

financial review

Financial Results

Summary of Results

HK\$'million	2001	2000 (Restated)	% change
Turnover	3,106	2,190	+42
Gross profit	392	214	+83
Profit from operating activities before net gains/(losses) on investments and impairments of fixed assets	22	200	-89
Net unrealised holding gains/(losses) on short term investments	(452)	127	N/A
Net realised losses on disposal of short term investments	(43)	(4)	+975
Impairment of long term investments	(30)	(101)	-70
Impairment of fixed assets	(127)	-	N/A
Profit/(loss) from operating activities	(630)	222	N/A
Finance costs	(36)	(34)	+6
Share of results of jointly-controlled entities	9	5	+80
Share of results of associates	(9)	1	N/A
Impairment of goodwill	-	(426)	N/A
Loss before tax	(666)	(232)	+187
Tax	(6)	(13)	-54
Loss before minority interests	(672)	(245)	+174
Minority interests	(13)	40	N/A
Net loss from ordinary activities attributable to shareholders	(685)	(205)	+234

Turnover amounted to HK\$3,106 million in 2001, representing an increase of 42% from corresponding period, due to strong growth in core business. Gross profit increased 83% to reach \$392 million, as a result of improvement in business and operating efficiency.

Due to the adoption of new accounting standard, the Company had carried out an extensive review of the Group's investments to assess whether there are any impairment in the carrying value of the assets, investments and goodwill previously eliminated against reserve. As a result, impairment of investments and assets totaling HK\$609 million was made for the year. Taken into consideration of the impairment losses, the Group reported a net loss of HK\$685 million for the year 2001. A prior year adjustment of HK\$426 million for impairment of goodwill was made retrospectively for the year 2000 and restated the previously reported profit into a net loss of HK\$205 million.

Analysis by business activities

HK\$'million	Turnover		Profit / (loss) from operating activities	
	2001	2000	2001	2000
Telecom products	2,851	1,856	140	33
Baby care products	156	109	7	4
Multimedia	54	15	(1)	(43)
Corporate, investment and others	45	210	(776)	228
Total	3,106	2,190	(630)	222

The Group's core telecom product (cordless phone, mobile phone and components) business continued to contribute major proportion (92%) of turnover. Turnover jumped 54% to reach 2,851 million and operating profit increased 324% to reach HK\$140 million due to strong business growth and improved operating efficiency.

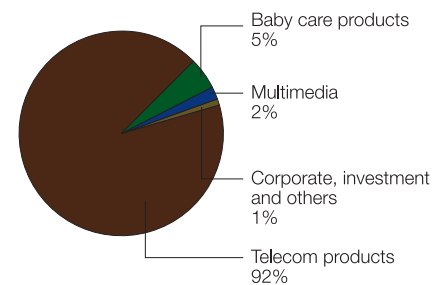
The cordless phone and component business achieved strong growth in business in current year, due to increase in product demand.

The mobile phone business cooperated with Haier Group Corporation ("Haier") started operations in early 2001. The Hong Kong mobile phone joint venture which is engaged in the sourcing of raw materials and export of mobile phones was injected into Haier-CCT Holdings Limited ("Haier-CCT") in December 2001 as the first phase of the transaction. The second phase of the transaction, which will involve the injection of the Qingdao joint venture, has not yet been completed at year end. The Qingdao joint venture jointly operated with Haier and in which the Group holds 49% interest is engaged in the manufacturing and domestic distribution of mobile phones. Both the Hong Kong and Qingdao joint venture already recorded profit during the first year of operation.

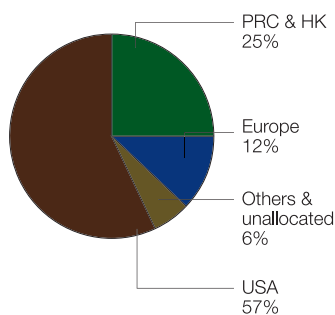
The baby care product business maintained steady growth in the year 2001, and achieved improvement in both turnover and profit. A small loss of HK\$1 million was recorded for the multimedia business.

The operating profit generated from core business amounted to HK\$147 million in total. This was offset by impairment losses in 2001 which was included under the corporate and investment segment. As a result of the impairment, the Group reported a net operating loss of HK\$630 million in the year 2001. Last year operating profit of HK\$222 million was before retrospective adjustment of the impairment of goodwill.

2001 Turnover by business activities



2001 Turnover by geographical region



Analysis by geographical region

HK\$'million	Turnover		Profit / (loss) from operating activities	
	2001	2000	2001	2000
USA	1,783	1,199	85	44
Europe	365	212	19	8
PRC (including Hong Kong)	778	741	(21)	(136)
Others and unallocated	180	38	(713)	306
Total	3,106	2,190	(630)	222

North America continued to be the major market for the Group accounting for 57% (2000: 55%) of the total turnover and contributed HK\$85 million (2000: HK\$44 million) of operating profit in the year 2001. Due to increased export of telecom products including mobile phones to Europe, the contribution from the European market increased, in terms of both turnover and profits. The unallocated items mainly include investment revenue and the impairment losses.

