

# 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.

During the year, the Group acquired the entire 100% interest in Empire Success Holdings Limited (“ESH”) and its subsidiaries (collectively referred to as the “ESH Group”) from CCT Telecom Holdings Limited (“CCT Telecom”), the ultimate holding company of the Company, details of which are set out in notes 33(b) and 38 to the financial statements. The principal activities of ESH Group are the manufacture and sale of telecom products and accessories.

## **Results and Dividend**

The Group’s profit 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 35 to 82.

The directors do not recommend payment of any dividend for the year (period ended 31 December 2002: Nil).

## **Summary Financial Information**

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial periods/years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 83. This summary does not form part of the audited financial statements.

## **Fixed Assets**

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

## **Share Capital and Share Options**

Details of movements in the Company’s share capital and share options during the year, together with the reasons therefor, are set out in notes 30 and 31 to the financial statements.

## **Pre-emptive Rights**

There are no provisions for pre-emptive rights under the Company’s bye-laws or the laws of Bermuda, 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 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

### Distributable Reserves

At 31 December 2003, the Company had no reserves available for distribution in accordance with the provisions of the Companies Act 1981 of Bermuda.

### Charitable Contributions

During the year, the Group made charitable contributions totalling HK\$550,000 (period ended 31 December 2002: Nil).

### 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	
	Year ended 31 December 2003	Period from 1 October 2001 to 31 December 2002	Year ended 31 December 2003	Period from 1 October 2001 to 31 December 2002
Largest customer	52%	69%		
Five largest customers in aggregate	83%	93%		
Largest supplier			9%	26%
Five largest suppliers in aggregate			31%	68%

CCT Telecom, a substantial shareholder of the Company, had beneficial interests in one of the five largest suppliers of the Group.

Save as disclosed above, 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.

## REPORT OF THE DIRECTORS

### **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  
Tong Chi Hoi  
William Donald Putt (appointed on 19 September 2003)

#### ***Independent non-executive directors:***

Chow Siu Ngor  
Lau Ho Kit, Ivan

In accordance with the bye-laws of the Company, Messrs. William Donald Putt, Chow Siu Ngor and Lau Ho Kit, Ivan 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 bye-laws 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 8 to 10 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, 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

A share option scheme (the "Share Option Scheme") was conditionally adopted by the then shareholder of the Company and the shareholders of CCT Technology Holdings Limited, the then holding company of the Company, on 17 September 2002 and 15 October 2002 respectively 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"). The Share Option Scheme became effective on 7 November 2002. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from that date. As at 31 December 2003, there were 1,082,781,000 share options outstanding under the Share Option Scheme. Based on these outstanding share options, the total number of shares available for issue is 1,082,781,000, which represents approximately 8.06% of the existing issued share capital of the Company as at the date of this report.

The purpose of the Share Option Scheme is to provide incentives and rewards to the eligible participants who contribute to the success of the operations of the Group. Eligible participants of the 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"), will contribute or has contributed to the Group.

Pursuant to the Share Option Scheme, the maximum number of shares in respect of which share options may be granted under the Share Option Scheme is such number of shares, when aggregated with shares subject to any other share option scheme(s) of the Company, must not exceed 10% of the issued share capital of the Company upon the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The maximum number of shares issuable upon exercise of the share options granted under the 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 if required, the holding company) and the shareholders' approval of the Company (and if required, the approval of the shareholders of the holding 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 (and if required, the approval of the independent non-executive directors of the holding company), excluding the independent non-executive director(s) of the Company and the holding 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 shares of the Company 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 if required, the holding company) and the shareholders' approval of the Company (and if required, the approval of the shareholders of the holding 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 Share Option Scheme, whichever is earlier.

**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 shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the shares of the Company 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 share options under the Share Option Scheme during the year were as follows:

Name or category of participant	Outstanding as at 1 January 2003	Number of share options			Outstanding as at 31 December 2003	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	
		Granted during the year	Exercised during the year	Lapsed/Cancelled during the year					At grant date of share options (Note 2) HK\$	At exercise date of share options (Note 3) HK\$
<b>Executive directors</b>										
Mak Shiu Tong, Clement	—	100,000,000	—	—	100,000,000	30/4/2003	30/4/2003 — 29/4/2008	0.014	0.014	—
Cheng Yuk Ching, Flora	—	100,000,000	—	—	100,000,000	30/4/2003	30/4/2003 — 29/4/2008	0.014	0.014	—
Tam Ngai Hung, Terry	—	100,000,000	—	—	100,000,000	30/4/2003	30/4/2003 — 29/4/2008	0.014	0.014	—
Tong Chi Hoi	—	50,000,000	—	—	50,000,000	30/4/2003	30/4/2003 — 29/4/2008	0.014	0.014	—
	—	350,000,000	—	—	350,000,000					
<b>Independent non-executive directors</b>										
Chow Siu Ngor	—	8,000,000	—	—	8,000,000	30/4/2003	30/4/2003 — 29/4/2008	0.014	0.014	—
Lau Ho Kit, Ivan	—	8,000,000	—	—	8,000,000	30/4/2003	30/4/2003 — 29/4/2008	0.014	0.014	—
	—	16,000,000	—	—	16,000,000					
<b>Other employees</b>										
In aggregate	—	716,800,000	(19,000)	—	716,781,000	30/4/2003	30/4/2003 — 29/4/2008	0.014	0.014	0.022
	—	716,800,000	(19,000)	—	716,781,000					
	—	1,082,800,000	(19,000)	—	1,082,781,000					

