CCT TELECOM

CCT Telecom Holdings Limited
中建電訊集團有限公司



annual report 2001
二零零一年報

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mission

CCT Telecom is one of the leading global cordless phone manufacturers. Our solid market position, extensive business network and, most importantly, our strong R&D capability, allow us to maintain our prominent ranking in the international market. As we develop more advanced and more sophisticated telecom products, we are able to continue to satisfy world demand for new innovations and to match the increasing pace of technology in today's world.

Our mission remains – creating communications technology for the future



highlights of the year





February 2001

The mobile phone production plant in Qingdao commenced manufacturing

May 2001

CCT Telecom was presented with the ‘Best Quality Award’ by one of its major customers, Atlinks, for the second consecutive year

2001 was a year of consolidation and expansion. Our major business – telecom product manufacturing – developed satisfactorily and will continue to expand. Previous unprofitable investments were provided for, disposed of or terminated. We will refocus our resources on our core business and be prepared for future growth.





December 2001

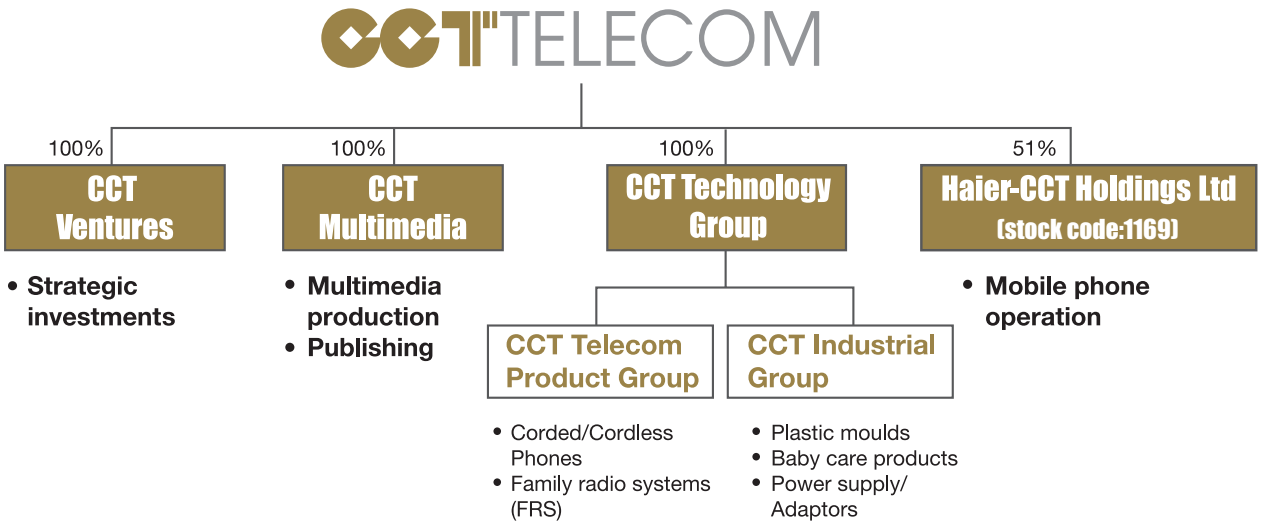
The mobile phone operation jointly set up with Haier was injected into CCT Telecom's listing subsidiary, and the company was subsequently renamed 'Haier-CCT Holdings Limited'

December 2001

Rights issue for gross proceeds of HK$208 million with a satisfactory over-subscription rate of 245%

CCT Telecom's business

CCT Telecom is currently engaged in four major aspects of business, namely CCT Technology Group's cordless phone and component manufacturing and distribution , Haier-CCT Holdings' mobile phone operation, CCT Multimedia's multimedia business and CCT Ventures' strategic investment.



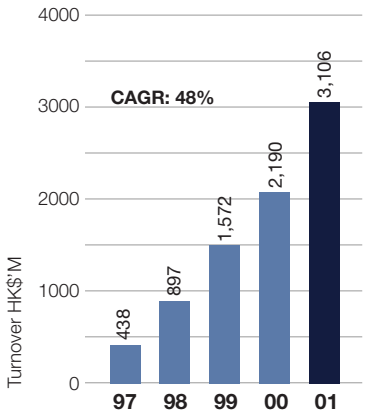
Of these four, the design and manufacture of original cordless phones continues to comprise our major business. In 2001, this contributed approximately 75% of total turnover.

Future growth plans centre around a long-term concentration on development of our original design manufacturing and distribution which is both vital and dynamic, and forms a solid foundation for the Group.



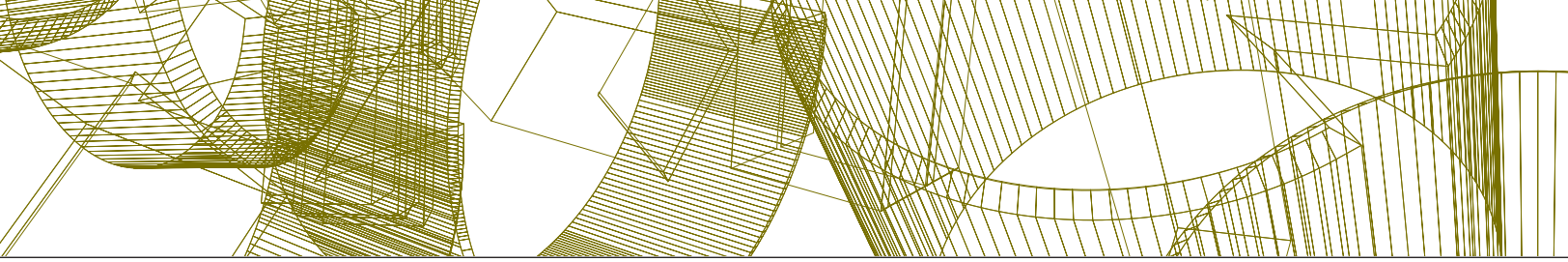
chairman's letter

5 Years Turnover



2001 was a year of progress and achievement for CCT Telecom, during which management was pleased to see the continued expansion of its core telecom product manufacturing business. In 2001, the recorded revenue was HK$3,106 million, signifying a 42% increase over 2000. Gross profit reached HK$392 million, representing a tremendous increase of 83% against the previous year.

In accordance with new accounting standards, the management team had carried out an extensive review of the Group's investments and assets to assess whether there are any impairment in the carrying value of the investments and assets, and decided to take a prudent approach in assessing the recoverable value of its underperforming investments in the past few years. With provisions for the period totaling HK$609 million for the impairment from our investments and assets, including the Internet servicing and portal investments, CCT Telecom reported a net loss attributable to shareholders of HK$685 million for the year 2001. The prior period results were also restated by charging provisions for impairment from goodwill. This decision was not easy but will be beneficial for the Group in the long run. These exercises help to provide a basis for judicious financial performance measures as we go forward, as well as creating a clean slate for our future expansion.



Under a prudent financial management policy, CCT Telecom Group's financial position is sound with over HK$1 billion cash on hand. This large pool of cash places the Group in a strong competitive position in the current economic environment, and provides us with a sufficient fund to expand our core business.

Cordless Phone Operation

Our cordless phone operation has remained strong in 2001. Revenue of HK$2,314 million and an operating profit of HK$113 million were recorded, representing 25% and 66% growth, respectively, despite the economic recession experienced in the US market. New products such as the third generation of 2.4 GHz cordless phone were well-received by consumers and helped to further consolidate the GE brand name in the global market, hence further strengthening our own position as the largest supplier for GE brand cordless phones in the world.

Mobile Phone Operation

We set up mobile phone joint ventures with Haier Group in 2000 and commenced mobile phone manufacturing and distribution in 2001. We are pleased to note that the HK JV and PRC JV have already recorded profit during the first year of operation. In December 2001, we injected the HK JV, which is responsible for mobile phone export and material sourcing, into another listed subsidiary company (stock code: 1169) in order to facilitate the expansion of this business. The restructured listed company is now known as "Haier-CCT Holdings Limited", and we anticipate that it will soon acquire the PRC JV engaging in manufacturing and domestic distribution of mobile phones.

Haier has a prestigious brand name, an extensive distribution network and worldwide recognition. This, coupled with CCT Telecom's R&D strength, strong material procurement capability and financing knowledge, has created an opportunity with unprecedented potential for Haier-CCT in the future.

Outlook

We have just purchased the baby care product business from Haier-CCT as the first step of a consolidation process in 2002. It is believed that the baby care product business will be synergistic with CCT Telecom's plastic product manufacturing business and will serve as an additional source of stable revenue for the Group. Under our expansion plan, we are evaluating the opportunity of distributing baby care products in the PRC, a market with huge potential, which if realized, will no doubt contribute to the profit of the Group.

Whilst CCT Telecom will continue as an original design manufacturer and will begin to develop its distribution business in the PRC, it will also develop a double identity as an investment holdings company. The development plan for the Company has been carefully researched and a path has been selected as the best way forward to advance the business and create future growth opportunities.

From an operational point of view, as an integrated original design manufacturer, we will continue to concentrate on telecom product original design manufacturing. This has proved financially successful in the past, and has generated substantial profit for us in 2001. And as a holdings company, we will try to float some businesses and some of our strategic investments in the stock market this year. An example of this is TradeEasy, one of the investee companies of the Group, which was successfully listed on the GEM Board in March 2002. More cases will follow suit. Under this strategy, our business structure can be further streamlined while at the same time the overall value of the Group can be increased.

As the PRC market opens up, we will take advantage of the new opportunities that will arise by leveraging on the close relationship with our partners in China. This will enable products manufactured by CCT Telecom to be launched in the PRC market, while at the same time, we will be able to leverage on our close ties with our foreign business partners to expand in the global market.

We are realistically optimistic about our future. Our business foundation is strong, our strategic partnership is solid, and our cash position is healthy. We will utilize our capital in an effective way and invest in businesses relevant to our core products. In 2001, we invested very prudently. We are committed to continuing this careful investment policy so as to maintain a strong and stable financial foundation, while at the same time expanding and extending our business in the years to come.

CCT Telecom will now have dual roles, as an original design manufacturer and as an investment holdings company.

Acknowledgements

Our success this year would not have been possible without the assistance of many people. I would like to take this opportunity of thanking our staff, whose experience and dedication have contributed greatly to the results we are able to report now. I would also like to thank our business partners and shareholders for their continued support. We rely upon all of you for our success, and we look forward to creating greater opportunities and delivering increased returns for you in the coming year.

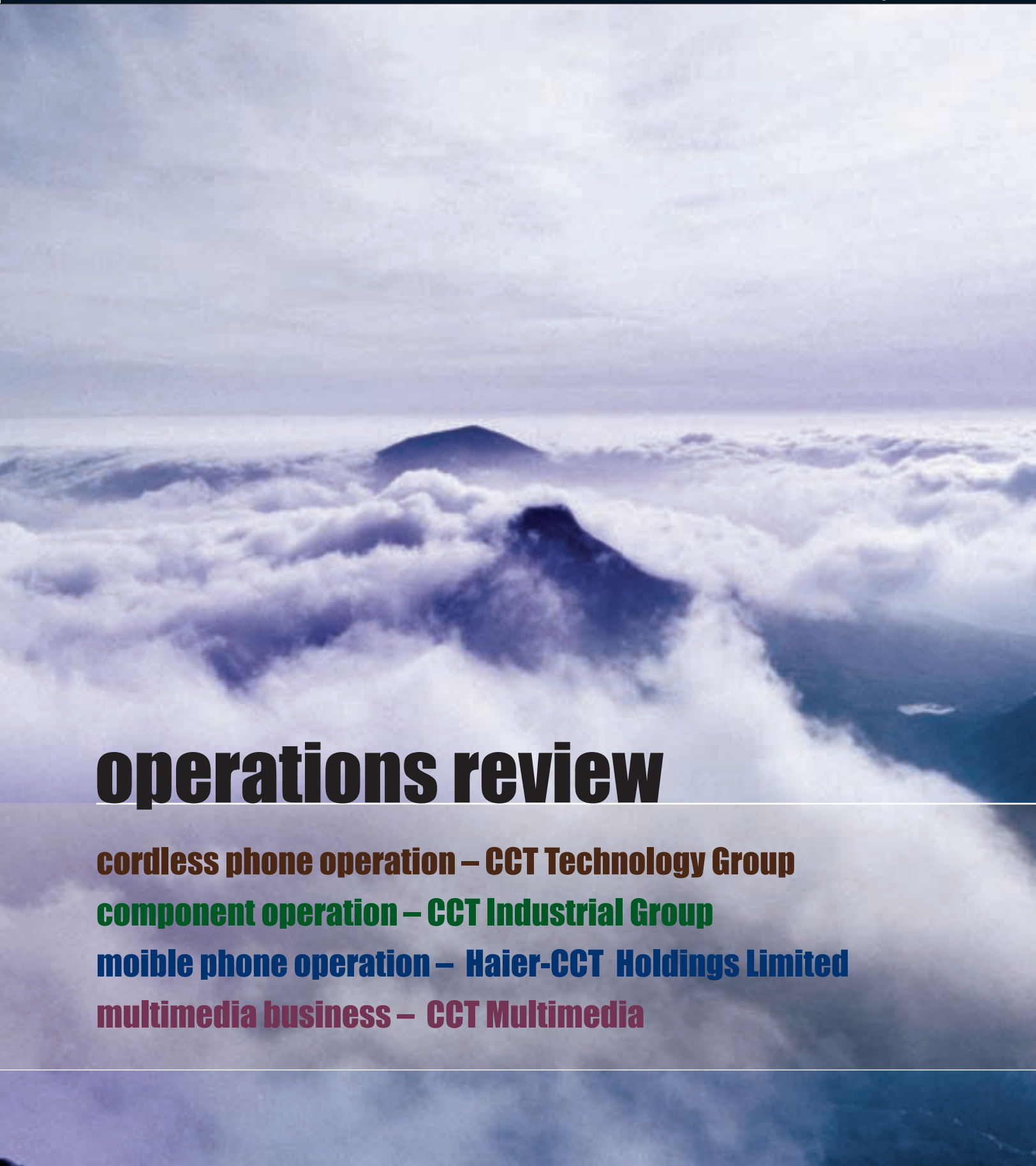
By Order of the Board

MAK Shiu Tong Clement

Chairman

Hong Kong, 22 April 2002





operations review

cordless phone operation – CCT Technology Group

component operation – CCT Industrial Group

moible phone operation – Haier-CCT Holdings Limited

multimedia business – CCT Multimedia

cordless phone operation

CCT Technology Group



Manufacturing Base	CCT Technology Park, Huiyang, Guangdong Province, China
Product Range	2.4 GHz analog cordless phone 2.4 GHz digital (SST) cordless phone 2.4 GHz multi-line, multi-handset cordless phone 900 MHz analog cordless phone 900 MHz digital (SST) cordless phone CT0 (US & Europe) cordless phone DECT cordless phone Family radio system (FRS)



2001 Review

During the period under review, intensive efforts were made to increase our overall operational efficiency. Targets were set and met, and this has brought about significant improvements including shortened lead-times for material procurement, manufacturing and logistics. These have all contributed to a more efficient inventory management and better cash flow. At the same time, our bulk material purchasing power and efforts in R&D helped to reduce the BOM (bill of material) cost. As a direct result, our profit margin was improved.

