

r e v i e w o f o p e r a t i o n s

We are one of the world's largest and leading telecom product manufacturers engaged in the manufacture of cordless phones and advanced and hi-tech electronic products. We act as an original design manufacturer ("ODM") and a contract manufacturing provider for a number of leading internationally renowned brands.

The year 2004 was a difficult yet successful year for the Group. Revenue of the Group increased by 99.7% to HK\$3,847 million after the injection of the ESH Group and its telecom product business by CCT Telecom on 30 June 2003. The sharp rise in turnover in 2004 was attributable to the inclusion of full year contribution from the ESH Group whereas 2003 only included half-year turnover of the ESH Group. The telecom product business grew steadily in 2004 despite the extremely competitive business environment. Operating margin, however, decreased from approximately 5.8% in 2003 to approximately 5.0% in 2004 despite the increase in revenue. The main factor leading to this outcome was keen competition which led to decrease in price of certain models of our products and the rise in the cost of raw materials, notably for plastics (which are sensitive to oil prices) and certain electronic components (due to unstable supply and rising demands). We sustained growth by geographical diversification and by product differentiation.

The US market continues to be the major market of the Group's business accounting for the majority of the Group's revenue. In 2004, the cordless phone market in the US experienced keen competition that resulted in price pressure from customers. In view of the concentration of the Group's sales in the US market we have not only continued to strengthen our market presence and maintain growth in the US market, we have also made significant in-roads in European and Asia Pacific markets to achieve a more balanced geographic sales mix and to reduce our reliance on a single geographical region.



One example is the positive market response of DECT phones in the European market which resulted in an increase in the proportion of revenue derived from the European market in 2004. Our proportion of revenue derived from the Asia Pacific market has also increased in 2004 which is another clear sign of our success in diversifying our market-mix.

Technology is our core strength that has enabled us to achieve our leading position in the industry. We invest heavily in, and remain committed to, research and development and maintain a world class R&D team specialising in the development of high radio frequency products. We have a strong R&D team of over 500 engineers in our Hong Kong and Shenzhen offices. To enhance our advantage in this regard, we invested in the setting-up of a new R&D centre in Singapore in early 2005. We are aiming to develop this new R&D centre in Singapore to become a world-class R&D team, specialising in the development of new technology, software and high radio frequency products covering DECT and hi-tech electronic products.

Capitalising on our R&D strengths, we launched our first 5.8 GHz digital cordless phone and a number of new models for DECT phones in 2004. All of our new products launched during 2004 were well-received by the markets because of their unique and distinct designs, innovative functions and competitive pricing. In order to achieve growth, we have adopted the strategy of product diversification by developing and launching of new innovative product range with distinctive features and new functions to stimulate sales. With our wealth of experience, we are confident that we are able to identify what products are needed and when they are needed by the market, thus, creating the right technology ahead of other market players.



We believe that our business strategy to diversify in both market geography and product range will enable us to sustain our business growth despite the extremely competitive and tough economic environment and the prevailing trend within the industry for price reduction. We will continue to expand our market coverage as well as our ongoing pursuit of excellent product quality.

To cater for the expansion in the Company's business volume, we have invested heavily in production machinery and equipment and restructured the set-up of our production and casing lines in 2004. The results so far have been encouraging with an increase in the total number of surface mount technology ("SMT") manufacturing lines since the beginning of 2004, which has significantly increased our total production capacity. To further enhance our competitive edge and to meet the rapidly changing and stringent demands of our customers, we have actively pursued ways to improve and upgrade our manufacturing facilities and manufacturing standards.

We place great emphasis in doing our part for the environment, with an objective to delivering quality products manufactured under environmental-friendly conditions. In January 2004, our manufacturing complex in Huiyang was awarded ISO 14001 certification in acknowledgement of efforts in upholding environmental protection. This represents a significant step forward in meeting the expectations and requirements of our multinational customers.

With an extensive business network and state-of-the-art manufacturing capabilities underpinned by a strong R&D team, we look forward to seizing the advantage and maintaining our leading market position in the hi-tech world of today.

To leverage on our strength of R&D and production capability of electronic products, we have entered into the business of manufacture of hi-tech electronic products on both an ODM basis and a contract manufacturing basis. This new business has a promising potential and we believe this new business will become the driver of our growth in the future.







CCT Technology Park, our principal manufacturing base in Huiyang, Guangdong Province, the PRC







Our factory complex in Dongguan, Guangdong Province, the PRC

