

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the manufacture and sale of telecom products and accessories, the manufacture and sale of baby and health care products and magazine publishing. During the year, the Group disposed of a group of subsidiaries engaging in the business of magazine publishing, details of which are set out in note 35(b) to the financial statements.

Results and Dividends

The Group's loss for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 36 to 85.

An interim dividend of HK\$0.015 (2002: HK\$0.01) per ordinary share was paid on 16 October 2003.

The directors recommend the payment of a final dividend of HK\$0.015 (2002: HK\$0.02) per ordinary share in respect of the year to shareholders 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. This recommendation has been incorporated in the financial statements as an allocation of retained profits or capital reserve within the capital and reserves section of the balance sheet.

Five Year Financial Summary

A summary of the published results and assets, liabilities and minority interests 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 86. 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 and the fixed assets of the Company during the year are set out in note 14 to the financial statements.

Share Capital and Share Options

There were no movements in either the Company's authorised or issued share capital during the year. Details of movements in the Company's 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 (2002 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, Sale or Redemption of Listed Shares of the Company

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the listed shares 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 and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

Under the Companies Law (2002 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 and when 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 and capital reserve of the Company. As at 31 December 2003, the Company had a net credit balance of approximately HK\$2,176 million (2002: HK\$2,385 million) of which approximately HK\$6 million has been proposed as a final dividend for the year maintained in the reserve accounts which would be available for distribution.

Charitable Contributions

During the year, the Group made charitable contributions totalling HK\$2 million (2002: HK\$1 million).

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers, respectively, during the financial year is as follows:

	Percentage of the Group's total			
	Sales		Purchases	
	2003	2002	2003	2002
Largest customer	51%	59%		
Five largest customers in aggregate	80%	78%		
Five largest suppliers in aggregate			<30%	<30%

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Major Customers and Suppliers *(Continued)*

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 suppliers.

Directors

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

Executive directors:

Mak Shiu Tong, Clement
Tam Ngai Hung, Terry
Cheng Yuk Ching, Flora
William Donald Putt

Independent non-executive directors:

Samuel Olenick
Tam King Ching, Kenny
Lau Ho Man, Edward

In accordance with the articles of association of the Company, Messrs. Tam Ngai Hung, Terry and William Donald Putt will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

The independent non-executive directors of the Company are not appointed for any specific terms and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

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 12 to 15 of the 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, either directly or indirectly, 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

The share option scheme adopted by the Company on 25 May 2001 (the “Old Share Option Scheme”) was terminated and a new share option scheme (the “New Share Option Scheme”) was adopted by the Company on 28 February 2002 to comply with the new amendments to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) in respect of the share option schemes of a listed company. As a result, the Company may no longer grant any further shares options under the Old Share Option Scheme. However, all shares options granted prior to the termination of the Old Share Option Scheme will remain in full force and effect. Unless otherwise cancelled or amended, the New Share Option Scheme will remain in force for 10 years from the date of the adoption. As at 31 December 2003, there were 42,200,000 share options outstanding under the New Share Option Scheme and there were no outstanding share options under the Old Share Option Scheme. Based on these outstanding share options, the total number of shares available for issue is 42,200,000, which represents approximately 10% of the existing issued share capital of the Company as at the date of this report.

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 operation. Eligible participants of the New Share Option Scheme include any employee, executive or officer of the Group (including executive and non-executive directors of the Group) and any supplier, consultant, agent, adviser, shareholder, customer, partner or business associate who, at the sole discretion of the board of directors of the Company (the “Board”), has contributed to the Group.

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

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to the approval in advance by the independent non-executive directors of the Company, excluding the independent non-executive director(s) of the Company who is/are the grantee(s) of the share options. In addition, any share option granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue as at the date of grant or with an aggregate value (based on the closing price of the Company’s shares as at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to the issue of a circular by the Company and the shareholders’ approval of the Company in advance at a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options or the expiry date of the New Share Option Scheme, whichever is earlier.