### Share Option Scheme (Continued)

Notes:

1. 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.
2. 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.
3. The price of the shares of the Company as at the date of exercise of the share options is the weighted average of the closing prices of the shares of the Company as listed on the Stock Exchange on the trading day immediately before the dates on which the share options were exercised.

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

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**

Long positions in the 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 Share Option Scheme to the directors of the Company are disclosed under the section headed "Share Option Scheme" above.

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

**(b) Interests and short positions in the shares, underlying shares and debentures of an associated corporation — CCT Telecom**

(i) Long positions in the shares of CCT Telecom:

Name of director	Number of shares in CCT Telecom beneficially held and nature of interest				Total	Approximate percentage of total shareholding (%)
	Personal	Family	Corporate			
Mak Shiu Tong, Clement (Note)	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
Tong Chi Hoi	282,000	—	—		282,000	0.07
William Donald Putt	171,500	—	—		171,500	0.04

Note: The family interest of Mr. Mak Shiu Tong, Clement in 1,407,500 shares in CCT Telecom 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 CCT Telecom 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.

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

Name of director	Date of grant of share options	Share options in CCT Telecom			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	17/3/2003	17/3/2003 — 16/3/2008	0.750	420,000	420,000	0.10
Cheng Yuk Ching, Flora	17/3/2003	17/3/2003 — 16/3/2008	0.750	4,200,000	4,200,000	1.00
Tam Ngai Hung, Terry	17/3/2003	17/3/2003 — 16/3/2008	0.750	4,200,000	4,200,000	1.00
Tong Chi Hoi	17/3/2003	17/3/2003 — 16/3/2008	0.750	1,000,000	1,000,000	0.24
William Donald Putt	17/3/2003	17/3/2003 — 16/3/2008	0.750	420,000	420,000	0.10

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 of the Company under the Share Option Scheme and the section headed "Directors' Interests in Shares — Interests and short positions in the shares, underlying shares and debentures of an associated corporation" above in respect of the share options granted by the associated corporation 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 debenture 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:

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

Name of shareholders	Notes	Number of shares held	Approximate percentage of total shareholding (%)
CCT Telecom	(a)	4,500,000,000	34.25
CCT Technology Investment Limited	(b)	4,500,000,000	34.25
Jade Assets Company Limited		1,800,000,000	13.71
CCT Assets Management Limited		1,350,000,000	10.27
Expert Success International Limited		1,350,000,000	10.27
Dongguan Defa Investment Limited		2,000,000,000	15.22
Tan Jinrong	(c)	2,000,000,000	15.22
Kwong Cheong Trading Limited		1,200,000,000	9.13
Yang Shao Wu	(d)	1,200,000,000	9.13

#### Notes:

- (a) The interest disclosed comprises 4,500,000,000 shares beneficially owned by CCT Technology Investment Limited through the subsidiaries stated in note (b) below. CCT Technology Investment Limited is a wholly-owned subsidiary of CCT Telecom.
- (b) The interest disclosed comprises 1,800,000,000 shares held by Jade Assets Company Limited, 1,350,000,000 shares held by CCT Assets Management Limited and 1,350,000,000 shares held by Expert Success International Limited, all of them are wholly-owned subsidiaries of CCT Technology Investment Limited.
- (c) The interest disclosed comprises 2,000,000,000 shares held by Dongguan Defa Investment Limited, which is 75% owned by Mr. Tan Jinrong.
- (d) The interest disclosed comprises 1,200,000,000 shares held by Kwong Cheong Trading Limited, which is wholly-owned by Mr. Yang Shao Wu.