In order to enhance our operational efficiency, and to enable us to handle a growing number of production orders, SAP, a flexible yet sophisticated enterprise management software system was installed in 2001. After a nine-month installation period, which includes intensive training for new users, the system has been successfully implemented in the first quarter of 2002 in the cordless phone operation unit in both Hong Kong and China.





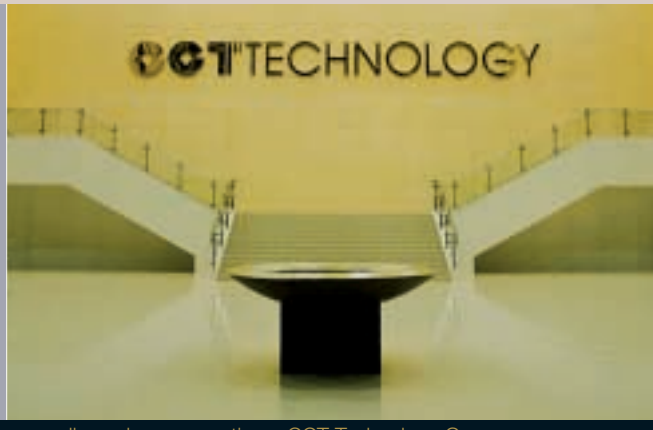
With SAP, we can access real-time information and improve the process flow in the Hong Kong and China offices, thus improving our overall budgeting and financial reporting efficiency.

CCT Telecom is the first integrated telecom product enterprise in Hong Kong to have successfully implemented SAP. This demonstrates our professionalism and team work. We anticipate the new system will help to save operating cost by reducing head count and make it possible to realize our goal of ship-on-time manufacturing in 2002, thereby giving us an edge on competition with a view to increasing productivity and maximizing returns.

Targets were set and met by this division. For instance, significant improvement in inventory level control was achieved.

In 2001, the third generation of GE branded 2.4 GHz cordless phones was launched in the US market. The new product was so well received in the US that in the 4th Quarter of 2001, we had to deliver the products to the US by air in order to satisfy the urgent needs of the market.





cordless phone operation – CCT Technology Group

The 2.4 GHz cordless phone is now the flagship product of CCT Telecom. Usually new products have a higher profit margin. This new product contributed to the satisfactory profit performance of the cordless phone division.

As a result of the outstanding performance of the new product and in recognition of the brilliant new product design, we were presented with the 'Best Quality Award' for the second consecutive year by Atlinks, our major customer. This again demonstrates the amicable and solid relationship we have established with our customer and serves to reinforce the partnership between the two companies.

Outlook

CCT Telecom's foothold within the telecom product manufacturing industry was further consolidated in 2001. As well as satisfying existing major customers such as Atlinks and Matra Telecom, several new significant customers in the industry were secured in the period under review. These new



customers are also renowned global players, and our sales volume in 2002 is expected to increase steadily because of this expanded customer base.

R&D is without doubt the winning weapon in the battle to become a leader in the manufacturing sector. Our R&D effort has consistently produced innovative and desirable items which have proved to be very popular. We will continue to develop and introduce user-friendly and advanced new products to satisfy market needs in the coming years. In 2002, 2.4G WDCT (Wideband Digital Cordless) phone for the US market will be launched. This platform supports multi-handset and multi-line functions. We expect this new model will be manufactured on a massive scale to meet the increasing demand from major markets.

CCT Telecom will produce and distribute specially designed telecom products as part of our expansion into the PRC market.

In 2002, CCT Telecom will produce and distribute specially designed corded and cordless phones as part of our expansion into the PRC and overseas markets such as Southeast Asia.





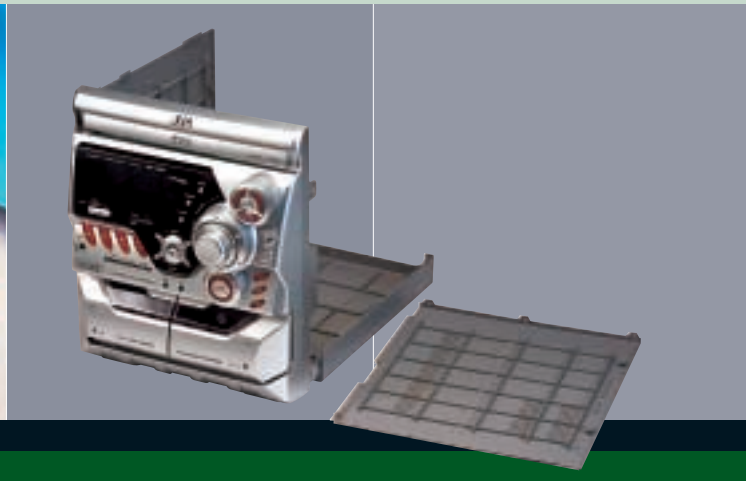
cordless phone operation – CCT Technology Group

component operation

CCT Industrial Group

	ESL	Neptune
Manufacturing Base	Dongguan, Guangdong Province, China	CCT Technology Park, Huiyang, Guangdong Province, China
Product Range	Power supply Lighting ballast Transformer Coil PCB assembly	Plastics moulds Plastic casings Spraying, silk-screening, hot-stamping and ultrasonic welding





2001 Review

This operation developed at a steady pace, in accordance with management expectations within the period under review.

In 2001, the electronic component manufacturing unit was moved to a new factory located in Dongguan, Guangdong Province, China. The new and extra capacity will allow the company to produce increased numbers of appliances and components, and promises to pave the way for increased sales as the market in China develops.

During the year, the plastic component unit refined its production technology and expanded its production facilities so as to be able to produce high-end plastic products with a higher profit margin.

Outlook

According to the plan of integrating the newly acquired baby care product business with the plastic component business, the production facilities of the baby care product operation have just been moved into CCT Telecom's plastic component production plant in Huiyang. It is believed that the plastic moulding facilities can facilitate the manufacture of baby care products, which are mostly plastic, and thus create synergy for the two businesses.

With its solid reputation in the industry, its continued efforts in expanding its customer base and its expansion plan in the lucrative PRC market, the baby care product business has a promising outlook. It will certainly function as a valuable revenue stream for CCT Telecom in the years to come.

Looking to the future, it is expected the component manufacturing business will develop and grow by focusing on expanding production capacity and improving cost-control. As well as this, this operation will continue to enlarge its customer base, thus expanding the profit scale while at the same time yielding continuous vertical integration support to the cordless phone manufacturing business of the CCT Telecom Group.





mobile phone operation

Haier – CCT Holdings Limited

Manufacturing Base	Haier Hi-tech Zone, Qingdao, China
Product Range	Dual band GSM mobile phone WAP phone CDMA mobile phone

The mobile phone business jointly operated with Haier was injected into a listed subsidiary of CCT Telecom in December 2001. The restructured company was then renamed as "Haier-CCT Holdings Limited"

2001 Review

The cooperative effort between Haier Group and ourselves in mobile phone manufacturing and distribution commenced in February 2001. This has proved to be a most successful and advantageous venture, with benefits accruing to all parties.

The US and European markets experienced an economic downturn in 2001, and this affected the sales of mobile phones adversely. As a direct result of this, large quantities of



inventory belonging to the international brands such as Nokia, Motorola and others were put into the PRC market. Amidst this over-supply situation, Haier-CCT rolled out their products in a very prudent manner, so as not to be left with excessive stocks in the market, which could lead to price-cutting of these products.

In 2001, the Company produced a series of original design mobile phones. Some of these products, under the brand name of 'Sendo', were destined for export, with those under the brand name of 'Haier' designated for the domestic market.

We are pleased that the mobile phone joint ventures in Hong Kong and the PRC made profits even in the tough market conditions of 2001. As the economic conditions in the US and Europe begin to pick up and the China market continues to grow, we expect the mobile phone business to maintain growth in 2002.

Outlook

In July 2002, CCT Telecom and Haier announced the plan to inject their mobile phone operation into CCT Multimedia Holdings Limited (now known as Haier-CCT Holdings Limited). In December 2001, the first stage of this transaction, that is, the injection of the HK JV which is responsible for mobile phone export and material sourcing, was completed. Subsequently, the new name of "Haier-CCT Holdings Limited" was formally adopted to reflect the strategic alliance of the two major shareholders.

The Company believes that the listing status will accelerate the development of the business and increase the flexibility of financing for further growth. Moreover, the injection of assets will also increase the value of the listed company as a whole.

The second stage of the transaction, which is the acquisition of the PRC JV engaging in mobile phone manufacturing and distribution, is in progress. Upon completion, Haier's stake in Haier-CCT will be increased. Haier-CCT will expand its scale of business by leveraging on the strengths and the networks of its major shareholders, and by acquiring more quality assets in the future.



multimedia business

CCT Multimedia

2001 Review

During the period under review, CCT Multimedia Holdings Ltd, which is CCT Telecom's listed subsidiary engaging in multimedia production, focused on providing a wide range of one-stop multimedia production services to its clients through Wellfit Group. Some spectacular events were produced in 2001, such as "One2Free Christmas Free Party 2001" sponsored by Harbour City, One2Free and EEG, and "Hong Kong Lights Up" organized by the Hong Kong Tourism Board.

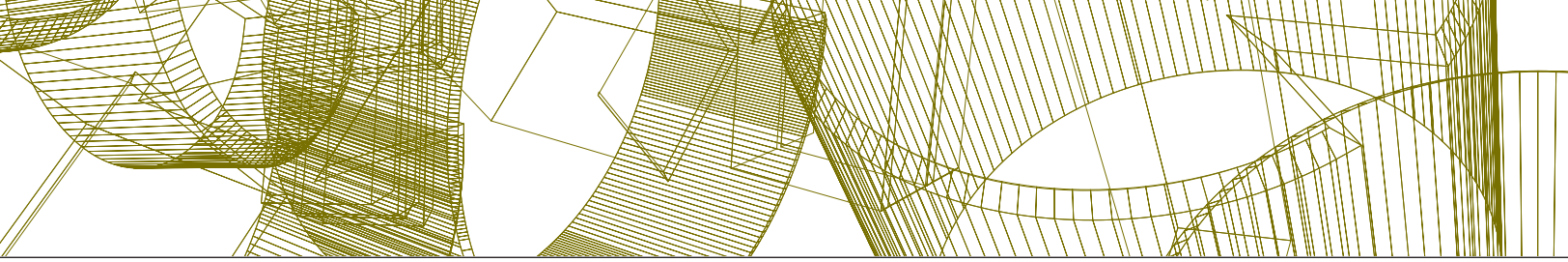




The multimedia business was transferred back to CCT Telecom at the end of 2001, and CCT Multimedia Holdings Limited was virtually restructured by acquiring the mobile phone operation from CCT Telecom and Haier. CCT Multimedia Holdings Limited was renamed as 'Haier-CCT Holdings Limited' in December 2001. After the balance sheet date, the Group's interest in Team Work Corporation Limited was increased from 40% to 50%.







directors and senior management

Executive Directors

Mr MAK Shiu Tong, Clement, aged 48, has been the Chairman of the Company since January 1994. Mr Mak is a substantial shareholder of the Company. He has over 25 years of experience in the electronics manufacturing distribution industry, specializing in telephone and telecommunications products. He holds a diploma in Electronics Engineering.

Ms CHENG Yuk Ching, Flora, aged 48, has been an Executive Director of the Company since February 1998. Ms Cheng has over 22 years of experience in the electronics industry and has held senior positions in various well-known electronics companies. She holds a diploma in Business Administration.

Mr TAM Ngai Hung, aged 48, joined the Company in March 2001 as Executive Director and Group Finance Director. He has more than 22 years of experience in finance and accounting management, and also has extensive experience in mergers and acquisitions. He is a Fellow of the Association of Chartered Certified Accountants and an associate of both the Hong Kong Society of Accountants and The Institute of Chartered Secretaries and Administrators. Prior to joining the Company, he held a number of senior positions in several listed companies.

Dr PUTT, William Donald, aged 64, has been an Executive Director of the Company since January 1997. Dr Putt obtained his PhD in Management from the Massachusetts Institute of Technology in the United States. He has over 29 years of experience in the telecom industry, and was the president and co-founder of TeleConcepts Corporation, which specialised in the design, production and distribution of telecom products.

Independent Non-executive Directors

Mr OLENICK, Samuel, aged 74, has been an Independent Non-executive Director of the Company since November 1997. He is a certified public accountant in the United States, and has many years of experience in the US telecommunications field.

Mr TAM King Ching, Kenny, aged 53, is a practising Certified Public Accountant in Hong Kong. He holds a Bachelor's degree in Commerce and is a fellow member of the Hong Kong Society of Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. He is serving as a member of the Professional Risk Management Committee, Insolvency Expert Panel and Insolvency Education Steering Committee in the Hong Kong Society of Accountants. Mr Tam is also the President of The Society of Chinese Accountants and Auditors.

Mr LAU Ho Man, Edward, aged 47, has been an Independent Non-executive Director of the Company since February 2000. Mr Lau has more than 25 years of experience in finance, accounting management and administration, and also has extensive experience in taxation and corporate finance matters. He is a Certified Public Accountant and a Fellow of The Hong Kong Society of Accountants and The Association of Chartered Certified Accountants. Mr Lau is also a member of The Chartered Institute of Management Accountants and American Institute of Certified Public Accountants.

Senior Management

Mr TONG Chi Hoi, aged 36, joined CCT Technology Group in November 1997. He currently holds the position of Managing Director in CCT Telecom Product Group and ESL, the electronic component division. Mr Tong has a First Class Honors degree in Electrical and Electronics Engineering from the University of London. He has over 15 years of experience in the electronics manufacturing industry.

Mr KWOK Wai Kin, Kenneth, aged 59, he is the Managing Director of the baby care product operation. He is a Commerce graduate of Melbourne University and a qualified accountant, and has extensive management experience in commercial organizations and with the Hong Kong Government. Mr Kwok was Assistant Commissioner of Banking and Principal Assistant Secretary for Monetary Affairs in the 80's and Financial Controller and Chief Executive Officer of Asia Television Limited in the 90's. Prior to joining CCT Telecom, he was Financial Controller of the Airport Authority.

Mr TUNG Shuk Lun, Maximilian, aged 33, has been the General Counsel of the Company since December 1999 and is responsible for advising on all legal matters of the Company. Mr Tung is also the Company Secretary of the Company and overseas all corporate secretarial matters. Mr Tung graduated from the University of London with an LL.B. degree and is a practicing solicitor qualified to practice in Hong Kong and the United Kingdom.

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

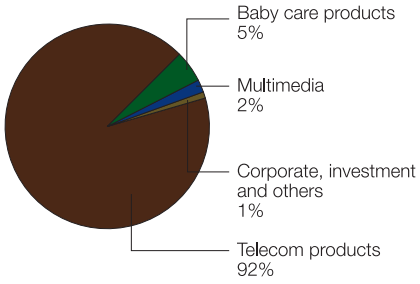
Turnover amounted to HK$3,106 million in 2001, representing an increase of 42% from corresponding period, due to strong growth in core business. Gross profit increased 83% to reach $392 million, as a result of improvement in business and operating efficiency.

