

FINANCIAL REVIEW

Financial Results

Summary of Results

The Group recorded a turnover of approximately HK\$3,441 million, an increase of approximately 10% due to the encouraging growth in our telecom product manufacturing business. Gross profit recorded an increase of approximately 10%. Net loss attributable to shareholders amounted to HK\$118 million which was mainly due to the share of loss of HK\$200 million from Haier-CCT in relation to the significant amortisation and impairment of goodwill of its acquired interest in the mobile handset business. Excluding such share of loss, the Group recorded a net profit of HK\$82 million, as compared to net loss of HK\$226 million (before share of loss of associates) in last year.

The Board expects that the core manufacturing business will perform satisfactory in 2004 and business will continue to grow.

Dividend

The Board recommends the payment of a final dividend of 1.50HKcents per share for the year 2003 to the shareholders whose names appear on the register of members of the Company on 27 May 2004, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Total dividend for the year, including the interim dividend of 1.50HKcents per share, amounted to 3.0HKcents per share, representing a dividend yield of 2.4% at the date of this report. The proposed final dividend will be paid on or around 18 June 2004 following the shareholders' approval at the forthcoming annual general meeting of the Company. A special interim dividend of approximately 10.0HKcents per share was proposed subject to the approval by the Board in the Company's Board meeting which is to be held on 28 April 2004. The special interim dividend will be paid out of the net sale proceeds of the HK\$45 million convertible note in CCT Tech International which will be disposed to New Capital Industrial Limited, a company controlled by Mr. Mak Shiu Tong, Clement and his associates. For further details, please refer to our announcement dated 4 March 2004.

Analysis by Business Segment

<i>HK\$'million</i>			Turnover		
	2003	Relative %	2002	Relative %	% Change
Telecom products	3,224	94%	2,864	92%	13%
Baby and health care products	157	5%	166	5%	(5%)
Corporate and others	60	1%	100	3%	(40%)
Total	3,441	100%	3,130	100%	10%

<i>HK\$'million</i>	Profit/(loss) from operating activities		
	2003	2002	% Change
Telecom products	215	167	29%
Baby and health care products	19	6	217%
Corporate and others	(85)	(374)	(77%)
Total	149	(201)	N/A

Financial Results (Cont'd)
Analysis by Business Segment (Cont'd)

In 2003, the telecom products segment continued to dominate the Group's turnover with 94% (2002: 92%). The telecom products segment recorded an encouraging growth in both turnover and revenue. The turnover of telecom products segment increased 13% to HK\$3,224 million in 2003. The operating profit of telecom products segments rose 29% to HK\$215 million in 2003. The major success of the telecom product segment was the outstanding performance of our cordless phone products, and the improvement in efficiency produced by our strong research and development capability together with effective cost control.

The remaining turnover came from our baby and health care products and corporate items, accounting for 5% (2002: 5%) and 1% (2002: 3%), respectively of the total turnover.

The baby and health care business continues to contribute a stable revenue and satisfactory operating profit to the Group. The significant drop in operating loss from corporate segment was mainly attributable to our effective cost control and the substantial drop in impairment of investments and fixed assets.

Analysis by Geographical Segment

<i>HK\$'million</i>	Turnover				% change in sales amount
	2003	Relative %	2002	Relative %	
USA	2,222	65%	2,198	70%	1%
PRC, including Hong Kong	645	19%	462	15%	40%
Europe	119	3%	155	5%	(23%)
Others and unallocated	455	13%	315	10%	44%
Total	3,441	100%	3,130	100%	10%

United States, continued to be the major market of the Group, accounting for 65% (2002: 70%) of the Group's total turnover for the year. The increase in turnover and operating profit from the USA was mainly attributable to the strong demand of our cordless phone products in the USA. Due to the ongoing strong demand of telecom products in the USA, management believes that USA will continue to remain as a key market of the Group. However, following to the continuing growth in sales to the PRC market and other Asia Pacific countries, the market segment will be believed to be more evenly distributed and more diversified.

The PRC (including Hong Kong) and Europe ranked second and third, accounting for 19% (2002: 15%) and 3% (2002: 5%), respectively, of the Group's total turnover. With the effort from our strong sales team together with our effective business strategy, the percentage sales derived from the PRC including Hong Kong was growing from 15% in 2002 to 19% in 2003. PRC market is still believed to be a fast-growing market and its portion is expected to jump in the coming years.

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Financial Position

Capital Structure and Gearing Ratio

<i>HK\$'million</i>	As at 31 December 2003		As at 31 December 2002	
	Amount	Relative %	Amount	Relative %
Bank loans	253	10%	363	13%
Convertible debt	18	1%	20	1%
Finance lease payable	2	—	5	—
Total borrowings	273	11%	388	14%
Equity	2,295	89%	2,427	86%
Total capital employed	2,568	100%	2,815	100%

The financial position of the Group remains strong, with a low gearing ratio (total borrowings over total capital employed) of only 11% at 31 December 2003 (2002: 14%), reflecting a healthy financial position and the prudent financial policy of the Group.