FINANCIAL POSITION

Consolidated Balance Sheet Summary

HK\$'million	2001	2000	% Change
Non-current assets	2,056	2,116	-3
Goodwill	385	-	N/A
Current assets	2,202	2,425	-9
Total assets	4,643	4,541	+2
Current liabilities	1,086	1,381	-21
Non-current liabilities	210	129	+63
Minority interests	827	95	+771
Total liabilities	2,123	1,605	+32
	2,520	2,936	-14

Total assets

Total assets increased by 2% to HK\$4,643 million in 2001 due to the addition of the goodwill and the cash proceeds from rights issue, partially offset by the impairment in investments and fixed assets.

Despite tremendous increase in turnover, inventories decreased to HK\$121 million as at 31 December 2001 due to efficient inventory management. Turnover at a ratio of stock is 25 times in the current year, a clear indicator of efficiency.

Total Liabilities

Total liabilities increased by 32% attributable mainly to the increase in the minority interest attributable to minority's share of net asset of Haier-CCT.

The decrease in net assets was attributable to the impairment in goodwill and investments.

Net Asset Value Per Share

HK\$'million	2001	2000	% Change
Net assets	2,520	2,936	-14
Number of shares in issue (in thousand)	422,105	391,333*	+8
Net assets value per share (HK\$)	5.97	7.50	-20

* Taking into account the share consolidation, rights issue and bonus issue.

The net asset value per share was decreased by 20% due to the decrease in net assets due to loss in the current year and the large increase in the number of shares as a result of the rights issue and bonus issue.

Capital Structure and Gearing Ratio

HK\$'M	As at 31 December 2001		As at 31 December 2000	
	Amount	Relative %	Amount	Relative %
Bank loans	363	12	339	10
Convertible debt	120	4	150	4
Equity	2,520	84	2,936	86
Total capital employed	3,003	100	3,425	100

The Group's financial position remains strong. The total bank loans and convertible debt to total capital employed was 16% (2000: 14%). The Group had banking facilities totaling approximately HK\$775 million of which approximately HK\$360 million had been utilized.

As at 31 December 2001, the Group had cash and bank balances totaling HK\$1,137 million compared with HK\$497 million at the end of year 2000. The tremendous increase in cash was attributable to the strong cash flow from operations, rights issue and corporate financing activities. Such a large pool of cash provides strong financial resources for the Group to grow and expand its core business.

Cash Flow

HK\$' million	2001	2000	% Change
Net cash inflow / (outflow) from operating activities	188	(21)	N/A
Returns on investments and servicing finance	(23)	3	N/A
Tax paid	(4)	(5)	-20
Net cash inflow / (outflow) before investing activities	161	(23)	N/A
Net cash outflow for investing activities	(131)	(1,008)	-87
Net cash inflow from financing activities	651	996	-35
Increase/(decrease) in cash balance	681	(35)	N/A

Net cash inflow in the amount of HK\$188 million was generated from operating activities in 2001, due to strong growth in core business and improvement in operating efficiency.

The net cash outflow for investing activities decreased substantially from HK\$1,008 million in 2000 to HK\$131 million in 2001 due to prudent investment strategy. This was in line with the Group's conservative approach to cash management and risk controls.

Cash inflow from financing activities in 2001 amounted to HK\$651 million arose mainly from raising of funds from capital market during the year.

Use of Proceeds

On 30 June 2001, the Company issued an 8 percent convertible bonds in the amount of HK\$100 million. The proceeds were used for capital expenditure of the Group's manufacturing operation and general working capital, which was in accordance with the proposed application as stated in the announcement dated 18 June 2001.

On 29 October 2001, the Company allotted and issued 120,000,000 ordinary shares at a price HK\$0.50 each and raised HK\$60 million in cash. The proceeds were used to pay the general operating and administrative expenses of the Group, which was in accordance with the proposed application as stated in the announcement dated 15 October 2001.

On 24 December 2001, the Company completed the rights issue and bonus issue set out in the circular to the shareholders dated 29 November 2001. A net amount of \$205 million was raised from the rights issue and the proceeds were placed on deposit at year end pending for the use of funds as described in the circular.

Treasury Management

The Group maintains a conservative approach to cash management and risk controls. The Group's treasury activities are centralized. More than 90% of the Group's receipts and payments are in Hong Kong dollars and United States dollars. Cash is generally placed in short term deposits denominated in either Hong Kong or United States dollars. The Group's borrowings are principally on a floating rate basis. The Group does not have any significant foreign currency or interest rate risk.

OTHER INFORMATION

Employees and Remuneration Policy

The total number of employees in the Group as at 31 December 2001 was 10,587 (2000: 13,200).

Remuneration packages are normally reviewed annually. Apart from salary payments, other staff benefits included provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees of the Group. As at the balance sheet date, there were approximately 17 million (2000: approximately 29 million) options outstanding.

Pledged of Assets

As at 31 December 2001, certain of the Group's assets with net book value of HK\$383 million (2000: HK\$736 million) and time deposits amounted HK\$180 million (2000: HK\$130 million) were pledged to secure general banking facilities granted to the Group.

Contingent Liabilities

Except for corporate guarantees given to banks in connection with facilities granted to subsidiaries by the Company of approximately HK\$360 million, the Group has no other contingent liabilities as at the balance sheet date.