Due to the adoption of new accounting standard, the Company had carried out an extensive review of the Group's invesments to assess whether there are any impairment in the carrying value of the assets, invesments 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

	Turnover		Profit / (loss) from operating activities	
HK$'million	**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

2001 Turnover by business activities



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.

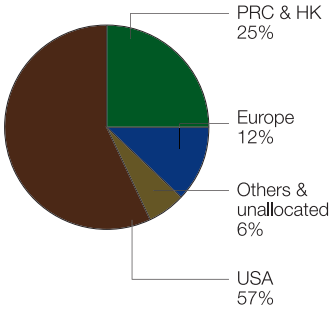
The cordless phone and component business achieved strong growth in business in current year, due to increase in product demand.

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 geographical region



Analysis by geographical region

HK$'million	Turnover 2001	Turnover 2000	Profit / (loss) from operating activities 2001	Profit / (loss) from operating activities 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

	As at 31 December 2001		As at 31 December 2000	
HK$'M	**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

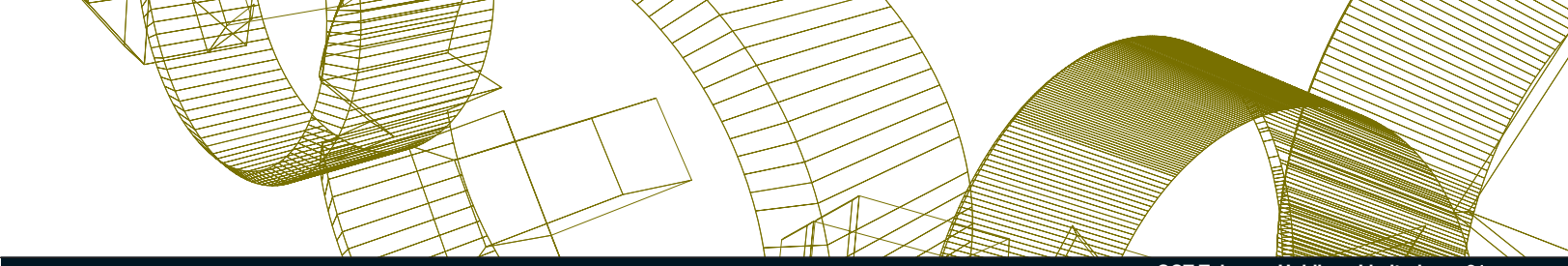
On 30 June 2001, the Company issued an 8 percent convertible bonds in the amount of HK$100 million. The proceeds were used for capital expenditure of the Group's manufacturing operation and general working capital, which was in accordance with the proposed application as stated in the announcement dated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

On 29 October 2001, the Company alloted 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.

corporate information

Company Name
CCT Telecom Holdings Limited

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The Office of The Harbour Trust Co. Ltd.
P.O. Box 1787 GT, One Capital Place, Grand Cayman
Cayman Islands, British West Indies

Head Office and Principal Place of Business
32/F China Merchants Tower, Shun Tak Centre
168-200 Connaught Road Central, Hong Kong

Phone Number
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Fax Number
(852) 2102 8100

Website
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Email Address
info@cct.com.hk

Financial Year End
December 31

Stock Ticker
138

Board of Directors
Executive Directors
MAK Shiu Tong, Clement (Chairman)
CHENG Yuk Ching, Flora
TAM Ngai Hung
PUTT, William Donald

Independent Non-executive Directors
OLENICK, Samuel
TAM King Ching, Kenny
LAU Ho Man, Edward

Company Secretary
TUNG Shuk Lun, Maximilian

Principal Bankers
Standard Chartered Bank
Nanyang Commercial Bank, Limited
Dao Heng Bank

Solicitors
Sidley & Austin
Richards Butler International Law Firm

Auditors
Ernst & Young Certified Public Accountants

Registrars and Transfer Office in Hong Kong
Tengis Limited
4/F Hutchison House,
10 Harcourt Road
Central, Hong Kong

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The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

During the year, the Group continued the business of the manufacture and sale of telecommunications products (including cordless phones and mobile phones) and accessories, the trading of telecommunications and network equipment and provision of related consultancy services, the manufacture and sale of baby care products and the provision of multimedia content and services and magazine publishing.

Details of the principal activities of the principal subsidiaries and the Group's principal jointly-controlled entities and principal associates are set out in notes 17, 18 and 19, respectively, to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations is set out in note 4 to the financial statements.

RESULTS AND DIVIDEND

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 49 to 97.

The directors do not recommend payment of any dividend for the year. Particulars of the dividend for the year ended 31 December 2000 are set out in note 12 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 98. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and the investment properties of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in note 33 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Companies Law (2001 Revision) Chapter 22 of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year, the Company had repurchased certain ordinary shares of HK$0.50 each in the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the particulars of which are as follows:

Trading months in 2001	Number of ordinary shares repurchased	Price per ordinary share Highest HK$	Price per ordinary share Lowest HK$	Total cost (before expenses) HK$'million
January	4,566,000	1.06	0.84	5
February	904,000	1.01	0.93	1
March	2,310,000	1.00	0.88	2
	7,780,000			8

Further details of these transactions are set out in note 33(d) to the financial statements.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements.

DISTRIBUTABLE RESERVES

Under the Companies Law (2001 Revision) Chapter 22 of the Cayman Islands, the share premium account of the Company is available for distribution of dividends to shareholders subject to the provisions of the Company's Memorandum and Articles of Association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.

In accordance with the Company's Articles of Association, dividends can only be distributed out of profits and reserves available for distribution including the share premium account of the Company. As at 31 December 2001, the Company had a net credit balance of approximately HK$320 million (2000: HK$1,803 million) maintained in the reserve accounts which would be available for distribution.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling HK$46,000 (2000: HK$1,030,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 79% (2000: 72%) of the total sales for the year and sales to the largest customer included therein accounted for approximately 56% (2000: 50%).

Purchases from the Group's five largest suppliers of the Group accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this Annual Report were as follows:

Executive directors:

Mak Shiu Tong Clement	
Cheng Yuk Ching Flora	
Tam Ngai Hung	(appointed on 26 March 2001)
Tsoi Tong Hoo Tony	(resigned on 20 February 2002)
William Donald Putt	

Independent non-executive directors:

Samuel Olenick
Tam King Ching Kenny
Lau Ho Man Edward

In accordance with Article 99 of the Articles of Association of the Company, Messrs. Tam King Ching Kenny and Lau Ho Man Edward will retire and, being eligible, will offer themselves for re-election, at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 24 to 25 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

During the year, no director had a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

SHARE OPTION SCHEME

On 25 May 2001, the share option scheme adopted by the Company on 21 October 1991 (the "First Old Share Option Scheme") expired and a replacing share option scheme (the "Second Old Share Option Scheme") was adopted by the shareholders of the Company. On 28 February 2002, the Second Old Share Option Scheme was terminated and a further new share option scheme (the "New Share Option Scheme") was adopted to comply with the new amendments to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") regarding the share option schemes of a company. As a result, the Company may no longer grant any further options under the First Old Share Option Scheme or the Second Old Share Option Scheme. However, all options granted prior to the termination of the Second Old Share Option Scheme will remain in full force and effect. As at 31 December 2001, there were 16,775,000 share options granted which remained outstanding under the Second Old Share Option Scheme. No options have been granted under the New Share Option Scheme since the date of its adoption.

The purpose of the New Share Option Scheme is to provide incentives and rewards to the eligible participants who contribute to the success of the Group's operations. Eligible participants of the New Share Option Scheme include any employee, executive or officer of the Company or any of its subsidiaries (including executive and non-executive directors of the Company or any of its subsidiaries) and any suppliers, consultants, agents, advisers, shareholders, customers, partners or business associates who, in the sole discretion of the board of directors of the Company, have contributed to the Company and/or any of its subsidiaries. The New Share Option Scheme became effective on 28 February 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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) (which, for this purpose, excludes the First and Second Old Share Option Schemes), must not exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares issuable under share options to each eligible participant in the New Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to the shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to the shareholders' approval in advance in 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 directors, and commences on a specified date and ends on a date which is not later than 10 years from the date of the offer 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 directors of the Company, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of offer of the grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of offer of the grant; and (iii) the nominal value of the Company's shares.

SHARE OPTION SCHEME (continued)

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

Name or category of participant	Number of share options						Date of grant of share options	Exercise period of share options	Exercise price of share options (Note 1)	Price of Company's shares (Note 2)	
	At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31 December 2001			HK$	At grant date of options HK$	At exercise date of options HK$
Other employees											
In aggregate	4,150,000	–	–	(4,150,000)	–	–	24/9/1999	6/4/2000–5/10/2001	1.200*	1.790	–
	8,000,000	–	–	(8,000,000)	–	–	25/4/2000	28/10/2000–27/4/2002	1.270*	1.700	–
	12,550,000	–	–	(12,550,000)	–	–	5/5/2000	10/11/2000–9/5/2002	1.310*	1.950	–
	4,000,000	–	–	(4,000,000)	–	–	2/11/2000	9/5/2001–20/10/2001	0.750	1.050	–
	28,700,000	–	–	(28,700,000)	–	–					

* *Adjusted to take into account of the special dividend in specie of the Company on 29 September 2000.*

SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Second Old Share Option Scheme during the year:

Name or category of participant	Number of share options						Date of grant of share options	Exercise period of share options	Exercise price of share options (Note 1) HK$	Price of Company's shares (Note 2)	
	At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31 December 2001				At grant date of options HK$	At exercise date of options HK$
Executive directors											
Mak Shiu Tong Clement	–	5,000,000*	–	–	–	5,000,000*	13/8/2001	16/8/2001–15/8/2003	2.936*	0.720	–
Cheng Yuk Ching Flora	–	1,250,000*	–	–	–	1,250,000*	13/8/2001	16/8/2001–15/8/2003	2.936*	0.720	–
Tsoi Tong Hoo Tony **	–	1,250,000*	–	–	–	1,250,000*	13/8/2001	16/8/2001–15/8/2003	2.936*	0.720	–
Tam Ngai Hung	–	750,000*	–	–	–	750,000*	11/6/2001	13/6/2001–12/6/2003	3.732*	0.920	–
	–	1,250,000*	–	–	–	1,250,000*	13/8/2001	16/8/2001–15/8/2003	2.936*	0.720	–
	–	9,500,000*	–	–	–	9,500,000*					

* *Adjusted to take into account of the share consolidation, rights issue and bonus share issue of the Company in 2001.*

** *Mr. Tsoi Tong Hoo Tony resigned as an executive director of the Company on 20 February 2002.*

SHARE OPTION SCHEME (continued)

Name or category of participant	Number of share options						Date of grant of share options	Exercise period of share options	Exercise price of share options (Note 1) HK$	Price of Company's shares (Note 2)	
	At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31 December 2001				At grant date of options HK$	At exercise date of options HK$
Other employees											
In aggregate	–	125,000*	–	–	–	125,000*	11/6/2001	13/6/2001–12/6/2003	3.732*	0.920	–
	–	625,000*	–	–	–	625,000*	27/6/2001	29/12/2001–28/6/2003	3.553*	0.890	–
	–	1,000,000*	–	–	–	1,000,000*	30/6/2001	30/6/2001–30/12/2003	3.533*	0.850	–
	–	750,000*	–	–	–	750,000*	8/8/2001	8/2/2002–7/8/2003	3.085*	0.730	–
	–	4,775,000*	–	–	–	4,775,000*	13/8/2001	16/2/2002–15/8/2003	2.936*	0.720	–
	–	7,275,000*	–	–	–	7,275,000*					
	–	16,775,000*	–	–	–	16,775,000*					

* *Adjusted to take into account of the share consolidation, rights issue and bonus share issue of the Company in 2001.*

Notes:

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

2. *The price of the Company's shares as at the date of grant of the share options is the closing price of the Company's shares as listed on the Stock Exchange on the trading day immediately prior to the date of grant of the share options. The price of the Company's shares as at the date of exercise of the share options is the weighted average of the closing prices of the Company's shares as listed on the Stock Exchange immediately before the dates on which the share options were exercised.*

SHARE OPTION SCHEME (continued)

Summary details of the Company's share option schemes are also set out in note 33(c) to the financial statements.

The financial impact of the share options granted 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 lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

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

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2001, the interests of the directors or their respective associates in the share capital of the Company or any of its subsidiaries and associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

(i) The Company

		Number of shares beneficially held and nature of interest		
Name of director	Notes	Personal	Family	Corporate
Mak Shiu Tong Clement	(a)	856,000#	1,407,500#	83,848,441#
Cheng Yuk Ching Flora		9,876,713#	–	–
Tsoi Tong Hoo Tony*		2,500,000#	–	–
Samuel Olenick	(b)	–	–	125,000#
William Donald Putt		171,500#	–	–

(ii) Associated corporation - Haier-CCT Holdings Limited ("Haier-CCT") (formerly known as CCT Multimedia Holdings Limited)

		Number of Haier-CCT shares beneficially held and nature of interest		
Name of director	Notes	Personal	Family	Corporate
Mak Shiu Tong Clement	(c)	20,574,412	1,150,391	85,103,220
Cheng Yuk Ching Flora		19,312,498	–	–
Tam Ngai Hung		10,000,000	–	–
Tsoi Tong Hoo Tony*		11,305,483	–	–
Samuel Olenick	(d)	–	–	130,548
William Donald Putt		179,112	–	–

DIRECTORS' INTERESTS IN SHARES (continued)

Notes:

(a) The family interest of Mr. Mak Shiu Tong Clement in 1,407,500 shares in the Company is held by his wife, Ms. Yiu Yu Ying, and the corporate interest of Mr. Mak Shiu Tong Clement in 83,848,441 shares in the Company is held by Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons have beneficial interests, under the provisions of the SDI Ordinance. These interests in the Company's shares has also been disclosed under the section of "Substantial shareholders" below.

(b) Mr. Samuel Olenick is deemed to be interested in the shares under the provisions of the SDI Ordinance.

(c) The family interest of Mr. Mak Shiu Tong Clement in 1,150,391 Haier-CCT shares is held by his wife, Ms. Yiu Yu Ying, and the corporate interest of Mr. Mak Shiu Tong Clement in 85,103,220 Haier-CCT shares is held by Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons have beneficial interests, under the provisions of the SDI Ordinance.

(d) Mr. Samuel Olenick is deemed to be interested in the Haier-CCT shares under the provisions of the SDI Ordinance.

 # Adjusted to take into account of the share consolidation, rights issue and bonus share issue of the Company in 2001.

** Mr. Tsoi Tong Hoo Tony resigned as an executive director of the Company and Haier-CCT on 20 February 2002.*

Save as disclosed above, as at 31 December 2001, none of the directors or their respective associates had any personal, family, corporate or other interest in the securities of the Company or any of its subsidiaries and associated corporations as defined in the SDI Ordinance, as recorded in the register required to be kept under Section 29 of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE ORDINARY SHARES

(i) The Company

The Company has granted to certain directors of the Company the right to subscribe for ordinary shares in the share capital of the Company. Details of the movements in the share options granted to the directors of the Company during the year are set out under the section of "Share option scheme" above.