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Share Option Scheme (Continued)

The exercise price of the share options is determinable by the Board, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of 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 quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

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

Name or category of participant	Number of share options				Outstanding as at 31 December 2003	Date of grant of share options (Note 1)	Exercise period of share options	Exercise price per share (Note 2) HK\$
	Outstanding as at 1 January 2003	Granted during the year	Exercised during the year	Lapsed/Cancelled during the year				
Executive directors								
Mak Shiu Tong, Clement	5,000,000	—	—	(5,000,000)	—	13/8/2001	16/8/2001 — 15/8/2003	2.936
Cheng Yuk Ching, Flora	1,250,000	—	—	(1,250,000)	—	13/8/2001	16/8/2001 — 15/8/2003	2.936
Tam Ngai Hung, Terry	750,000	—	—	(750,000)	—	11/6/2001	13/6/2001 — 12/6/2003	3.732
	1,250,000	—	—	(1,250,000)	—	13/8/2001	16/8/2001 — 15/8/2003	2.936
	8,250,000	—	—	(8,250,000)	—			
Other employees								
In aggregate	625,000	—	—	(625,000)	—	27/6/2001	29/12/2001 — 28/6/2003	3.533
	250,000	—	—	(250,000)	—	30/6/2001	30/6/2001 — 30/12/2003	3.533
	750,000	—	—	(750,000)	—	8/8/2001	8/2/2002 — 7/8/2003	3.085
	3,975,000	—	—	(3,975,000)	—	13/8/2001	16/2/2002 — 15/8/2003	2.936
	5,600,000	—	—	(5,600,000)	—			
	13,850,000	—	—	(13,850,000)	—			

Notes:

- The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- The exercise price of the share options is subject to adjustment(s) in the case of rights or bonus share issues, or other similar changes in the share capital of the Company.

Share Option Scheme (Continued)

Details of the movements of the share options under the New 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 per share (Note 1) HK\$	Price of the shares of the Company at grant date of share options (Note 2) HK\$
	Outstanding as at 1 January 2003	Granted during the year	Exercised during the year	Lapsed/Cancelled during the year	Outstanding as at 31 December 2003				
Executive directors									
Mak Shiu Tong, Clement	—	420,000	—	—	420,000	17/3/2003	17/3/2003 — 16/3/2008	0.750	0.760
Cheng Yuk Ching, Flora	—	4,200,000	—	—	4,200,000	17/3/2003	17/3/2003 — 16/3/2008	0.750	0.760
Tam Ngai Hung, Terry	—	4,200,000	—	—	4,200,000	17/3/2003	17/3/2003 — 16/3/2008	0.750	0.760
William Donald Putt	—	420,000	—	—	420,000	17/3/2003	17/3/2003 — 16/3/2008	0.750	0.760
	—	9,240,000	—	—	9,240,000				
Independent non-executive directors									
Samuel Olenick	—	420,000	—	—	420,000	17/3/2003	17/3/2003 — 16/3/2008	0.750	0.760
Tam King Ching, Kenny	—	420,000	—	—	420,000	17/3/2003	17/3/2003 — 16/3/2008	0.750	0.760
Lau Ho Man, Edward	—	420,000	—	—	420,000	17/3/2003	17/3/2003 — 16/3/2008	0.750	0.760
	—	1,260,000	—	—	1,260,000				
Other employees									
In aggregate	—	31,700,000	—	—	31,700,000	17/3/2003	17/3/2003 — 16/3/2008	0.750	0.760
	—	31,700,000	—	—	31,700,000				
	—	42,200,000	—	—	42,200,000				

Notes:

- The exercise price of the share options is subject to adjustment(s) in the case of rights or bonus share issues, or other similar changes in the share capital of the Company.
- The price of the shares of the Company as at the date of grant of the share options is the closing price of the shares of the Company as listed on the Stock Exchange on the trading day immediately before the date on which the share options were granted.

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Share Option Scheme (Continued)

The financial impact of the share options granted is not recorded in the balance sheet of the Company or the Group until such time as the share 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. Share options which are lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding share options.