**Substantial Shareholders' Interests** (Continued)

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

Name of holder of equity derivatives	Notes	Description of equity derivatives held	Number of total underlying shares	Approximate percentage of total shareholding (%)
CCT Telecom	(a)	HK\$45 million zero coupon convertible notes due 2005	4,500,000,000	451.78
		HK\$768 million prime or best lending rate plus 2% convertible note due 2008	54,857,142,857	
CCT Technology Investment Limited	(b)	HK\$45 million zero coupon convertible notes due 2005	4,500,000,000	451.78
		HK\$768 million prime or best lending rate plus 2% convertible note due 2008	54,857,142,857	
Emporium International Limited		HK\$45 million zero coupon convertible notes due 2005	4,500,000,000	34.25
Noble Team Investments Limited		HK\$768 million prime or best lending rate plus 2% convertible note due 2008	54,857,142,857	417.53
Kwong Cheong Trading Limited		HK\$8 million out of principal sum of HK\$20 million 5% convertible notes due 2004	800,000,000	6.09
Yang Shao Wu	(c)	HK\$8 million out of principal sum of HK\$20 million 5% convertible notes due 2004	800,000,000	6.09

**Substantial Shareholders' Interests** *(Continued)***(ii) Long positions in the underlying shares of equity derivatives of the Company:** *(Continued)*

Notes:

- (a) The interest disclosed comprises an aggregate of 59,357,142,857 underlying shares beneficially owned by CCT Technology Investment Limited through the subsidiaries stated in note (b) below. CCT Technology Investment Limited is a wholly-owned subsidiary of CCT Telecom.
- (b) The interest disclosed comprises 4,500,000,000 underlying shares held by Emporium International Limited and 54,857,142,857 underlying shares held by Noble Team Investments Limited, both are wholly-owned subsidiaries of CCT Technology Investment Limited.
- (c) The interest disclosed comprises 800,000,000 underlying shares held by Kwong Cheong Trading Limited, which is wholly-owned by Mr. Yang Shao Wu.

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 Telecom entered into a conditional agreement pursuant to which CCT Telecom has agreed (i) to dispose of the entire interest in ESH to the Company; and (ii) to assign its interest-free shareholder's loan due from ESH Group to the Company 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 the Company to an indirect wholly-owned subsidiary of CCT Telecom.

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 acquisition are set out in the Company's circular dated 11 June 2003.

**Connected Transactions** (Continued)

- (2) For the period from 1 July 2003 to 31 December 2003, certain indirect wholly-owned subsidiaries of the Company had the following material transactions with CCT Telecom and its certain subsidiaries subsequent to the acquisition of ESH Group by the Company on 30 June 2003:

	Notes	Period from 1 July 2003 to 31 December 2003 HK\$'000
Purchases of plastic casings and components	(i)	132,353
Factory rental income	(ii)	3,000
Factory rental expense	(iii)	900
Office rental expenses	(iv)	1,492
Management information system service fee	(v)	1,200

Notes:

- (i) The plastic casings and components were purchased by CCT Telecom (HK) Limited ("CCT HK"), an indirect wholly-owned subsidiary of the Company, from Neptune Holding Limited ("Neptune"), an indirect wholly-owned subsidiary of CCT Telecom, in accordance with the terms and conditions set out in a manufacturing agreement (the "Manufacturing Agreement") entered into between CCT HK and Neptune on 15 May 2003.
- The purchase prices were determined based on the direct material costs plus a mark-up of no more than 300%.
- (ii) The factory rental income was charged to Shine Best Developments Limited ("Shine Best"), an indirect wholly-owned subsidiary of CCT Telecom, by CCT Enterprise Limited ("CCT Ent"), an indirect wholly-owned subsidiary of the Company, 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 (the "Huiyang Tenancy Agreement") entered into between Shine Best and CCT Ent on 15 May 2003.
- (iii) The factory rental expense was charged to CCT Investment Limited ("CCT Inv"), an indirect wholly-owned subsidiary of the Company, by CCT Properties (Dongguan) Limited ("CCT Prop"), an indirect wholly-owned subsidiary of CCT Telecom, 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 (the "Dongguan Tenancy Agreement") entered into between CCT Inv and CCT Prop on 15 May 2003.
- (iv) The office rental expenses were charged to CCT HK and CCT Telecom R&D Limited ("CCT R&D"), indirect wholly-owned subsidiaries of the Company, by Goldbay Investments Limited ("Goldbay"), an indirect wholly-owned subsidiary of CCT Telecom, 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 (the "Hong Kong 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, respectively.
- (v) The management information system service fee was charged to CCT Telecom 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 (the "MIS Agreement") entered into between CCT Telecom and CCT HK on 15 May 2003.