DIRECTORS' RIGHTS TO ACQUIRE ORDINARY SHARES (continued)

(ii) Associated Corporation - Haier-CCT

Name of director	Number of share options outstanding as at 1 January 2001	Number of share options granted during the year	Number of share options exercised during the year	Number of share options cancelled during the year	Number of share options outstanding as at 31 December 2001	Notes	Exercise price per share HK$
Mak Shiu Tong	10,000,000	–	(10,000,000)	–	–	(a)	0.167
Clement	–	10,000,000	(10,000,000)	–	–	(b)	0.190
Cheng Yuk Ching	5,000,000	–	(5,000,000)	–	–	(a)	0.167
Flora	–	5,000,000	(5,000,000)	–	–	(b)	0.190
Tsoi Tong Hoo	5,000,000	–	(5,000,000)	–	–	(a)	0.167
Tony*	–	5,000,000	(5,000,000)	–	–	(b)	0.190
Tam Ngai Hung	–	5,000,000	(5,000,000)	–	–	(c)	0.170
	–	5,000,000	(5,000,000)	–	–	(b)	0.190
	20,000,000	30,000,000	(50,000,000)	–	–		

Notes:

(a) Exercisable from 9 May 2001 to 8 November 2002.
(b) Exercisable from 13 July 2001 to 12 July 2003.
(c) Exercisable from 29 June 2001 to 28 June 2003.

* *Mr. Tsoi Tong Hoo Tony resigned as an executive director of the Company and Haier-CCT on 20 February 2002.*

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any of its subsidiaries and associated corporations granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them or was the Company, or any of its subsidiaries and associated corporations a party to any arrangement to enable the directors of the Company to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following parties were interested in 10% or more of the issued share capital of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of shares held	Percentage of shareholding in the Company's share capital
Capital Interest Limited*	83,848,441	19.87
Yiu Yu Ying*	1,407,500	0.33
Mak Shiu Tong Clement	856,000	0.20
	86,111,941	20.40

* *Under the provisions of the SDI Ordinance, Mr. Mak Shiu Tong Clement, a director of the Company, is deemed to control or have an interest in Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons have beneficial interests. Mr. Mak is also deemed to have an interest in the shares owned by his wife, Ms. Yiu Yu Ying. These interests have been disclosed under the section of "Directors' interests in shares" above.*

Save as disclosed above, as at 31 December 2001, no other parties, other than the directors of the Company and their respective associates, whose interests are set out above, had registered as having an interest of 10% or more in the share capital of the Company as recorded in the register required to be kept by the Company under Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

(1) On 3 January 2001, Greatway International Corp., a wholly-owned subsidiary of the Company, acquired an additional 22,410,000 ordinary shares of Haier-CCT at a price of HK$0.20 each from two former directors of Haier-CCT for a cash consideration of HK$4,482,000. As a result, the Group's interest in Haier-CCT increased from 61.42% to 62.87%.

(2) On 4 July 2001 and 11 July 2001, the Company, Haier-CCT and Orient Rich (H.K.) Limited ("Orient Rich"), an indirect wholly-owned subsidiary of Haier Group Corporation, entered into a conditional agreement and a supplemental agreement (collectively the "Agreements"), respectively, whereby Haier-CCT agreed to acquire: (1) a 100% equity interest in Foreland Agents Limited (and the relevant shareholder's loan) ("Foreland Agents"), which holds 51% of the issued share capital in Haier CCT (H.K.) Telecom Co., Limited ("Haier HK"), from the Company; and (2) 49% of the issued share capital of Haier HK from Orient Rich, for an aggregate consideration of HK$1,446,800,000.

The consideration was satisfied by: (1) the transfer of Haier-CCT's 100% equity interests in Master Base Investment Inc. (and the relevant shareholder's loan) and Creditop International Inc., which holds a 9.8% equity interest in Mingpao.com Holdings Limited; (2) the issue of a HK$60,000,000 loan note in favour of an indirect wholly-owned subsidiary of the Company; and (3) the issue of 3,774,000,000 and 1,960,000,000 new ordinary shares of HK$0.10 each in the capital of Haier-CCT to the Company and Orient Rich, respectively, at a subscription price of HK$0.20 per share.

The transactions were completed on 17 December 2001.

CONNECTED TRANSACTIONS (continued)

Under the Agreements, Haier-CCT has the option granted by Haier Group Corporation (the "PRC JV Option") to purchase the 51% interest in Haier CCT (Qingdao) Telecom Co., Ltd. ("Haier Qingdao"), a Sino-foreign equity joint venture, from Qingdao Haier Investment Development Co., Limited, a wholly-owned subsidiary of Haier Group Corporation, for HK$673,200,000 which shall be satisfied by the issue to Haier Group Corporation or its nominee(s) 3,366,000,000 new ordinary shares of Haier-CCT at HK$0.20 each. In addition, Haier-CCT has the option granted by the Company (the "CCT Technology Option") to purchase 100% interest in CCT Technology Group Holdings Limited ("CCT Technology"), an indirect wholly-owned subsidiary of the Company, from the Company at a cash price equal to the net assets value of CCT Technology at the time of exercise. Both the PRC JV Option and the CCT Technology Option are exercisable in full or in part any time during the two-year period after the first anniversary of the date of completion of the Agreements.

The above transactions were described to the shareholders in the Circular dated 29 August 2001 and were approved by the independent shareholders, in the extraordinary general meeting held on 14 September 2001.

(3) The Group had the following material transactions with Haier Qingdao during the year:

		GROUP	
HK$'million	Notes	**2001**	2000
Purchases of mobile phones from Haier Qingdao	(a)	**192**	–
Sales of raw materials to Haier Qingdao	(b)	**254**	–
Software and hardware design fee income from Haier Qingdao	(c)	**15**	-

Notes:

(a) The purchases of mobile phones were made in accordance with the terms and conditions set out in a letter of intent and a supplemental agreement (collectively the "Export Agreements") entered into between Haier HK and Haier Qingdao on 3 July 2001 and 15 August 2001, respectively.

(b) The sales of raw materials were made in accordance with the terms and conditions set out in an agreement and a supplemental agreement (collectively the "Sourcing Agreements") entered into between Haier HK and Haier Qingdao on 3 July 2001 and 15 August 2001, respectively.

(c) The software and hardware design fee income was charged in accordance with the terms and conditions set out in the Sourcing Agreements entered into between Haier HK and Haier Qingdao on 3 July 2001 and 15 August 2001, respectively.

In addition to the above, Foreland Agents charged CCT Technology a technical and management service fee of HK$45 million in accordance with the terms and conditions set out in a technical service and management agreement and a supplemental agreement (collectively the "Management Agreements") entered into between Foreland Agents and CCT Technology on 21 September 2000 and 27 August 2001, respectively.

The above transactions were defined as "ongoing connected transactions" in the circular to the shareholders of the Company dated 29 August 2001 and were approved by the independent shareholders at an extraordinary general meeting of the Company held on 14 September 2001.

CONNECTED TRANSACTIONS (continued)

The Stock Exchange has granted conditional waivers to the Company from strict compliance with the connected transactions requirements as set out in the Listing Rules for the two financial years ending 31 December 2001 and 2002. The ongoing connected transactions have obtained the approval of the independent non-executive directors of the Company.

The aggregate value of the transactions under the Sourcing Agreements and the Export Agreements for the year ended 31 December 2001 did not exceed HK$3 billion and HK$2.2 billion, respectively, and the monthly service fee under the Management Agreements did not exceed the monthly service fee specified in the Management Agreements.

The independent non-executive directors of the Company have reviewed and confirmed the connected transactions as indicated in notes (a), (b) and (c) above were:

(i) conducted on normal commercial terms and in the ordinary and usual course of business of the Group;

(ii) fair and reasonable so far as the independent shareholders of the Company were concerned;

(iii) conducted on terms no less favourable than terms available for third parties; and

(iv) conducted in accordance with the Export Agreements or the Sourcing Agreements (as the case may be).

In respect of the technical and management service fee of HK$45 million above, the independent non-executive directors of the Company have reviewed and confirmed it was:

(i) conducted on normal commercial terms and in the ordinary and usual course of business of the Group;

(ii) fair and reasonable so far as the Company's shareholders were concerned; and

(iii) conducted in accordance with the Management Agreements.

(4) On 13 July 2001, the Company executed guarantees (the "CCT Guarantee") to certain third parties (the "Third Parties") for performance of the obligations of Haier HK under certain arrangements (the "Third-Party Arrangement") entered into between the Company, Haier HK and the Third Parties. The CCT Guarantee had been approved by the independent shareholders at the extraordinary general meeting of the Company held on 14 September 2001. In order to release the CCT Guarantee, the Company is currently in negotiation with the Third Parties for the replacement of the CCT Guarantee by a guarantee to be given by Haier-CCT. At the date of this report, the negotiation was not finalised and Haier-CCT agreed to indemnify the Company ("CCTMM Indemnity") with respect to the obligations of the Company under the CCT Guarantee.

Details of the CCT Guarantee was described in the Circular to the shareholders of the Company dated 29 August 2001 and was approved by the independent shareholders of the Company in the extraordinary general meeting held on 14 September 2001.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 40 to the financial statements.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors of the Company, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report of the Company, except that the independent non-executive directors of the Company are not appointed for specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation at the annual general meeting in accordance with the articles of association of the Company.

AUDIT COMMITTEE

Pursuant to the requirements of the Listing Rules, the Company has established an audit committee comprising three independent non-executive directors of the Company. A set of written terms of reference, which described the authority and duties of the audit committee was adopted by the directors of the Company.

The Audit Committee is answerable to the board of directors of the Company. The principal duties of the committee include the review and supervision of the Company's financial reporting process and internal control.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Mak Shiu Tong Clement
Chairman

Hong Kong
22 April 2002

ERNST & YOUNG
安永會計師事務所

To the members
CCT Telecom Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 49 to 97 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
22 April 2002

HK$'million	Notes	2001	2000 (Restated)
TURNOVER	5	**3,106**	2,190
Cost of sales		**(2,714)**	(1,976)
Gross profit		**392**	214
Other revenue		**110**	536
Selling expenses		**(27)**	(61)
Administrative expenses		**(326)**	(399)
Other operating expenses		**(127)**	(90)
Profit from operating activities before net gains/(losses) on investments and impairment of fixed assets		**22**	200
Net unrealised holding gains/(losses) on short term investments		**(452)**	127
Net realised losses on disposal of short term investments		**(43)**	(4)
Impairment of long term investments		**(30)**	(101)
Impairment of fixed assets		**(127)**	—
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	6	**(630)**	222
Finance costs	7	**(36)**	(34)
Share of profits and losses of:			
Jointly-controlled entities		**9**	5
Associates		**(9)**	1
Impairment of goodwill		**—**	(426)
LOSS BEFORE TAX		**(666)**	(232)
Tax	10	**(6)**	(13)
LOSS BEFORE MINORITY INTERESTS		**(672)**	(245)
Minority interests		**(13)**	40
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	**(685)**	(205)
DIVIDEND	12	**–**	421
LOSS PER SHARE	13		
Basic		**HK$1.67**	HK$0.84
Diluted		**N/A**	N/A

Consolidated Statement of Recognised Gains and Losses

Year ended 31 December 2001

HK$'million	Note	2001	2000 (Restated)
Net profit/(loss) for the year attributable to shareholders:			
Current year/prior year (as previously reported)		**(685)**	221
Effect of retrospective changes in accounting policy		**–**	(426)
Total recognised gains and losses		**(685)**	(205)
Goodwill eliminated directly against reserves:			
Current year/prior year (as previously reported)	34	**–**	(630)
Effect of retrospective changes in accounting policy		**–**	426
		–	(204)
		(685)	(409)

In addition to the gains and losses detailed above, certain gains and losses arose since 31 December 2000 as a result of prior year adjustments arising from the changes in accounting policies summarised in note 2 to the financial statements, as follows:

For the year ended 31 December 2001, as reported above	**(685)**
Recognised gains and losses arising from prior year adjustments, relating to:	
Year ended 31 December 2000	**(426)**
Prior to 1 January 2000	**(254)**
	(680)
Total recognised gains and losses arising since the last annual report	**(1,365)**

HK$'million	Notes	2001	2000
NON-CURRENT ASSETS			
Fixed assets	14	**1,437**	1,502
Intangible assets	15	**35**	37
Goodwill	16	**385**	–
Interests in jointly-controlled entities	18	**119**	53
Interests in associates	19	**83**	112
Other assets	20	**14**	24
Long term investments	21	**368**	388
		2,441	2,116
CURRENT ASSETS			
Short term investments	21	**464**	1,124
Inventories	22	**121**	306
Trade and bills receivables	23	**394**	459
Prepayments, deposits and other receivables	24	**86**	39
Pledged deposits		**180**	130
Cash and cash equivalents	25	**957**	367
		2,202	2,425
CURRENT LIABILITIES			
Trade and bills payables	26	**535**	567
Tax payable		**15**	13
Other payables and accruals	27	**251**	430
Interest-bearing bank loans and other borrowings	28	**165**	221
Convertible debt	31	**120**	150
		1,086	1,381
NET CURRENT ASSETS		**1,116**	1,044
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,557**	3,160
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	29	**202**	121
Finance lease payables	30	**5**	4
Deferred tax	32	**3**	4
		210	129
MINORITY INTERESTS		**827**	95
		2,520	2,936
CAPITAL AND RESERVES			
Issued capital	33	**2,110**	783
Reserves	34	**410**	2,153
		2,520	2,936

Mak Shiu Tong Clement
Chairman

Tam Ngai Hung
Director

Consolidated Cash Flow Statement

Year ended 31 December 2001

HK$'million	Notes	2001	2000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	35(a)	**188**	(21)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**11**	27
Interest paid		**(32)**	(34)
Interest element on finance lease rental payments		**(4)**	(1)
Dividend from an associate		**–**	4
Dividends from listed equity investments		**2**	7
Net cash inflow/(outflow) from returns on investments and servicing of finance		**(23)**	3
TAX			
Hong Kong profits tax paid		**(4)**	(5)
INVESTING ACTIVITIES			
Purchases of fixed assets		**(236)**	(505)
Proceeds from disposal of fixed assets		**11**	3
Additions to intangible assets		**(65)**	(37)
Purchases of associates		**–**	(179)
Investments in associates		**–**	(13)
Proceeds from disposal of associates		**13**	–
Advances to associates		**(7)**	(86)
Acquisition of subsidiaries	35(e)	**(5)**	(33)
Deposit for acquisition of a subsidiary		**–**	(10)
Purchase of a jointly-controlled entity		**–**	(281)
Investments in jointly-controlled entities		**(26)**	(46)
Proceeds from disposal of jointly-controlled entities		**–**	226
Advances to jointly-controlled entities		**(24)**	(51)
Purchases of minority interests in subsidiaries	35(f)	**(4)**	–
Proceeds from disposal of minority interests in subsidiaries	35(g)	**47**	–
Proceeds from partial disposal of a subsidiary	35(i)	**–**	59
Recovery of a long term investment		**–**	36
Purchases of long term investments		**–**	(145)
Purchases of short term investments		**–**	(274)
Proceeds from disposal of short term investments		**165**	41
Repayment of an amount due from a related company		**–**	168
Repayment of shareholders' loan of an associate		**–**	10
Repayment of shareholders' loan of a jointly-controlled entity		**–**	109
Net cash outflow from investing activities		**(131)**	(1,008)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES		**30**	(1,031)