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

Directors' Interests in Shares and Warrants

As at 31 December 2003, the directors and the chief executive of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") under the Listing Rules:

(a) Interests and short positions in the shares, underlying shares and debentures of the Company

(i) Long positions in the shares of the Company:

Name of director	Notes	Number of shares beneficially held and nature of interest			Total	Approximate percentage of total shareholding (%)
		Personal	Family	Corporate		
Mak Shiu Tong, Clement	(a)	856,000	1,407,500	83,998,441	86,261,941	20.44
Cheng Yuk Ching, Flora		9,876,713	—	—	9,876,713	2.34
William Donald Putt		171,500	—	—	171,500	0.04
Samuel Olenick	(b)	—	—	125,000	125,000	0.03

Notes:

- (a) The family interest of Mr. Mak Shiu Tong, Clement in 1,407,500 shares in the Company was held by his wife, Ms. Yiu Yu Ying, and the corporate interest of Mr. Mak Shiu Tong, Clement in 83,998,441 shares in the Company was held by Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons had beneficial interests, under the provisions of Part XV of the SFO. These interests in the shares of the Company have also been disclosed under the section headed "Substantial Shareholders' Interests" below.

Directors' Interests in Shares and Warrants *(Continued)*

(a) Interests and short positions in the shares, underlying shares and debentures of the Company *(Continued)*

(i) Long positions in the shares of the Company: *(Continued)*

Notes: (Continued)

(b) Mr. Samuel Olenick was deemed to be interested in 125,000 shares in the Company under the provisions of Part XV of the SFO.

(ii) Long positions in underlying shares of equity derivatives of the Company — share options:

The Company has granted to certain directors of the Company the rights to subscribe for shares in the share capital of the Company. Details of the interests in the share options granted under the Old Share Option Scheme and the New Share Option Scheme to the directors of the Company are disclosed under the section headed "Share Option Scheme" above.

(b) Interests and short positions in the shares, underlying shares and debentures of associated corporations

(i) Long positions in the shares, underlying shares and debentures of Haier-CCT Holdings Limited ("Haier-CCT"):

(1) Shares:

Name of director	Notes	Personal	Number of shares in Haier-CCT beneficially held and nature of interest		Total	Approximate percentage of total shareholding (%)
			Family	Corporate		
Mak Shiu Tong, Clement	(a)	20,574,412	1,150,391	85,494,864	107,219,667	1.076
Cheng Yuk Ching, Flora		19,312,498	—	—	19,312,498	0.194
Tam Ngai Hung, Terry		10,000,000	—	—	10,000,000	0.100
William Donald Putt		179,112	—	—	179,112	0.002
Samuel Olenick	(b)	—	—	130,548	130,548	0.001

Notes:

(a) The family interest of Mr. Mak Shiu Tong, Clement in 1,150,391 shares in Haier-CCT was held by his wife, Ms. Yiu Yu Ying, and the corporate interest of Mr. Mak Shiu Tong, Clement in 85,494,864 shares in Haier-CCT was held by Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons had beneficial interests, under the provisions of Part XV of the SFO.

(b) Mr. Samuel Olenick was deemed to be interested in 130,548 shares in Haier-CCT under the provisions of Part XV of the SFO.

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Directors' Interests in Shares and Warrants (Continued)

(b) Interests and short positions in the shares, underlying shares and debentures of associated corporations (Continued)

(i) Long positions in the shares, underlying shares and debentures of Haier-CCT Holdings Limited ("Haier-CCT"): (Continued)

(2) the 2004 warrants*:

Name of director	Notes	Amount of 2004 warrants* in Haier-CCT beneficially held and nature of interest			Number of total underlying shares	Approximate percentage of total shareholding (%)
		Personal HK\$	Family HK\$	Corporate HK\$		
Mak Shiu Tong, Clement	(a)	1,069,869.32	59,820.28	4,444,651.64	10,719,887	0.1076
Cheng Yuk Ching, Flora		1,004,249.48	—	—	1,931,249	0.0194
Tam Ngai Hung, Terry		520,000.00	—	—	1,000,000	0.0100
William Donald Putt		9,313.72	—	—	17,911	0.0002
Samuel Olenick	(b)	—	—	6,788.08	13,054	0.0001

Notes:

(a) The family interest of Mr. Mak Shiu Tong, Clement in the 2004 warrants in an aggregate amount of HK\$59,820.28 in Haier-CCT was held by his wife, Ms. Yiu Yu Ying, and the corporate interest of Mr. Mak Shiu Tong, Clement in the 2004 warrants in an aggregate amount of HK\$4,444,651.64 in Haier-CCT was held by Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons had beneficial interests, under the provisions of Part XV of the SFO.