**Connected Transactions** *(Continued)*(2) *(Continued)*

The transaction contemplated under the Manufacturing Agreement is referred to as the “First Transaction” and the transactions contemplated under the Huiyang Tenancy Agreement, Dongguan Tenancy Agreement, the Hong Kong Tenancy Agreements and the MIS Agreement are collectively referred to as the “Second Transactions”.

The First Transaction as indicated in note (i) above was disclosed in the circular to the shareholders of the Company dated 11 June 2003 and was approved by the independent shareholders at a special general meeting of the Company held on 27 June 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 First Transaction and Second 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 aggregate value under the First Transaction for the period from 1 July 2003 to 31 December 2003 did not exceed 11% of the consolidated cost of sales of the Group;
- (b) the consideration receivable from/payable to the Group under each of the Second Transactions for the period from 1 July 2003 to 31 December 2003 did not exceed the higher of HK\$10,000,000 or 3% of the net tangible asset value of the Company;
- (c) the First Transaction was entered into in the usual and ordinary course of businesses of the Group and the CCT Telecom Group;
- (d) both the First Transaction and Second Transactions were conducted on normal commercial terms; and
- (e) both the First Transaction and Second Transactions were conducted in accordance with the terms of the agreements governing such transactions.

**Connected Transactions** *(Continued)*

- (3) During the year, Electronic Sales Limited (“ESL”), a wholly-owned subsidiary of the Company, had the following material transactions with certain subsidiaries of CCT Telecom:

	Notes	Year ended 31 December 2003 HK\$'000	Period from 17 May 2002 to 31 December 2002 HK\$'000
Rental expense	(i)	1,800	1,200
Purchase of materials	(ii)	24,427	17,256

Notes:

- (i) The rental expense was charged to ESL by CCT Prop 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 rental agreement entered into between ESL and CCT Prop on 15 April 2003.
- (ii) The purchase of materials from Neptune included plastic moulds and materials, and the prices of which were determined based on the direct costs of the materials plus a mark-up of up to 50% of such direct costs.

In addition to the above, ESL had the following material transactions with CCT HK up to 30 June 2003, the date on which CCT HK became a wholly-owned subsidiary of the Group:

	Notes	Period from 1 January 2003 to 30 June 2003 HK\$'000	Period from 17 May 2002 to 31 December 2002 HK\$'000
Management fee expense	(iii)	1,200	1,600
Sale of products	(iv)	45,750	73,750

Notes:

- (iii) The management fee expense was charged to ESL by CCT HK for the provision of general administration, management information system consultation and hardware maintenance services and was determined based on actual costs incurred.
- (iv) The sale of products to CCT HK included transformers, AC/DC adaptors and custom built-in power supply, and the prices of which were determined based on the direct material costs of the products plus a mark-up of up to 50% of such direct material costs.

**Connected Transactions** *(Continued)*(3) *(Continued)*

The transactions as indicated in notes (ii) and (iv) above were disclosed to the shareholders of CCT Technology dated 21 June 2002 and were approved by the independent shareholders at a special general meeting of CCT Technology 11 July 2002.

The Stock Exchange has granted conditional waivers to CCT Technology from strict compliance with the connected transactions requirements as set out in the Listing Rules for the three financial years ending 31 December 2004. The transactions as indicated in notes (i) to (iv) above (the "Connected Transactions") have obtained the approval of the independent non-executive directors of CCT Technology on 31 May 2002. The Stock Exchange has confirmed that the conditional waivers are validly applicable to the Company after a group reorganisation became effective on 4 November 2002. Details of the group reorganisation are set out in note 1 to the financial statements.

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

- (a) the aggregate value of the rental expense as indicated in note (i) above for the year ended 31 December 2003 did not exceed the higher of HK\$10,000,000 or 3% of the net tangible asset value of the Company;
- (b) the aggregate value of the purchase of materials from Neptune as indicated in note (ii) above for the year ended 31 December 2003 did not exceed the cap amount of HK\$83,000,000;
- (c) the aggregate value of the management fee expense as indicated in note (iii) above for the period from 1 January 2003 to 30 June 2003 did not exceed the higher of HK\$10,000,000 or 3% of the net tangible asset value of the Company;
- (d) the aggregate value of the sale of products to CCT HK as indicated in note (iv) above for the period 1 January 2003 to 30 June 2003 did not exceed the cap amount of HK\$155,000,000;
- (e) the Connected Transactions were entered into in the usual and ordinary course of businesses of ESL;
- (f) the Connected Transactions were conducted on normal commercial terms; and
- (g) the Connected Transactions were conducted in accordance with the terms of the agreements governing such transactions.

**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 bye-laws of the Company.

## REPORT OF THE DIRECTORS

### **Audit Committee**

Pursuant to the requirements of the Listing Rules, the Company has established an audit committee comprising two 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