HK$'million	Note	2001	2000
FINANCING ACTIVITIES	35(b)		
Proceeds from placement of shares		**60**	920
Proceeds from issue of shares upon exercise of warrants and share options		**–**	152
Proceeds from rights issue of shares		**211**	–
Contribution by minority interests, net of expenses		**362**	–
Share issue expenses		**(4)**	(16)
Repurchases of shares		**(8)**	(148)
Repayment of convertible debt		**(130)**	–
Issue of convertible debt		**100**	–
New bank loans		**182**	50
Repayment of bank loans		**(67)**	(18)
Capital element of finance lease rental payments		**(5)**	(5)
Decrease/(increase) in pledged deposits		**(50)**	61
Net cash inflow from financing activities		**651**	996
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**681**	(35)
Cash and cash equivalents at beginning of year		**215**	250
CASH AND CASH EQUIVALENTS AT END OF YEAR		**896**	215
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**472**	259
Time deposits with original maturity of less than three months when acquired		**485**	108
		957	367
Bank overdrafts		**–**	(40)
Trust receipts with maturity within three months		**(61)**	(112)
		896	215

Balance Sheet

31 December 2001

HK$'million	Notes	2001	2000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**2,095**	2,015
Interests in jointly-controlled entities	18	**–**	284
		2,095	2,299
CURRENT ASSETS			
Short term investments	21	**20**	124
Prepayments, deposits and other receivables	24	**5**	6
Pledged deposits		**52**	58
Cash and cash equivalents	25	**388**	259
		465	447
CURRENT LIABILITIES			
Other payables and accruals	27	**10**	10
Convertible debt	31	**120**	150
		130	160
NET CURRENT ASSETS		**335**	287
		2,430	2,586
CAPITAL AND RESERVES			
Issued capital	33	**2,110**	783
Reserves	34	**320**	1,803
		2,430	2,586

Mak Shiu Tong Clement
Chairman

Tam Ngai Hung
Director

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- the manufacture and sale of telecommunications products and accessories (including the sourcing of raw materials and distribution of mobile phones);
- the trading of telecommunications and network equipment and provision of related consultancy services;
- the manufacture and sale of baby care products; and
- the provision of multimedia content and services, and magazine publishing.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations - subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations, are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. The revisions to this SSAP have had no major impact on these financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 30 and 38 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. The revisions to this SSAP have had no major impact on these financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. This SSAP has had no major impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the balance sheet. It requires that goodwill is amortised to the profit and loss account over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against reserves. The adoption of the SSAP and Interpretation has resulted in a prior year adjustment, further details of which are included in note 16 to the financial statements. The required new additional disclosures are included in notes 16 and 34 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and equity investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

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

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than a separately identified asset on the consolidated balance sheet.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets, other than investment properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in a increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land	2% - 5%
Buildings	2.5% - 5%
Plant and machinery	10% - 25%
Tools, moulds and equipment	10% - 50%
Furniture and office equipment	12.5% - 50%
Motor vehicles	18% - 33-1/3%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress

Construction in progress represents buildings under construction. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Publishing rights

Purchased publishing rights are stated at cost less accumulated amortisation and any impairment losses, and are amortised on the straight-line basis over their estimated useful lives of 20 years.

Deferred development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less accumulated amortisation and any impairment losses, and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding four years, commencing from the date when the products are put into commercial production.

Club memberships

Club memberships are intended to be held for long term purposes. They are stated at cost less any impairment losses, on an individual membership basis.

Long term investments

Long term investments are stated at cost less any impairment losses, on an individual investment basis.

Short term investments

Short term investments are investments in equity securities held for trading purposes. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis, as determined by the directors having regard to the prices of the most recent reported sales or purchases of the securities, or professional valuations performed at the end of each financial year. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

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.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased assets is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' relevant income and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions accumulated in previous retirement scheme before 1 December 2000, 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 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 the contributions are based on percentage of the employees' basic salary and when an employee leaves this scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group are reduced by the relevant amount of the forfeited employer contributions.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) income from the provision of multimedia content and services and software and hardware designs, when the services are rendered;

(c) circulation income, when the magazines are delivered;

(d) advertising income, when the advertisements are published;

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

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

(g) dividend income, when the shareholders' right to receive payment is established.

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. 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.

4. SEGMENT INFORMATION (continued)

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 telecommunications product segment engages in the manufacture and sale of telecommunications products (including cordless phone and mobile phone) and accessories;

(b) the baby care product segment manufactures and sells of baby care products;

(c) the multimedia segment provides multimedia content and services and publishes magazines; and

(d) the corporate and other segment comprises the Group's network equipment business which engages in the trading of network equipment and the provision of related consultancy services; together with corporate income and expense items.

In determining the Group's geographical segments, revenues and results 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.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue and profit information regarding the Group's business segments for the year ended 31 December 2001 and 2000, and certain asset and liability information regarding the Group's business segments at 31 December 2001 and 2000.

Group	Telecommunications products		Baby care products		Multimedia		Corporate and other		Eliminations		Consolidated	
HK$'million	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000 (Restated)
Segment revenue:												
Sales to external customers	2,851	1,856	156	109	54	15	34	184	–	–	3,095	2,164
Intersegment sales	–	–	–	–	9	–	–	–	(9)	–	–	–
Other revenue from external sources	–	–	–	–	–	20	48	146	–	–	48	166
Total revenue	2,851	1,856	156	109	63	35	82	330	(9)	–	3,143	2,330
Segment results	140	33	7	4	(1)	(43)	(793)	(291)	–	–	(647)	(297)
Interest income											11	26
Unallocated revenue											62	497
Unallocated expenses											(56)	(4)
Profit/(loss) from operating activities											(630)	222
Finance costs											(36)	(34)
Share of profits and losses of:												
Jointly-controlled entities											9	5
Associates											(9)	1
Impairment of goodwill											–	(426)
Loss before tax											(666)	(232)
Tax											(6)	(13)
Loss before minority interests											(672)	(245)
Minority interests											(13)	40
Net loss from ordinary activities attributable to shareholders											(685)	(205)

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Telecommunications products		Baby care products		Multimedia		Corporate and other		Eliminations		Consolidated	
HK$'million	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000 (Restated)
Segment assets	2,399	1,473	78	163	36	159	9,341	6,595	(7,413)	(4,014)	4,441	4,376
Interests in associates	–	–	–	–	6	–	77	112	–	–	83	112
Interests in jointly-controlled entities	–	–	–	–	–	–	119	53	–	–	119	53
Total assets	2,399	1,473	78	163	42	159	9,537	6,760	(7,413)	(4,014)	4,643	4,541
Segment liabilities	1,785	1,459	17	11	16	12	6,381	3,529	(7,413)	(4,014)	786	997
Unallocated liabilities	216	164	2	1	1	2	291	346	–	–	510	513
Total liabilities	2,001	1,623	19	12	17	14	6,672	3,875	(7,413)	(4,014)	1,296	1,510
Other segment information:												
Capital expenditure	164	200	1	1	3	24	140	452	–	–	308	677
Deprecation	51	53	3	3	5	1	61	54	–	–	120	111
Amortisation	45	25	–	–	–	–	1	–	–	–	46	25
Impairment losses recognised directly in the profit and loss account	–	–	–	–	–	–	157	527	–	–	157	527
Other non-cash expenses	34	6	1	–	5	–	581	113	–	–	621	119

(b) Geographical segments

The following table presents revenue and results regarding the Group's geographical segments for the year ended 31 December 2001 and 2000. Over 90% of the Group's assets are located in Hong Kong and the People's Republic of China ("PRC").

Group	United States of America		PRC, including HK		Europe		Others		Eliminations		Consolidated	
HK$'million	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Segment revenue:												
Sales to external customers	1,783	1,199	767	715	365	212	180	38	–	–	3,095	2,164
Other revenue from external sources	–	–	48	166	–	–	–	–	–	–	48	166
Total revenue	1,783	1,199	815	881	365	212	180	38	–	–	3,143	2,330
Segment results	85	44	(32)	(162)	19	8	(719)	(187)	–	–	(647)	(297)

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts; income from the provision of multimedia content and services, and telecommunications related consultancy services.

Revenue from the following activities has been included in turnover:

HK$'million	**2001**	2000
Manufacture and sale of telecommunications products (cordless phone and mobile phone) and accessories	**2,851**	1,856
Provision of Internet services	**–**	114
Trading of telecommunications and network equipment and provision of related consultancy services	**34**	70
Manufacture and sale of baby care products	**156**	109
Provision of multimedia content and services, and magazine publishing	**54**	15
Interest income	**11**	26
	3,106	2,190

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Group	
HK$'million	**2001**	2000
Depreciation	**120**	111
Minimum lease payments under operating leases in respect of land and buildings:	**8**	8
Research and development costs:		
Deferred expenditure amortised *	**45**	25
Current year expenditure	**65**	37
Amortisation of goodwill **	**1**	–
Auditors' remuneration	**5**	4
Staff costs (excluding director's remuneration - note 8)***	**221**	252
Provision against loan to an associate	**–**	44
Provision against loan to a jointly-controlled entity	**–**	51
Impairment of an investment in a jointly-controlled entity	**33**	–
Bad and doubtful debt provisions on trade receivables	**44**	7
Bad and doubtful debt provisions on other receivables	**2**	8
Loss on disposal of fixed assets, net	**10**	4
Write-off of deferred development costs **	**24**	1
Loss on disposals/deemed disposal of associates, net	**13**	–
and after crediting:		
Gross rental income from investment properties	**8**	3
Dividend income from listed equity investments	**2**	7
Gain on disposal/deemed disposal of subsidiaries	**60**	447
Gain on disposal of jointly-controlled entities	**–**	43
Recovery of a long term investment	**–**	36
Interest income on loan to a jointly-controlled entity	**–**	1
Other loan interest income	**–**	3

* The amortisation of deferred development expenditure is included in "Cost of sales" on the profit and loss account.

** The amortisation of goodwill and write-off of deferred development costs for the year are included in "Other operating expenses" on the face of the profit and loss account.

*** The effect of forfeited contributions on the Group's contributions to the pension schemes for the year, and the amounts of forfeited contributions available to reduce contributions in future years, were not material.

7. FINANCE COSTS

	Group	
HK$'million	**2001**	2000
Interest on bank loans and overdrafts wholly repayable within five years	**11**	12
Interest on bank loans repayable after five years	**8**	14
Interest on convertible debt	**13**	7
Interest on finance leases	**4**	1
	36	34

8. DIRECTORS' REMUNERATION

Directors' remuneration 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	
HK$'million	**2001**	2000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**–**	–
	–	–
Executive directors' other emoluments:		
Salaries, allowances and benefits in kind	**19**	14
Performance related bonus	**11**	–
Pension scheme contributions	**1**	1
	31	15

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

	Number of directors	
	2001	2000
Nil - HK$1,000,000	**4**	6
HK$1,000,001 - HK$1,500,000	**–**	1
HK$2,000,001 - HK$2,500,000	**–**	1
HK$3,000,001 - HK$3,500,000	**1**	1
HK$4,500,001 - HK$5,000,000	**1**	–
HK$5,000,001 - HK$5,500,000	**1**	–
HK$7,000,001 - HK$7,500,000	**–**	1
HK$17,500,001 - HK$18,000,000	**1**	–
	8	10

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

During the year, 9,500,000 and 30,000,000 share options of the Company and Haier-CCT Holdings Limited ("Haier-CCT"), respectively, were granted to the directors in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on page 37. No value in respect of the share options granted during the year has been charged to the profit and loss account.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2000: three) directors, details of whose remuneration are set out in note 8 above. The details of the remuneration of the remaining (2000: two) non-director, highest paid employee are as follows:

	Group	
HK$'million	**2001**	2000
Salaries, allowances and benefits in kind	**3**	3
Performance related bonus	**1**	1
Pension scheme contributions	**–**	–
	4	4

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

	Number of employees	
	2001	2000
HK$1,500,001 - HK$2,000,000	**–**	1
HK$2,000,001 - HK$2,500,000	**–**	1
HK$3,500,001 - HK$4,000,000	**1**	–
	1	2

During the year, no share option of the Company was granted to the non-director, highest paid employee in respect of his services to the Group.

10. TAX

The Company is exempted from tax in the Cayman Islands until 2010. Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. 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 PRC subsidiaries of the Group, which are categorised as wholly foreign-owned enterprises, are entitled to preferential tax treatments including full exemption from the PRC income tax for two years starting from their first profit-making year following by a 50% reduction for the next consecutive three years.

	Group	
HK$'million	**2001**	2000
Group:		
Hong Kong:		
Provision for the year	**9**	12
Overprovision in prior years	**(4)**	(1)
	5	11
Elsewhere	**–**	–
	5	11
Share of tax attributable to associates	**1**	2
Tax charge for the year	**6**	13

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is approximately HK$425 million (2000: net profit of HK$303 million). The Group's share of the profits or losses for the year retained by the jointly-controlled entities and associates amounted to profits of HK$9 million and losses of HK$9 million, respectively (2000: profits of HK$5 million and HK$1 million, respectively).

12. DIVIDEND

HK$'million	**2001**	2000
Special dividend in specie of 420,623,514 shares of HK$0.10 each in Haier-CCT	–	421

No dividends have been paid or declared by the Company during the year.

The special dividend in 2000 was declared out of the Company's share premium account as permitted by the Company's Articles of Association and was approved in the extraordinary general meeting of the Company held on 15 September 2000. Haier-CCT is a company incorporated in Bermuda with limited liability, whose securities are listed on The Stock Exchange of Hong Kong Limited and is a subsidiary of the Company.

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of approximately HK$685 million (2000: restated loss of HK$205 million), and the weighted average number of 409,734,112 (2000: 245,356,398) ordinary shares in issue during the year.

The weighted average number of ordinary shares in issue during the year has taken into account the rights share issue, the bonus share issue and the share consolidation in 2001. Accordingly, the weighted average number of ordinary shares in issue during 2000 has been retrospectively adjusted for the effects of the rights share issue, the bonus share issue and the share consolidation in 2001, in accordance with SSAP 5 "Earnings per share".

The diluted loss per share for the years ended 31 December 2001 and 31 December 2000 are not shown as the impact of the potential ordinary shares is anti-dilutive for both years.

14. FIXED ASSETS

Group *HK$'million*	Investment properties	Leasehold land and buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total
Cost or valuation:								
At beginning of year	79	1,111	202	115	125	19	113	1,764
Additions	–	95	45	17	31	5	50	243
Disposals	(5)	–	(1)	(5)	(14)	(7)	–	(32)
Capital contribution to a jointly-controlled entity	–	–	–	(10)	(34)	–	–	(44)
Transfers	(16)	179	–	–	–	–	(163)	–
At 31 December 2001	58	1,385	246	117	108	17	-	1,931
Analysis of cost or valuation:								
At cost	–	1,385	246	117	108	17	–	1,873
At 31 December 2001 valuation	58	–	–	–	–	–	–	58
	58	1,385	246	117	108	17	–	1,931
Accumulated depreciation and impairment:								
At beginning of year	–	74	69	61	50	8	–	262
Depreciation provided during the year	–	48	36	16	17	3	–	120
Impairment during the year recognised in the profit and loss account	–	127	–	–	–	–	–	127
Disposals	–	–	(1)	(1)	(6)	(3)	–	(11)
Capital contribution to a jointly-controlled entity	–	–	–	–	(4)	–	–	(4)
At 31 December 2001	–	249	104	76	57	8	–	494
Net book value:								
At 31 December 2001	58	1,136	142	41	51	9	–	1,437
At 31 December 2000	79	1,037	133	54	75	11	113	1,502

The net book value of the fixed assets of the Group held under finance leases included in the total amounts of tools moulds and equipment, furniture and office equipment and motor vehicles at 31 December 2001, amounted to approximately HK$1,000,000 (2000: Nil), HK$3,000,000 (2000: HK$1,000,000), and HK$5,000,000 (2000: HK$5,000,000), respectively.