(b) Mr. Samuel Olenick was deemed to be interested in the 2004 warrants in an aggregate amount of HK\$6,788.08 in Haier-CCT under the provisions of Part XV of the SFO.

* The 2004 warrants in Haier-CCT entitled the holders thereof to subscribe for its shares at a subscription price of HK\$0.52 per share, subject to adjustments, until 26 February 2004. The 2004 warrants were expired on 26 February 2004.

(3) Share options:

Name of director	Date of grant of share options	Share options in Haier-CCT			Number of total underlying shares	Approximate percentage of total shareholding (%)
		Exercise period of share options	Exercise price per share HK\$	Number of share options outstanding		
Mak Shiu Tong, Clement	16/8/2002	16/8/2003 — 15/8/2007	0.156	89,000,000	89,000,000	0.89
Cheng Yuk Ching, Flora	16/8/2002	16/8/2003 — 15/8/2007	0.156	89,000,000	89,000,000	0.89
Tam Ngai Hung, Terry	16/8/2002	16/8/2003 — 15/8/2007	0.156	89,000,000	89,000,000	0.89
William Donald Putt	16/8/2002	16/8/2003 — 15/8/2007	0.156	5,000,000	5,000,000	0.05

Directors' Interests in Shares and Warrants (Continued)

(b) Interests and short positions in the shares, underlying shares and debentures of associated corporations (Continued)

(ii) Long positions in shares, underlying shares and debentures of CCT Tech International Limited ("CCT Tech") — share options:

Name of director	Date of grant of share options	Exercise period of share options	Share options in CCT Tech		Number of total underlying shares	Approximate percentage of total shareholding (%)
			Exercise price per share HK\$	Number of share options outstanding		
Mak Shiu Tong, Clement	30/4/2003	30/4/2003 — 29/4/2008	0.014	100,000,000	100,000,000	0.76
Cheng Yuk Ching, Flora	30/4/2003	30/4/2003 — 29/4/2008	0.014	100,000,000	100,000,000	0.76
Tam Ngai Hung, Terry	30/4/2003	30/4/2003 — 29/4/2008	0.014	100,000,000	100,000,000	0.76

Save as disclosed above, as at 31 December 2003, none of the directors and the chief executive of the Company and/or any of their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

Directors' Rights to Acquire Shares

Save as disclosed under the section headed "Share Option Scheme" above in respect of the share options granted to the directors by the Company under the Old Share Option Scheme and the New Share Option Scheme and the section headed "Directors' Interests in Shares and Warrants — Interests and short positions in the shares, underlying shares and debentures of associated corporations" above in respect of share option granted by the associated corporations to the directors of the Company, 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 associated corporation (within the meaning of Part XV of the SFO) granted to any director of the Company 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 associated corporation (within the meaning of Part XV of the SFO) a party to any arrangement to enable the directors of the Company to acquire such rights in any other body corporate.

Substantial Shareholders' Interests

As at 31 December 2003, the following persons (other than the directors or the chief executive of the Company) had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

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Substantial Shareholders' Interests (Continued)

Long positions in the shares, underlying shares and debentures of the Company:

Name of shareholders	Number of shares beneficially held		Number of underlying shares — share options beneficially held		
	Number of shares	Approximate percentage of total shareholding (%)	Number of share options	Number of total underlying shares	Approximate percentage of total shareholding (%)
Capital Interest Limited (Note)	83,998,441	19.90	—	—	—
Yiu Yu Ying (Note)	1,407,500	0.34	—	—	—
Mak Shiu Tong, Clement	856,000	0.20	420,000	420,000	0.10
	86,261,941	20.44	420,000	420,000	0.10

Note: Under the provisions of Part XV of the SFO, Mr. Mak Shiu Tong, Clement, a director of the Company, was 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 had beneficial interests. Mr. Mak Shiu Tong, Clement was also deemed to have an interest in the shares owned by his wife, Ms. Yiu Yu Ying. These interests in the shares of the Company have also been disclosed under the section headed "Directors' Interests in Shares and Warrants" above.