The outstanding convertible notes amounting to HK\$18 million at 31 December 2003 were raised through the Company's listed subsidiary, CCT Tech International. The outstanding convertible notes, with a conversion price at HK\$0.01 per share of CCT Tech International, bear interest at the rate of 2-5% per annum and fall due in July 2004 and May 2005.

At 31 December 2003, total borrowings of the Group substantially dropped by HK\$115 million to HK\$273 million (2002: HK\$388 million), due to the repayment of some borrowings. The maturity profile of the borrowings falling due within one year, in the second to the fifth year and in the sixth to the tenth year amounted to HK\$138 million, HK\$73 million and HK\$62 million, respectively (2002: HK\$205 million, HK\$106 million and HK\$77 million, respectively). There is no material effect of seasonality on the Group's borrowing requirements.

Liquidity and Financial Resources

<i>Current ratio</i>	At 31 December 2003	At 31 December 2002
	<i>HK\$'million</i>	<i>HK\$'million</i>
Current assets	1,872	1,647
Current liabilities	1,202	991
	156%	166%

Current ratio (a ratio of current assets over current liabilities) as at 31 December 2003 was 156% (2002: 166%). The strong liquid position was attributable to strong cash flow from the operations and the prudent investment strategy of management.

At 31 December 2003, the Group had a cash balance of HK\$973 million (2002: HK\$866 million), increased by HK\$107 million as compared with 2002.

Financial Position *(Cont'd)***Liquidity and Financial Resources** *(Cont'd)*

Among the total cash balance of HK\$973 million, approximately HK\$100 million (2002: HK\$83 million) was pledged for general banking facilities. Almost all of the Group's cash was placed on deposits with licensed banks in Hong Kong.

The Group had outstanding bank loans amounting to HK\$253 million at 31 December 2003 (2002: HK\$363 million). Approximately 51% of these bank loans were arranged on a short-term basis for the ordinary business of the Group and are repayable within one year. The remaining 49% were of long-term nature, principally comprised of mortgage loans on properties used by the Group.

Certain of the Group's assets were financed by finance leases and the total outstanding for finance leases payable at 31 December 2003 amounted to HK\$2 million (2002: HK\$5 million).

At 31 December 2003, the Group had banking facilities of HK\$584 million (2002: HK\$646 million), of which HK\$327 million (2002: HK\$360 million) had been utilised.

Capital Commitments

The Group had authorised and contracted capital commitments of approximately HK\$62 million (2002: HK\$60 million) at 31 December 2003. These capital commitments mainly relate to capital expenditure for the manufacturing business of the Group and will be funded by internal resources.

Treasury Management

The Group employs a conservative approach to cash management and risk control. To achieve better risk control and efficient fund management, the Group's treasury activities are centralised.

During the year under review, the Group's receipts were mainly denominated in United States dollars, with a small portion of the receipts denominated in Hong Kong dollars and Euros. Payments were mainly made in Hong Kong dollars and United States dollars, with some in Renminbi and Euros. Cash was generally placed in short-term deposits denominated in Hong Kong dollars and United States dollars. At 31 December 2003, all of the Group's outstanding borrowings were denominated in Hong Kong dollars. Other than the fixed rate convertible notes of HK\$18 million in principal amount, the Group's borrowings were principally made on a floating rate basis.

The objective of the Group's treasury policies is to minimize risks and exposures from the fluctuations in foreign currency exchange rates and interest rates. The Group does not have any significant interest rate risk as the interest rate is stable and remains at low level. As the Hong Kong dollar continues to be pegged to United States dollar at a fixed exchange rate, the Group does not foresee any substantial risk or exposure from having the majority of its receipts and payments in United States dollars. The Group's exposure to foreign exchange risk is not substantial and forward exchange contracts will be entered into to minimize such risks when necessary and appropriate.

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Other Information

Employees and Remuneration Policy

The total number of employees of the Group as at 31 December 2003 was 18,673 (2002: 13,245). Remuneration packages are normally reviewed on an annual basis. Apart from salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group. At 31 December 2003, there were outstanding share options of approximately 42 million.

Significant Investment

There was no significant investment unrelated to the core ODM and OEM manufacturing business during the year. The Group continues to focus on the original design and manufacturing of telecom products. During the year, HK\$245 million was used for capital expenditure, mainly relating to the Group's core manufacturing business.

Acquisition and Disposal of Material Subsidiaries and Associates

During the year under review, the Group did not have any significant acquisition and disposal of material subsidiaries and associates.

In June 2003, the Group made a significant group restructuring of which the Company sold its entire interests in ESH Group, which is engaged in the OEM and ODM manufacturing business of cordless telecom product, to CCT Tech International. The consideration was satisfied by way of convertible note issued to the Company. The group restructuring aims at capturing further economies of scale by means of centralising the existing resources and rationalising the business of the respective listed groups.

Pledge of Assets

At 31 December 2003, certain of the Group's assets with a net book value of HK\$255 million (2002: HK\$277 million) and time deposits of HK\$100 million (2002: HK\$83 million) were pledged to secure the general banking facilities granted to the Group.

Contingent Liabilities

Apart from guarantee in lieu of property rental of HK\$45 million (2002: HK\$40 million) and possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$8 million (2002: HK\$7 million), the Group did not have any other significant contingent liabilities at 31 December 2003.