

REVIEW OF OPERATIONS

The Group continues to deliver sound results with strong revenue growth, encouraging margin expansion and improvement in overall financial strength.

Cordless phone manufacturing business

Our cordless phone manufacturing business continued to form our core business contributing to over 90% of the Group's turnover. One of the main success stories in our cordless phone manufacturing business this year was the strong ongoing demand for our 900MHz and 2.4GHz cordless phones and the unexpected positive feed-back on our newly launched 5.8GHz cordless phones. The sales of our advance 5.8GHz cordless phones clearly demonstrated that there is still excellent potential for long-term growth in the cordless phone industry. To further extend the breadth and depth of our products, wide range of reliable and high quality telecom products have been launched which received recognition from our many well-known brand-name customers like GE, Alcatel and others. The continuing introduction of new technology and broadening of our customer base further led to a promising growth in both the turnover and the operating profit in the cordless phone manufacturing business. Our encouraging performance is also attributable to the continuing improvement in operational efficiencies and the effort of our strong research and development team.

In June 2003, the Group underwent a business realignment, whereby, the Company sold its 100% interest in Empire Success Holdings Limited ("ESH") to CCT Tech International Limited ("CCT Tech International", Stock Code: 261), a listed subsidiary of the Company. ESH and its subsidiaries (together the "ESH Group") are principally engaged in the design, manufacture and sale, on an ODM and OEM basis, of cordless telecom products. Despite of the acquisition of ESH by CCT Tech International on 30 June 2003, the Company shall continue to consolidate the turnover and financial results of CCT Tech International which will include the performance of the ESH Group's business operations.

Electric component business

The electric component business is carried out through Electronic Sales Limited ("ESL"), a wholly-owned subsidiary of CCT Tech International, the Company's currently 33.49% listed subsidiary. ESL is engaged in the manufacture of power supply components including linear and switching power supplies and transformers with ESH Group's cordless phone manufacturing business being one of its main customers. With the ongoing improvement in both product quality and pricing competitiveness, the electric component business contributed to our cordless phone manufacturing business' ability to remain competitive in an increasingly crowded market.





Plastic product business

The plastic product business continues to contribute a stable revenue to the Group. It has seen a steady growth that is in line with the growth of the cordless phone manufacturing business as the majority of its products are supplied internally to ESH Group's cordless phone business.

With the internal integration of our baby and health care businesses over the past two years, the baby and health care business achieved a satisfactory performance in 2003. With the synergy effect of the plastic product business, the profit margin of baby and health care business has improved considerably and has resulted in the growth of the operating profit of the baby and health care business in 2003. We expect to grow in this area as the market is huge and our present market share is relatively small.



Mobile handset business

The Group's mobile handset business, conducted in cooperation with Haier Group Corporation and its associates ("Haier Group") is operated through Haier-CCT, the Company's listed associate. Haier is the largest white goods manufacturer in China.

Following the acquisition of 64.5% interest in PRC mobile handset operation in October 2002, this is the first year that Haier-CCT has enjoyed a full-year return from its mobile handset business. Turnover of Haier-CCT in 2003 was HK\$1,665 million, representing a significant increase of 233% over year 2002 due to the fact that turnover of year 2002 included only a three-month contribution from the PRC mobile handset operation after the Haier-CCT's acquisition.

Due to the substantial impairment of goodwill and the operating loss mainly caused by the provision of slow moving stock and amortisation of goodwill, the Group shared a loss of HK\$200 million from Haier-CCT, an associate of the Company.

The directors of Haier-CCT are, nonetheless, optimistic towards the future of the Haier-CCT's mobile handset business in light of the steady and rapidly growing China mobile handset market. To this end, Haier-CCT has made a substantial investment in a new mobile handset factory in Qingdao. With the new factory, Haier-CCT is now set to increase its production capacity to cater for the increasing production demand in the years ahead.

In the foreseeable future, we will continue to place strong emphasis on research and development in order to maintain our leading position in the telecom products market.





