approval of the shareholders of the Company (and if required, the approval of the shareholders of the holding 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.

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 shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the shares of the Company 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 shares of the Company.

29. SHARE OPTION SCHEMES (cont'd)

Details of the movement of 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 2004	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding as at 31 December 2004	Date of grant of share options (note 1)	Exercise period of share options	Exercise price per share (note 2) HK$
EMPLOYEES								
In aggregate	3,000,000	–	–	–	3,000,000	13/7/2001	13/1/2002 – 12/7/2005*	0.190

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 date of expiry was extended for one year from the original date of expiry of 12 July 2003 to 12 July 2004 pursuant to the board resolution of the Company passed on 2 July 2003. It was further extended for one year to 12 July 2005 pursuant to the board resolution of the Company passed on 8 July 2004.

29. SHARE OPTION SCHEMES (cont'd)

Details of the movement of 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 2004	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding as at 31 December 2004	Date of grant of share options (note 1)	Exercise period of share options	Exercise price per share (note 2) HK$
EXECUTIVE DIRECTORS								
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
Liang Hai Shan	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
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
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			
INDEPENDENT NON – EXECUTIVE DIRECTORS								
Lam Kin Kau, Mark	5,000,000	–	–	–	5,000,000	16/8/2002	16/8/2003 – 15/8/2007	0.156
Fung Hoi Wing, Henry	5,000,000	–	–	–	5,000,000	16/8/2002	16/8/2003 – 15/8/2007	0.156
	10,000,000	–	–	–	10,000,000			
OTHER EMPLOYEES								
In aggregate	247,500,000	–	–	–	247,500,000	16/8/2002	16/8/2003 – 15/8/2007	0.156
	880,500,000	–	–	–	880,500,000			

29. SHARE OPTION SCHEMES (cont'd)

Notes:

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

2. The exercise price of the share options is subject to adjustment(s) in the case of rights or bonus share issues, or other similar changes in the share capital of the Company.

At the balance sheet date, the Company had 3,000,000 and 880,500,000 share options outstanding under the Old Share Option Scheme and the New Share Option Scheme, respectively, which represented a total of approximately 8.87% of the Company's shares in issue as at that date. The exercise in full of these remaining share options would, under the present capital structure of the Company, result in the issue of 883,500,000 additional ordinary shares of the Company and additional share capital of HK$88,350,000 and share premium of HK$46,908,000 (before issue expenses).

Subsequent to the balance sheet date, on 28 January 2005, a total of 89,000,000 share options granted under the New Share Option Scheme lapsed upon resignation of a director on the same date. In addition, on 8 March 2005, a total of 43,000,000 share options were exercised, resulting in the issue of 43,000,000 additional ordinary shares of the Company and additional share capital of HK$4,300,000 and share premium of HK$2,408,000 (before issue expenses).

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and the prior years are presented in the consolidated statement of changes in equity on page 33 of the financial statements.

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

30. RESERVES (cont'd)

(b) Company

	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2003	70,040	1,035,156	(553)	1,104,643
Exercise of share options	134	–	–	134
Net loss for the year	–	–	(869,485)	(869,485)
At 31 December 2003 and beginning of the year	70,174	1,035,156	(870,038)	235,292
Exercise of share warrants	5	–	–	5
Net loss for the year	–	–	(44,427)	(44,427)
At 31 December 2004	**70,179**	**1,035,156**	**(914,465)**	**190,870**

The contributed surplus of the Company represents the excess of the fair values of the shares of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances.

31. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

32. OPERATING LEASE ARRANGEMENT

The Group leases part of its buildings (note 16 to the financial statements) under an operating lease arrangement, with the lease negotiated for a term of 12 months.

At the balance sheet date, the Group had total future minimum lease receivables under the non-cancellable operating lease with its tenants falling due as follows:

	Group	
	2004 HK$'000	2003 HK$'000
Within one year	**284**	284

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group and the Company had the following commitments at the balance sheet date:

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Contracted, but not provided for:				
Acquisition of fixed assets	**4,432**	17,441	**–**	–
Authorised, but not contracted for:				
Acquisition of fixed assets	**–**	140	**–**	–
Contracted, but not provided for:				
Capital contribution payable to a wholly-owned subsidiary in Mainland China	**–**	–	**14,153**	31,606
	4,432	17,581	**14,153**	31,606

34. POST BALANCE SHEET EVENTS

The Group had the following two post balance sheet events:

(i) On 5 March 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 BVI for an aggregate consideration of RMB1,100 million (equivalent to approximately HK$1,035 million) (the "Asset Injection").

Under the terms of the Asset Injection Agreement, the consideration would be satisfied as follows:

(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 convertible price of HK$0.18 per share (subject to adjustments) at any time during the convertible period; and

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

The Asset Injection was completed on 28 January 2005.

34. POST BALANCE SHEET EVENTS (cont'd)

(ii) On 28 January 2005, the Company exercised its call option to acquire the remaining 35.5% interest in Pegasus Qingdao owned by Haier Investment for a consideration of HK$468,600,000, satisfied by the issue of 2,343,000,000 new shares of the Company at a price of HK$0.20 each (the "Call Option Exercise").

Upon completion of the Asset Injection and the Call Option Exercise, Haier, Haier Investment and their affiliates became the controlling shareholders of the Company, further details of which are set out in the Company's announcement dated 28 January 2005.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2005.