Save as disclosed above, as at 31 December 2003, no other person (other than the directors or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

Connected Transactions

During the year, the Company had transactions with connected persons as defined in the Listing Rules, which constituted connected transactions under Section 14 of the Listing Rules. Details of the transactions are as follows:

- (1) On 15 May 2003, the Company and CCT Tech (an indirect non wholly-owned listed subsidiary of the Company) entered into a conditional agreement pursuant to which the Company has agreed (i) to dispose of the entire interest in Empire Success Holdings Limited ("ESH"), a then indirect wholly-owned subsidiary of the Company, to CCT Tech; and (ii) to assign its interest-free shareholder's loan due from ESH and its subsidiaries ("ESH Group") to CCT Tech as at the completion date of this transaction, at a total consideration of HK\$768 million. The consideration was satisfied by the issue of a convertible note with a principal amount of HK\$768 million by CCT Tech to an indirect wholly-owned subsidiary of the Company.

ESH Group is principally engaged in the design, manufacture and sale on ODM and OEM basis of home-use telecom products including cordless phones and family radio systems.

The transaction was completed on 30 June 2003 and further details of the disposal are set out in the Company's circular dated 11 June 2003.

Connected Transactions (Continued)

- (2) During the year, certain indirect wholly-owned subsidiaries of the Company had the following material transactions with ESH Group (the “Ongoing Connected Transactions”) subsequent to its disposal to CCT Tech on 30 June 2003:

<i>HK\$’ million</i>	Notes	2003
Factory rental expenses	<i>(a)</i>	3
Factory rental income	<i>(b)</i>	1
Office rental income	<i>(c)</i>	1
Management information system service fee	<i>(d)</i>	1

Notes:

- (a) The factory rental expenses were charged to Shine Best Developments Limited (“Shine Best”), an indirect wholly-owned subsidiary of the Company, by CCT Enterprise Limited (“CCT Ent”), an indirect wholly-owned subsidiary of CCT Tech, for the provision of factory space in Huiyang, the PRC, at a rate determined in accordance with the terms and conditions set out in a tenancy agreement entered into between Shine Best and CCT Ent on 15 May 2003.
- (b) The factory rental income was charged to CCT Investment Limited (“CCT Inv”), an indirect wholly-owned subsidiary of CCT Tech, by CCT Properties (Dongguan) Limited (“CCT Prop”), an indirect wholly-owned subsidiary of the Company, for the provision of factory space in Dongguan, the PRC, at a rate determined in accordance with the terms and conditions set out in a tenancy agreement entered into between CCT Inv and CCT Prop on 15 May 2003.
- (c) The office rental income was charged to CCT Telecom (HK) Limited (“CCT HK”) and CCT Telecom R&D Limited (“CCT R&D”), indirect wholly-owned subsidiaries of CCT Tech, by Goldbay Investments Limited (“Goldbay”), an indirect wholly-owned subsidiary of the Company, for the provision of office spaces in Hong Kong, at rates determined in accordance with the terms and conditions set out in three tenancy agreements entered into between CCT HK and Goldbay on 21 November 2001 and 23 October 2002, and between CCT R&D and Goldbay on 20 January 2003.
- (d) The management information system service fee was charged to the Company by CCT HK for the provision of general management information system support, network and software consultation and hardware maintenance services. The rate was determined in accordance with the terms and conditions set out in an agreement entered into between the Company and CCT HK on 15 May 2003.

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 three financial years ending 31 December 2005. The Ongoing Connected Transactions have obtained the approval of the independent non-executive directors of the Company.

The independent non-executive directors of the Company have reviewed and confirmed that:

- (a) the consideration receivable from/payable to the Group under each of the Ongoing Connected Transactions for the period from 1 July 2003 to 31 December 2003 did not exceed the higher of HK\$10 million or 3% of the net tangible asset value of the Company;
- (b) the Ongoing Connected Transactions were conducted on normal commercial terms; and
- (c) the Ongoing Connected Transactions were conducted in accordance with the terms of the agreements governing such transactions.

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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 Board, the Company has complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 to the Listing Rules throughout the financial year covered by this report, except that the independent non-executive directors of the Company are not appointed for any specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company 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 describes the authorities and duties of the audit committee, was adopted by the Board.

The audit committee is answerable to the Board and the principal duties of the audit committee include the review and supervision of the financial reporting process and internal control of the Company. The audit committee had reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2003.

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
23 April 2004