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

HK$'million	Hong Kong	Elsewhere	Total
Long term leases	417	–	417
Medium term leases	82	886	968
	499	886	1,385

14. FIXED ASSETS (continued)

The Group's investment properties included above are held under the following lease terms:

HK$'million	Hong Kong	Elsewhere	Total
Long term leases	13	–	13
Medium term leases	–	45	45
	13	45	58

The Group's investment properties were revalued on 31 December 2001 by Grant Sherman Appraisal Limited and E. N. Surveyors & Co., independent professionally qualified valuers, on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further details of which are included in note 38(a) to the financial statements.

15. INTANGIBLE ASSETS

Group

HK$'million	Deferred development costs	Publishing rights	Total
Cost:			
At beginning of year	109	–	109
Additions	65	–	65
Acquisition of a subsidiary	–	2	2
Write-off	(93)	–	(93)
At 31 December 2001	81	2	83
Accumulated amortisation:			
At beginning of year	72	–	72
Amortisation provided during the year	45	–	45
Written back	(69)	–	(69)
At 31 December 2001	48	–	48
Net book value:			
At 31 December 2001	33	2	35
At 31 December 2000	37	–	37

16. GOODWILL

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. The amounts of the goodwill capitalised as an asset in the balance sheet, arising from the acquisition of subsidiaries and minority interests, are as follows:

Group HK$'million	
Cost:	
At beginning of year	-
Acquisition of subsidiaries and minority interests	386
At 31 December 2001	386
Accumulated amortisation:	
At beginning of year	-
Amortisation provided during the year	1
At 31 December 2001	1
Net book value:	
At 31 December 2001	385
At 31 December 2000	-

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves.

During the year, the Group has adopted a policy to assess goodwill eliminated against consolidated reserves for impairment. This change of accounting policy has been accounted for retrospectively as a prior year adjustment in accordance with the transitional provisions of SSAP 30. Because this goodwill remains eliminated against consolidated accumulated losses (see note 34), this prior year adjustment has resulted in no net overall effect on the amount of consolidated accumulated losses previously reported in reserves as at 31 December 2000. This prior year adjustment has had no effect on the current year.

16. GOODWILL (continued)

The amounts of the goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to 1 January 2001, are as follows:

Group

HK$'million	Goodwill eliminated against accumulated losses
Cost:	
At beginning of year	954
Disposal of an associate	(2)
At 31 December 2001	952
Accumulated impairment:	
At beginning of year	
As previously reported	–
Prior year adjustments	680
As restated	680
Impairment provided during the year	–
As at 31 December 2001	680
Net amount:	
At 31 December 2001	272
At 31 December 2000	954

17. INTERESTS IN SUBSIDIARIES

Company

HK$'million	2001	2000
Unlisted shares, at cost	**25**	–
Due from subsidiaries	**4,810**	3,472
Due to subsidiaries	**(716)**	(742)
	4,119	2,730
Provision for impairment	**(2,024)**	(715)
	2,095	2,015

The balances with the subsidiaries are unsecured, interest-free and are repayable on demand.

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
CCT Marketing Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	–	100	Trading of telecommunications products
Haier-CCT Holdings Limited * (Formerly known as CCT Multimedia Holdings Limited)	Bermuda	HK$856,996,000 Ordinary	–	53.52	Investment holding
CCT Industrial Limited	British Virgin Islands	US$100 Ordinary	–	100	Property holding
CCT Telecom (HK) Limited	Hong Kong	HK$2,600,000 Ordinary	–	100	Sourcing of telecommunications products
CCT Technology Holdings Limited	British Virgin Islands	US$100 Ordinary	–	100	Investment holding
Electronic Sales Limited	Hong Kong	HK$5,948,000 Ordinary	–	100	Manufacturing and trading of transformers and adaptors
Full Triumph International Limited	British Virgin Islands	US$1 Ordinary	–	100	Property holding
Goldbay Investments Limited	Hong Kong	HK$2 Ordinary	–	100	Property holding
Haier CCT (H.K.) Telecom Co., Limited	Hong Kong	HK$20,000,000 Ordinary	–	53.52	Distribution of mobile phones

17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Huge Partner Limited	Hong Kong	HK$10,000 Ordinary	–	100	Property holding
Neptune Holding Limited	Hong Kong	HK$10,000,000 Non-voting** class 'A' shares HK$1,000,000 voting class 'B' shares	–	100	Trading of plastic casings and parts
Wiltec Industries Limited	Hong Kong	HK$100 Ordinary HK$1,000,000 Deferred***	–	53.52	Manufacturing and sale of baby care products
Huiyang CCT Telecommunications Products Co., Ltd.	People's Republic of China	HK$80,000,000 Registered****	–	100	Manufacturing of telecommunications products
Huiyang CCT Plastic Products Co., Ltd.	People's Republic of China	HK$40,000,000 Registered****	–	100	Manufacturing of plastic casings and parts

* *Listed on the main board of the Stock Exchange.*

** *The non-voting shares carry no rights to dividends and no rights to vote at general meetings.*

*** *The non-voting deferred shares carry no rights to dividends, to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding-up.*

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

17. INTERESTS IN SUBSIDIARIES (continued)

During the year, the Group acquired City Howwhy Limited ("City Howwhy") from an independent third party. Further details of this acquisition are set out in notes 35(d) and 35(e).

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

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
HK$'million	**2001**	2000	**2001**	2000
Unlisted shares, at cost	**–**	–	**–**	284
Share of net assets	**95**	53	**–**	–
Due from a jointly-controlled entity	**24**	–	**–**	–
Loan to a jointly-controlled entity	**–**	51	**–**	–
	119	104	**–**	284
Provision against loan to a jointly-controlled entity	**–**	(51)	**–**	–
	119	53	**–**	284

The amount due from the jointly-controlled entity is unsecured, interest-free and is repayable on demand.

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration and operations	Registered or issued share capital	Percentage of Ownership interest	Voting power	Profit sharing	Principal activity
Haier CCT (Qingdao) Telecom Co., Ltd. ("Haier Qingdao")	Corporate	People's Republic of China	US$12,000,000 Registered	49	44	49	Manufacturing and trading of mobile phones

19. INTERESTS IN ASSOCIATES

	Group	
HK$'million	**2001**	2000
Share of net assets	**46**	69
Loans to associates	**59**	66
Due from associates	**22**	21
	127	156
Provision against loans to associates	**(44)**	(44)
	83	112

The amounts due from associates are unsecured, interest-free and are repayable on demand.

19. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates, all held indirectly through subsidiaries, are as follows:

Name	Business structure	Place of incorporation and operations	Issued share capital	Percentage of ownership interest attributable to the Group 2001	2000	Principal activities
Modernet Company Limited	Corporate	British Virgin Islands	US$1 Ordinary	25	40	Investment holding
Team Work Corporation Limited	Corporate	British Virgin Islands	US$100 Ordinary	40	40	Provision of agency services and movie production

The above table lists the associates of the Group 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 associates would, in the opinion of the directors, result in particulars of excessive length.

20. OTHER ASSETS

	Group	
HK$'million	**2001**	2000
Club memberships, at cost	**14**	14
Deposit for acquisition of a subsidiary	**–**	10
	14	24

21. INVESTMENTS

	Group		Company	
HK$'million	**2001**	2000	**2001**	2000
Long term investments				
Unlisted equity investments, at cost	**499**	489	**–**	–
Provisions for impairment	**(131)**	(101)	**–**	–
	368	388	**–**	–
Short term investments				
Listed equity investments, at market value:				
Hong Kong	**90**	275	**–**	–
Elsewhere	**20**	173	**20**	124
	110	448	**20**	124
Unlisted equity investments, at fair value	**354**	676	**–**	–
	464	1,124	**20**	124

21. INVESTMENTS (continued)

As at 31 December 2001, the amount of the Group's holding in the following company exceeded 10% of total assets of the Group:

Name	Place of incorporation	Description of shares held	Percentage holding
Sendo Holdings PLC	United Kingdom	GBP31,526,000 Ordinary and GBP31,474,000 Preference	32.1

As at 31 December 2001, the number of shares of the following company held by the Group exceeded 20% of its total issued shares:

Name	Place of incorporation	Description of shares held	Percentage holding
Tradeeasy.com Limited	Cayman Islands	HK$6,671,236 Ordinary and HK$3,300,000 Preference	33.6

22. INVENTORIES

	Group	
HK$'million	**2001**	2000
Raw materials	**65**	156
Work in progress	**32**	90
Finished goods	**24**	60
	121	306

The carrying amount of inventories carried at net realised value included in the above balance was Nil (2000: Nil) as at the balance sheet date.

23. TRADE AND BILLS RECEIVABLES

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

	Group		Company	
	2001		2000	
HK$'million	**Balance**	**Percentage**	Balance	Percentage
Current to 30 days	**195**	**50**	276	60
31 to 60 days	**100**	**25**	137	30
61 to 90 days	**66**	**17**	36	8
Over 91 days	**33**	**8**	10	2
	394	**100**	459	100

The Group normally allows an average credit period of 30-60 days to its trade customers.

23. TRADE AND BILLS RECEIVABLES (continued)

Included in the Group's trade and bills receivables are trade receivables of approximately HK$19 million (2000: Nil) due from Haier Qingdao, the Group's jointly-controlled entity. The balance arose from transactions relating to the sales of raw materials pursuant to the terms and conditions set out in an agreement and a supplemental agreement dated 3 July 2001 and 15 August 2001, respectively.

Further details of the transactions are set out in note 41(c) to the financial statements.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
HK$'million	**2001**	2000	**2001**	2000
Prepayments	**3**	8	**—**	—
Deposits and other receivables	**83**	31	**5**	6
	86	39	**5**	6

25. CASH AND CASH EQUIVALENTS

	Group		Company	
HK$'million	**2001**	2000	**2001**	2000
Cash and bank balances	**472**	259	**5**	181
Time deposits	**485**	108	**383**	78
	957	367	**388**	259

26. TRADE AND BILLS PAYABLES

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

	Group		Group	
	2001		2000	
HK$'million	**Balance**	**Percentage**	Balance	Percentage
Current to 30 days	**208**	**39**	197	35
31 to 60 days	**111**	**21**	153	27
61 to 90 days	**80**	**15**	150	26
Over 91 days	**136**	**25**	67	12
	535	**100**	567	100

Included in trade and bills payables are trade payables of approximately HK$52 million (2000: Nil) due to Haier Qingdao, the Group's jointly-controlled entity. The balance arose from transactions relating to the purchases of mobile phones pursuant to the terms and conditions set out in a letter of intent and a supplemental agreement dated 3 July 2001 and 15 August 2001, respectively.

Further details of the transactions are set out in note 41(c) to the financial statements.

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
HK$'million	**2001**	2000	**2001**	2000
Accruals	**127**	83	**10**	10
Other payables	**124**	347	**—**	—
	251	430	**10**	10

28. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

		Group	
HK$'million	Notes	**2001**	2000
Bank overdrafts	29	**—**	40
Current portion of bank loans	29	**161**	178
Current portion of finance lease payables	30	**4**	3
		165	221

29. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

	Group	
HK$'million	**2001**	2000
Bank overdrafts:		
Secured	**–**	40
Bank loans:		
Secured	**363**	299
Bank overdrafts repayable		
within one year or on demand	**–**	40
Bank loans repayable:		
Within one year or on demand	**161**	178
In the second year	**55**	18
In the third to fifth years, inclusive	**115**	62
Beyond five years	**32**	41
	363	299
	363	339
Portion classified as current liabilities - note 28	**(161)**	(218)
Long term portion	**202**	121

30. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles for its telecommunications product business and baby care product business. These leases are classified as finance leases and have remaining lease terms ranging from two to three years.

At 31 December 2001, the future minimum lease payments under finance leases and their present value were as follows:

	Group			
HK$'million	**Minimum lease payments 2001**	Minimum lease payments 2000	**Present value of minimum lease payments 2001**	Present value of minimum lease payments 2000
Amounts payable:				
Within one year	**4**	4	**4**	4
In the second year	**4**	3	**3**	2
In the third to fifth years inclusive	**2**	1	**2**	1
Total minimum finance lease payments	**10**	8	**9**	7
Future finance charges	**(1)**	(1)		
Total net finance lease payables	**9**	7		
Portion classified as current liabilities (note 28)	**(4)**	(3)		
Long term portion	**5**	4		

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

31. CONVERTIBLE DEBT

	Group and Company	
HK$'million	**2001**	2000
Convertible bonds	**120**	150

(a) On April 2001, the Company and the convertible bond holder entered into the supplemental deed pursuant to which the Company and the convertible bond holder agreed to reduce the conversion price from HK$1.57 to HK$0.85 (subject to adjustment), to extend the maturity date from 27 October 2001 to 27 October 2002 and to increase the interest rate borne by the convertible bond from 5% to 8% per annum. As a result of the share consolidation, the rights issue and the bonus share issue by the Company in 2001, the conversion price of convertible bonds was adjusted to HK$4.233 per share with effect from 30 November 2001.

In December 2001, the Company redeemed HK$30 million worth of the convertible bonds.

(b) On 18 June 2001, the Company and a subscriber entered into a subscription agreement pursuant to which the Company agreed to issue and the subscriber agreed to subscribe for further convertible bond in an aggregate principal amount of HK$100 million. The convertible bond bore interest at the rate of 8% per annum and were due on the second anniversary of the date of issue of the convertible bonds.

In December 2001, the Company fully redeemed HK$100 million worth of the convertible bonds.

32. DEFERRED TAX

	Group	
HK$'million	**2001**	2000
Balance at beginning of year	**4**	4
Credit for the year	**(1)**	–
At 31 December	**3**	4

The principal components of the Group's provision for deferred tax and the net deferred tax asset position not recognised in the financial statements are as follows:

	Provided		Not provided	
HK$'million	**2001**	2000	**2001**	2000
Accelerated depreciation allowances	**3**	4	**11**	11
Tax losses	**–**	–	**(53)**	(43)
	3	4	**(42)**	(32)

The benefit of any future tax relief has not been included as an asset in the balance sheet because the directors consider that the benefit should not be recognised until it is assured beyond reasonable doubt.

The revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

The Company had no unprovided deferred tax at the balance sheet date (2000: Nil)

33. SHARE CAPITAL

HK$'million	**2001**	2000
Authorised:		
800,000,000 (2000: 4,000,000,000) ordinary shares of HK$5.00 (2000: HK$0.50) each	**4,000**	2,000
Issued and fully paid :		
422,105,230 (2000: 1,565,332,060) ordinary shares of HK$5.00 (2000: HK$0.50) each	**2,110**	783

33. SHARE CAPITAL (continued)

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

	Notes	Carrying amount HK$'million	Number of ordinary shares of HK$0.50 each (in millions)
At 1 January 2001		783	1,565
Issue upon private placement	(a)	60	120
Issue of consideration shares	(b)	5	11
Repurchases of shares	(d)	(4)	(8)
Before consolidation	(e)	844	1,688

		Carrying amount HK$'million	Number of ordinary shares of HK$5.00 each (in millions)
After consolidation	(e)	844	169
Rights issue	(e)	211	42
Bonus issue	(e)	1,055	211
As 31 December 2001		2,110	422

Notes:

(a) Private placement

On 29 October 2001, the Company allotted and issued 120,000,000 ordinary shares of HK$0.50 each of the Company, payable in cash, to an independent third party at par.

(b) Issue of consideration shares

Pursuant to an underwriting agreement dated 29 June 2001, the Company allotted and issued 10,868,867 ordinary shares of HK$0.50 each of the Company at HK$0.89 per share as the consideration for the acquisition of additional interests in a long term investment.

33. SHARE CAPITAL (continued)

(c) Share options

The Company operated two share option schemes during the year, further details of which are set out under the section of "Share option scheme" in the Report of the Directors on page 37.

Details of the current year's movements in the number of ordinary shares under the share option scheme adopted by the Company on 21 October 1991 were as follows:

		Number of ordinary shares under option (in thousands)					
Exercise price per share	Exercise period	At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31 December 2001
HK$1.200*	6 April 2000 to 5 October 2001	4,150	–	–	(4,150)	–	–
HK$1.270*	28 October 2000 to 27 April 2002	8,000	–	–	(8,000)	–	–
HK$1.310*	10 November 2000 to 9 May 2002	12,550	–	–	(12,550)	–	–
HK$0.750	9 May 2001 to 20 October 2001	4,000	–	–	(4,000)	–	–
Total		28,700	–	–	(28,700)	–	–

** Adjusted to take into account of the special dividend in specie of the Company on 29 September 2000.*

Details of the current year's movements in the number of ordinary shares under the share option scheme adopted by the Company on 25 May 2001 were as follows:

		Number of ordinary shares under option (in thousands)					
Exercise price per share	Exercise period	At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31 December 2001
HK$3.732*	13 June 2001 to 12 June 2003	–	875*	–	–	–	875*
HK$3.553*	29 December 2001 to 28 June 2003	–	625*	–	–	–	625*
HK$3.533*	30 June 2001 to 30 December 2003	–	1,000*	–	–	–	1,000*
HK$3.085*	8 February 2002 to 7 August 2003	–	750*	–	–	–	750*
HK$2.936*	16 August 2001 to 15 August 2003	–	13,525*	–	–	–	13,525*
Total		–	16,775*	–	–	–	16,775*

** Adjusted to take into account of the share consolidation, rights issue and bonus share issue of the Company in 2001.*

No options have been granted under the new share option scheme adopted by the Company on 28 February 2002 since the date of its adoption.

33. SHARE CAPITAL (continued)

(d) Repurchases of shares

During the year, the Company repurchased a total of 7,780,000 ordinary shares of HK$0.50 each on the open market. The repurchased shares were cancelled during the year and the issued share capital was reduced by the par value thereof.

Details of the repurchases of shares during the year were as follows:

Trading months in 2001	Number of ordinary shares repurchased	Price per ordinary share		Total cost (before expenses)
		Highest HK$	Lowest HK$	HK$'million
January	4,566,000	1.06	0.84	5
February	904,000	1.01	0.93	1
March	2,310,000	1.00	0.88	2
	7,780,000			8

The premium of approximately HK$4 million on the shares repurchased, being the difference between the total cost of approximately HK$8 million, including the related expenses paid by the Company, and the aggregate amount of approximately HK$4 million being the nominal value of the 7,780,000 ordinary shares repurchased, was deducted from the share premium account of the Company.

The repurchases of the Company's shares during the year were effected by the directors of the Company, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

(e) Share consolidation, rights issue and bonus issue

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 29 November 2001, the Company consolidated every ten issued and unissued shares of HK$0.50 each in the capital of the Company into one consolidated share (the "Consolidated Shares") of HK$5.00 each then in issue.

On 24 December 2001, the Company issued, by way of a rights issue, 42,210,523 Consolidated Shares (the "Rights Shares") of HK$5.00 each at its par value, in the proportion of one Rights Share for every four Consolidated Shares. The cash proceeds of the rights issue before expenses totalled approximately HK$211 million. Furthermore, a total of 211,052,615 Consolidated Shares (the "Bonus Shares") of HK$5.00 each were issued as fully paid by way of the capitalisation of approximately HK$1,055 million standing to the credit of the share premium account of the Company, on the basis of five Bonus Shares for every fully paid Rights Share.

34. RESERVES

Group HK$'million	Share premium account	Accumulated losses	Total
At 1 January 2000	2,618	(724)	1,894
Placement of shares	921	–	921
Share issue expenses	(16)	–	(16)
Exercise of warrants and share options	108	–	108
Repurchases of shares	(105)	–	(105)
Conversion of convertible bonds	22	–	22
Goodwill arising from acquisition of subsidiaries	–	(56)	(56)
Goodwill arising from acquisition of jointly-controlled entities	–	(276)	(276)
Goodwill arising from acquisition of associates	–	(298)	(298)
Reversal of goodwill on disposal of jointly-controlled entities	–	58	58
Reversal of goodwill on partial disposal of a subsidiary	–	101	101
Net profit for the year	–	221	221
Dividend in specie	(421)	–	(421)
At 31 December 2000 and beginning of year	3,127	(974)	2,153
Placement of shares	5	–	5
Bonus issue of shares	(1,055)	–	(1,055)
Share issue expenses	(4)	–	(4)
Repurchases of shares	(4)	–	(4)
Net loss for the year	–	(685)	(685)
At 31 December 2001	2,069	(1,659)	410
Reserves retained by:			
Company and subsidiaries	3,127	(980)	2,147
Jointly-controlled entities	–	5	5
Associates	–	1	1
31 December 2000	3,127	(974)	2,153
Company and subsidiaries	2,069	(1,655)	414
Jointly-controlled entities	–	4	4
Associates	–	(8)	(8)
31 December 2001	2,069	(1,659)	410

34. RESERVES (continued)

Included in the accumulated losses movement for the year ended 31 December 2000 was an adjustment to retrospectively recognise impairments in the amount of goodwill which remained eliminated against consolidated reserves by HK$426 million. The adjustment had no net effect on the amount of accumulated losses, for the reasons explained in note 16.

Company

HK$'million	Share premium account	Accumulated losses	Total
Balance at 1 January 2000	2,618	(1,627)	991
Placement of shares	921	–	921
Share issue expenses	(16)	–	(16)
Exercise of warrants and share options	108	–	108
Repurchases of shares	(105)	–	(105)
Conversion of convertible bonds	22	–	22
Net profit for the year	–	303	303
Dividend in specie (note)	(421)	–	(421)
At 31 December 2000 and beginning of year	3,127	(1,324)	1,803
Placement of shares	5	–	5
Bonus issue of shares	(1,055)	–	(1,055)
Share issue expenses	(4)	–	(4)
Repurchases of shares	(4)	–	(4)
Net loss for the year	–	(425)	(425)
At 31 December 2001	2,069	(1,749)	320

Note:
Under the Companies Law (2001 Revision) Chapter 22 of the Cayman Islands, the share premium account of the Company is available for distribution of dividends to shareholders subject to the provisions of the Company's Memorandum and Articles of Association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.

In accordance with the Company's Articles of Association, dividends can only be distributed out of the profits and reserves available for distribution, including the share premium account of the Company. As at 31 December 2001, the Company had a net credit balance of approximately HK$320 million (2000: HK$1,803 million) maintained in the reserve accounts which is available for distribution.

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) from operating activities to net cash inflow/(outflow) from operating activities

HK$'million	2001	2000
Profit/(loss) from operating activities	**(630)**	222
Interest income	**(11)**	(26)
Interest income from a jointly-controlled entity	**–**	(1)
Dividend income from listed equity investments	**(2)**	(7)
Depreciation	**120**	111
Amortisation of goodwill	**1**	–
Amortisation of intangible assets	**45**	25
Provision against loan to an associate	**–**	44
Provision against loan to a jointly-controlled entity	**–**	51
Impairment of an investment in a jointly-controlled entity	**33**	–
Bad and doubtful debt provisions on trade receivables	**44**	7
Bad and doubtful debt provisions on other receivables	**2**	8
Loss on disposal of fixed assets, net	**10**	4
Write-off of deferred development costs	**24**	1
Loss on disposal/deemed disposal of associate, net	**13**	–
Gain on disposal/deemed disposal of subsidiaries	**(60)**	(447)
Gain on disposal of jointly-controlled entities	**–**	(43)
Recovery of a long term investment	**–**	(36)
Net unrealised holding losses/(gains) on short term investments	**452**	(127)
Net realised losses on disposal of short term investments	**43**	4
Impairment of long term investments	**30**	101
Impairment of fixed assets	**127**	–
Decrease/(increase) in inventories	**185**	(164)
Decrease/(increase) in trade and bills receivables	**24**	(255)
Decrease/(increase) in prepayments, deposits and other receivables	**(49)**	24
Increase/(decrease) in trade and bills payables and accruals	**(213)**	483
Net cash inflow/(outflow) from operating activities	**188**	(21)

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

HK$'million	Issued share capital (including share premium account)	Bank loans	Finance lease obligations	Convertible debt	Minority interests	Pledged time deposits
Balance at 1 January 2000	3,269	155	4	180	36	191
Cash inflow/(outflow) from financing activities, net	908	32	(5)	–	–	(61)
Acquisition of a subsidiary	–	–	2	–	53	–
Disposal of subsidiaries	–	–	–	–	13	–
Placement of shares	124	–	–	–	–	–
Share of loss for the year	–	–	–	–	(40)	–
Deemed disposal of a subsidiary	–	–	–	–	33	–
Inception of finance lease obligations	–	–	6	–	–	–
Conversion of convertible bonds	30	–	–	(30)	–	–
Dividend in specie	(421)	–	–	–	–	–
Balance at 31 December 2000 and beginning of year	3,910	187	7	150	95	130
Cash inflow/(outflow) from financing activities, net	259	115	(5)	(30)	362	50
Placement of shares	10	–	–	–	–	–
Share of profit for the year	–	–	–	–	13	–
Contribution by minority interests	–	–	–	–	327	–
Purchase of minority interests	–	–	–	–	33	–
Disposal of minority interests	–	–	–	–	(3)	–
Inception of finance lease obligations	–	–	7	–	–	–
Balance at 31 December 2001	4,179	302	9	120	827	180

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Major non-cash transactions

During the year, the Group had the following major non-cash transactions:

(i) The Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the finance leases of HK$7 million (2000: HK$6 million).

(ii) The Company allotted and issued 10,868,867 ordinary shares of HK$0.50 each, credited as fully paid, at HK$0.89 per share amounting to, approximately HK$10 million, as the consideration for acquisition of additional interests in a long term investment.

(d) Acquisition of subsidiaries

HK$'million	2001	2000
Net assets acquired:		
Fixed assets	–	27
Intangible assets	2	–
Other assets	–	14
Cash and bank balances	–	116
Trade receivable	3	28
Inventories	–	3
Prepayments, deposits and other receivables	–	4
Trade payable	(1)	(6)
Other payables and accruals	(1)	(25)
Finance lease payables	–	(2)
Tax prepaid	–	1
Minority interests	–	(53)
	3	107
Goodwill on acquisition	12	56
	15	163
Satisfied by:		
Cash	5	149
Reclassification from other assets	10	–
Reclassification from interests in associates	–	3
Minority interests	–	11
	15	163

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(e) Analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries

HK$'million	2001	2000
Cash consideration	(5)	(149)
Cash and bank balances acquired	–	116
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(5)	(33)

During the year, the Group acquired a 100% interest in City Howwhy from an independent third party for a cash consideration of HK$15 million. City Howwhy is principally engaged in magazine publishing.

The subsidiary acquired during the year contributed approximately HK$1 million (2000: HK$87 million) of the Group's net operating cash flows, paid approximately HK$1 million (2000: HK$3 million) in respect of investing activities, but had no significant impact in respect of net returns on investments and servicing of finance (2000: HK$4 million), tax (2000: Nil) and financing activities (2000: Nil).

The subsidiary acquired during the year contributed approximately HK$14 million (2000: HK$119 million) to the Group's turnover and a post-acquisition profit of approximately HK$1 million (2000: HK$11 million) to the Group's loss before minority interests.

(f) Purchases of minority interests in subsidiaries

HK$'million	2001	2000
Net assets acquired:		
Minority interests	3	–
Goodwill on acquisition	1	–
	4	–
Satisfied by:		
Cash	4	–

(g) Disposal of minority interests in subsidiaries

HK$'million	2001	2000
Net assets disposed of:		
Minority interests	31	–
Gain on disposal	16	–
	47	–
Satisfied by:		
Cash	47	–

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(h) Partial disposal of a subsidiary

HK$'million	2001	2000
Net assets disposed of:		
Fixed assets	–	68
Cash and bank balances	–	66
Trade receivable	–	46
Deposits and other receivables	–	19
Trade payable and accruals	–	(225)
Minority interests	–	13
Goodwill	–	101
Reclassification to interests in associates	–	7
Gain on disposal	–	30
	–	125

(i) Analysis of the net inflow of cash and cash equivalents in respect of the partial disposal of a subsidiary

HK$'million	2001	2000
Cash consideration	–	125
Cash and bank balances disposed of	–	(66)
Net inflow of cash and cash equivalents in respect of the partial disposal of a subsidiary	–	59

The subsidiary disposed of in last year utilised approximately HK$63 million of the Group's net operating cash flows, paid HK$43 million in respect of investing activities and received HK$54 million in respect of financing activities.

The subsidiary disposed of during last year contributed approximately HK$114 million to the Group's turnover and a loss of approximately HK$78 million to the Group's loss before minority interests (restated).

36. CONTINGENT LIABILITIES

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

	Group		Company	
HK$'million	2001	2000	2001	2000
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	–	–	360	304

37. PLEDGED ASSETS

At the balance sheet date, the Group's bank borrowings were secured by:

(i) Pledges of the Group's fixed deposits amounting to approximately HK$180 million (2000: HK$130 million);

(ii) Fixed charges over certain of the Group's leasehold land and buildings with an aggregate net book value amounting to approximately HK$295 million (2000: HK$440 million);

(iii) Fixed charges over listed securities with a market value of approximately HK$88 million (2000: HK$275 million); and

(iv) Corporate guarantees given by the Company aggregating approximately HK$360 million (2000: HK$304 million).

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2001, the Group had total future minimum lease receivables under non-cancelable operating leases with its tenants falling due as follows:

	Group	
HK$'million	**2001**	2000
Within one year	**1**	1

(b) As lessee

The Group leases certain of its office properties under operating leases arrangement. Leases for properties are negotiated for an average term of two years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	Group	
HK$'million	**2001**	2000 (Restated)
Within one year	**8**	12
In the second to fifth years, inclusive	**1**	9
	9	21

38. OPERATING LEASE ARRANGEMENTS (continued)

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above, have been restated to accord with the current year's presentation.

39. COMMITMENTS

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

(a) Capital commitments contracted, but not provided for in respect of:

	Group		Company	
HK$'million	**2001**	2000	**2001**	2000
Capital contributions to certain subsidiaries established in the People's Republic of China	**15**	9	**–**	-
Loan to an associate	**–**	8	**–**	-
Purchases of equipment and motor vehicles	**1**	1	**–**	-
Leasehold improvements	**2**	92	**–**	-
	18	110	**–**	-

(b) Capital commitments authorised, but not yet contracted for in respect of:

	Group		Company	
HK$'million	**2001**	2000	**2001**	2000
Investment in a jointly-controlled entity established in the People's Republic of China	**–**	25	**–**	25
Acquisition of a subsidiary	**–**	5	**–**	-
	–	30	**–**	25

(c) At the balance sheet date, the Group had no share of capital commitments of the jointly-controlled entities themselves in respect of capital expenditures authorised but not contracted for (2000: HK$376 million) and of capital expenditures contracted but not provided for (2000: HK$3 million).

40. POST BALANCE SHEET EVENTS

(a) On 14 January 2002, the Company and Haier-CCT Holdings Limited ("Haier-CCT") entered into a sale and purchase agreement pursuant to which the Company agreed to acquire from Haier-CCT the entire interest of Current Profits Limited ("Current Profits"), a wholly-owned subsidiary of Haier-CCT, for a total purchase price of HK$60,000,000. Current Profits and its subsidiaries are engaged in the manufacturing and sale of baby care products.

The purchase price was payable by the Company on completion by way of a set-off against the entire amount of the HK$60,000,000 loan note which was issued by Haier-CCT to an indirect wholly-owned subsidiary of the Company on 17 December 2001.

The transaction was completed on 4 March 2002. Further details of the transaction are set out in the Circular issued to the shareholders of Haier-CCT dated 4 February 2002.

(b) Pursuant to a special resolution passed at an extraordinary general meeting on 8 April 2002, the Company reduced the nominal value of each of the 422,105,230 issued ordinary shares of the Company by HK$4.90, from HK$5.00 to HK$0.10 per ordinary share (the "Capital Reduction"). Accordingly the Company's then existing issued share capital of HK$2,110,526,150 was reduced by HK$2,068,315,627 to HK$42,210,523.

The credit arising from the Capital Reduction, in the sum of HK$2,068,315,627, will first be applied towards the elimination of the accumulated losses of up to HK$934,298,000 of the Company and the balance of such credit will be credited to a distributable reserve of the Company.

The 377,894,770 unissued ordinary shares of the Company will be cancelled and the authorised share capital of the Company will immediately thereafter be increased to HK$200,000,000 by the subsequent creation of 1,577,894,770 unissued new ordinary shares of HK$0.10 each that the authorised share capital of the Company shall thereafter consist of 2,000,000,000 new ordinary shares of HK$0.10 each.

As at the date on which these financial statements were approved, the Capital Reduction is still conditional on the confirmation of each of the Grand Count of the Cayman Islands and the Registrar of Companies in the Cayman Islands of an office copy of the Court order and the minutes containing the particulars required under the Companies Law of the Cayman Islands.

41. RELATED PARTY TRANSACTIONS

(a) On 3 January 2001, Greatway International Corp., a wholly-owned subsidiary of the Company, acquired an additional 22,410,000 ordinary shares of Haier-CCT at a price of HK$0.20 each from two former directors of Haier-CCT for a cash consideration of HK$4,482,000. As a result, the Group's interest in Haier-CCT increased from 61.42% to 62.87%.

(b) On 4 July 2001 and 11 July 2001, the Company, Haier-CCT and Orient Rich (H.K.) Limited ("Orient Rich"), an indirect wholly-owned subsidiary of Haier Group Corporation, entered into a conditional agreement and a supplemental agreement (collectively the "Agreements"), respectively, whereby Haier-CCT agreed to acquire: (1) a 100% equity interest in Foreland Agents Limited (and the relevant shareholder's loan) ("Foreland Agents"), which holds 51% of the issued share capital in Haier CCT (H.K.) Telecom Co., Limited ("Haier HK"), from the Company; and (2) 49% of the issued share capital of Haier HK from Orient Rich for an aggregate consideration of HK$1,446,800,000.

41. RELATED PARTY TRANSACTIONS (continued)

The consideration was satisfied by: (1) the transfer of Haier-CCT's 100% equity interest in Master Base Investment Inc. (and the relevant shareholder's loan) and Creditop International Inc., which holds a 9.8% equity interest in Mingpao.com Holdings Limited; (2) the issue of a HK$60,000,000 loan note in favour of an indirect wholly-owned subsidiary of the Company; and (3) the issue of 3,774,000,000 and 1,960,000,000 new ordinary shares of HK$0.10 each in the capital of Haier-CCT to the Company and Orient Rich, respectively, at a subscription price of HK$0.20 per share.

The transactions were completed on 17 December 2001.

Under the Agreements, Haier-CCT has the option granted by Haier Group Corporation (the "PRC JV Option") to purchase the 51% interest in Haier Qingdao, from Qingdao Haier Investment Development Co., Limited, a wholly-owned subsidiary of Haier Group Corporation, for HK$673,200,000 which shall be satisfied by the issue to Haier Group Corporation or its nominee(s) 3,366,000,000 new ordinary shares of Haier-CCT at HK$0.20 each. In addition, Haier-CCT has the option granted by the Company (the "CCT Technology Option") to purchase 100% interest in CCT Technology Group Holdings Limited ("CCT Technology"), an indirectly-owned subsidiary of the Company, from the Company at a cash price equal to the net assets value of CCT Technology at the time of exercise. Both the PRC JV Option and the CCT Technology Option are exercisable in full or in part any time during the two-year period after the first anniversary of the date of completion of the Agreements.

The above transactions were described to the shareholders in the Circular dated 29 August 2001 and were approved by the independent shareholders, in the extraordinary general meeting held on 14 September 2001.

The above transactions are also disclosed under the "Connected transactions" section in the Report of the Directors on page 44.

(c) The Group had the following material transactions with Haier Qingdao during the year:

		GROUP	
HK$'million	Notes	**2001**	2000
Purchases of mobile phones from Haier Qingdao	(i)	**192**	-
Sales of raw materials to Haier Qingdao	(ii)	**254**	-
Software and hardware design fee income from Haier Qingdao	(iii)	**15**	-

Notes:

(i) The purchases of mobile phones were made in accordance with the terms and conditions set out in a letter of intent and a supplemental agreement (collectively the "Export Agreements") entered into between Haier HK and Haier Qingdao on 3 July 2001 and 15 August 2001, respectively.

(ii) The sales of raw materials were made in accordance with the terms and conditions set out in an agreement and a supplemental agreement (collectively the "Sourcing Agreements") entered into between Haier HK and Haier Qingdao on 3 July 2001 and 15 August 2001, respectively.

(iii) The software and hardware design fee income was charged in accordance with the terms and conditions set out in the Sourcing Agreements entered into between Haier HK and Haier Qingdao on 3 July 2001 and 15 August 2001, respectvely.

41. RELATED PARTY TRANSACTIONS (continued)

In addition to the above, Foreland Agents charged CCT Technology a technical and management service fee of HK$45 million in accordance with the terms and conditions set out in a technical service and management agreement and a supplemental agreement (collectively the "Management Agreements") entered into between Foreland Agents and CCT Technology on 21 September 2000 and 27 August 2001, respectively.

The above transactions were defined as "ongoing connected transactions" in the circular to the independent shareholders of the Company dated 29 August 2001 and were approved by the independent shareholders at an extraordinary general meeting of the Company held on 14 September 2001.

The Stock Exchange has granted conditional waivers to the Company from strict compliance with the connected transactions requirements as set out in the Listing Rules for the two financial years ending 31 December 2001 and 2002. The ongoing connected transactions have obtained the approval of the independent non-executive directors of the Company.

The aggregate value of the transactions under the Sourcing Agreements and the Export Agreements for the year ended 31 December 2001 did not exceed HK$3 billion and HK$2.2 billion, respectively, and the monthly service fee under the Management Agreements as disclosed under the "Connected transactions" section in the Report of the Directors on page 44 did not exceed the monthly service fee specified in the Management Agreements.

The above transactions are also disclosed under the "Connected transactions" section in the Report of the Directors on page 44.

(d) During the year, CCT Properties (Dongguan) Limited., an indirect wholly-owned subsidiary of the Company, entered into a construction contract with an associate of the Group, at a contract sum of approximately HK$37 million. The transaction was determined based on cost-plus method.

42. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2002.

Five Year Financial Summary

A summary of the results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. The amounts for each year in the five year summary have been adjusted for the effects of the retrospective changes in accounting policy affecting goodwill as detailed in note 2 to financial statements.

RESULTS

	Year ended 31 December				
HK$'million	**2001**	2000 (Restated)	1999 (Restated)	1998 (Restated)	1997 (Restated)
TURNOVER	**3,106**	2,190	1,572	897	438
OPERATING PROFIT/(LOSS)	**(666)**	188	92	(374)	(32)
Impairment of goodwill	**–**	(426)	(242)	(8)	(4)
Share of profits and losses of associates	**(9)**	1	-	(14)	2
Share of profits and losses of jointly-controlled entities	**9**	5	(23)	3	1
LOSS BEFORE TAX	**(666)**	(232)	(173)	(393)	(33)
Tax	**(6)**	(13)	(8)	(8)	-
LOSS BEFORE MINORITY INTERESTS	**(672)**	(245)	(181)	(401)	(33)
Minority interests	**(13)**	40	49	36	(1)
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	**(685)**	(205)	(132)	(365)	(34)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
HK$'million	**2001**	2000	1999	1998	1997
TOTAL ASSETS	**4,643**	4,541	3,483	2,656	2,838
TOTAL LIABILITIES	**(1,296)**	(1,510)	(902)	(644)	(125)
MINORITY INTERESTS	**(827)**	(95)	(36)	(40)	(2)
	2,520	2,936	2,545	1,972	2,711

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of CCT Telecom Holdings Limited (the "Company") will be held at 32/F China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Friday, 24 May 2002 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the Reports of the Directors and of the Auditors for the year ended 31 December 2001.

2. To re-elect the retiring directors of the Company for the ensuing year and to authorise the board of directors of the Company to fix their remuneration.

3. To re-appoint Messrs Ernst & Young as auditors of the Company for the ensuing year and to authorise the board of directors of the Company to fix their remuneration.

4. To consider as special business and, if thought fit, passing the following resolutions, with or without amendments, as ordinary resolutions of the Company:

   A.
   "THAT

   (a) subject to paragraph A(b) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase the securities of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time and the manner of any such repurchase be and is hereby generally and unconditionally approved;

   (b) the aggregate nominal amount of share capital purchased or agreed conditionally or unconditionally to be purchased by the Company pursuant to the approval in paragraph A(a) of this resolution shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and the authority pursuant to paragraph A(a) of this resolution shall be limited accordingly; and

   (c) for the purposes of this resolution:

   "Relevant Period" means the period from the date of passing of this resolution until, whichever is the earliest of:

   (i) the conclusion of the next annual general meeting of the Company;

   (ii) the expiration of the period within which the next annual general meeting of the Company is required by the law or the articles of association of the Company to be held; and

   (iii) the date upon which the authority set out in this resolution is revoked or varied by way of an ordinary resolution of the shareholders of the Company in a general meeting."

   B.
   "THAT

   (a) subject to paragraph B(c) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph B(a) above shall authorise the directors of the Company to make or grant offers, agreements and options during the Relevant Period (as hereinafter defined) which would or might require the exercise of such powers after the end of the Relevant Period (as hereinafter defined);

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph B(a) of this resolution, otherwise than pursuant to:

(i) a Rights Issue (as hereinafter defined);

(ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company;

(iii) the exercise of options granted under any option scheme adopted by the Company or similar arrangement for the time being adopted for the grant or issue of shares or rights to acquire shares in the share capital of the Company to officers and/or employees of the Company and/or any of its subsidiaries; and

(iv) any scrip dividend or similar arrangement providing for the allotment of shares in the share capital of the Company implemented in accordance with the articles of association of the Company,

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and the authority pursuant to paragraphs B(a) and B(b) of this resolution shall be limited accordingly; and

(d) for the purposes of this resolution:

"Relevant Period" means the period from the date of passing of this resolution until, whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the law or the articles of association of the Company to be held; and

(iii) the date upon which the authority set out in this resolution is revoked or varied by way of an ordinary resolution of the shareholders of the Company in a general meeting.

"Rights Issue" means the allotment, issue or grant of shares pursuant to an offer open for a period fixed by the directors of the Company to the holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction or the requirements of any recognised regulatory body or any stock exchange)."

C.

"THAT the general mandate granted to the directors of the Company to allot, issue and deal with additional shares pursuant to and in accordance with resolution 4B above and for the time being in force to exercise the powers of the Company to allot shares and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby extended by the aggregate nominal amount of the issued share capital of the Company repurchased by the Company since the granting of such general mandate pursuant to the exercise by the directors of the Company of the powers of the Company to purchase such shares, provided that such amount shall not exceed 10%

of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution."

5. To consider as special business and, if thought fit, passing the following resolution, with or without amendments, as a special resolution of the Company:

"THAT the balance of the accumulated losses of the Company of HK$1,749,000,000 as appeared in the audited accounts of the Company for the year ended 31 December 2001 remaining after completion of the Company's reduction in capital (the "Capital Reduction") as approved by a special resolution of the shareholders of the Company on 8 April 2002 or, if the Capital Reduction is not confirmed by the Grand Court of the Cayman Islands (the "Court") or does not become effective for any reason, the entire amount of such accumulated losses, be set off against an equivalent amount standing to the credit of the share premium account of the Company as at the date of the passing of this resolution, such reduction of the share premium account to take effect on the date of the passing of this resolution or the effective date of the Capital Reduction, whichever is the later, or if the Capital Reduction is not confirmed by the Court or does not become effective for any reason, the date on which the Company declares that the Capital Reduction does not become effective."

By Order of the Board
Mak Shiu Tong, Clement
Chairman

Hong Kong, 22 April 2002

Notes:

(a) The register of members of the Company will be closed from Tuesday, 21 May 2002 to Friday, 24 May 2002 (both days inclusive) during which period no transfer of shares will be effected. In order to determine the entitlement to attend and vote at the annual general meeting, all transfer of shares, accompanied by the relevant share certificates, must be lodged with the branch share registrar of the Company in Hong Kong, Tengis Limited, at 4/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong for registration not later than 4:00 p.m. on Friday, 17 May 2002.

(b) A member entitled to attend and vote at the above meeting is entitled to appoint proxy to attend and vote instead of him/her. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

(c) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the branch share registrar of the Company in Hong Kong, Tengis Limited, at 4/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time fixed for holding such meeting.

(d) A form of proxy for use at the meeting and an explanatory statement setting out further information regarding resolution 4 of this Notice will be despatched to the shareholders of the Company with the 2001 Annual Report of the Company.