

financial review

FINANCIAL RESULTS

Summary of Results

| HK\$ million | 2004 | 2003 | % Change |
|---|-------|-------|----------|
| Turnover | 3,847 | 1,926 | 99.7% |
| Profit from operating activities | 194 | 111 | 74.8% |
| Finance costs | (53) | (29) | 82.8% |
| Profit before tax | 141 | 82 | 71.9% |
| Tax | (16) | (9) | 77.8% |
| Net profit attributable to shareholders | 125 | 73 | 71.2% |

Turnover and net profit of the Group for the year under review amounted to approximately HK\$3,847 million (2003: HK\$1,926 million) and approximately HK\$125 million (2003: HK\$73 million) respectively, representing a significant increase of about 99.7% and about 71.2% respectively, as compared to that of the corresponding period. The significant increase can be explained by the inclusion of the full year's result of the cordless telecom product business of the ESH Group in 2004 while only half year's result of the ESH Group was included in 2003 after the Company's acquisition of the ESH Group from CCT Telecom on 30 June 2003.

Analysis by Business Segment

| HK\$ million | Turnover | | Profit/(loss) from operating activities | |
|----------------------|----------|-------|---|------|
| | 2004 | 2003 | 2004 | 2003 |
| Telecom products | 3,847 | 1,926 | 197 | 119 |
| Corporate and others | — | — | (3) | (8) |
| | 3,847 | 1,926 | 194 | 111 |

During the year under review, the Group focused on ODM and contract manufacturing business of telecom products while the corresponding period included only six months' results of this business after the Group acquired this business from CCT Telecom on 30 June 2003. The telecom product business was the core business of the Group and contributed to 100% turnover and the entire operating profit of the Group during the year under review.

FINANCIAL RESULTS (Cont'd)**Analysis by Business Segment** (Cont'd)

The ratio of the net operating profit (before finance costs, taxation and minority interest) as a percentage of turnover decreased from approximately 5.8% in 2003 to approximately 5.0% in 2004. This was mainly due to the price reduction of certain products of the Group, unstable supply and rising demand of certain principal materials of the Group globally which led to increase in costs. It is expected that pricing pressure, the fluctuation in the supply and demand and the prices of raw materials will continue to impose pressure on the operating cost and margin of the Group.

Corporate segment recorded an operating loss of approximately HK\$3 million (2003: loss of HK\$8 million) which arose from the head office administrative expenses incurred for the year after the set-off of the gain on disposal of the power supply component business and the industrial property to CCT Telecom during the year.

Analysis of Turnover by Geographical Segment

| HK\$ million | 2004 | | 2003 | |
|---------------------------|-------|------|-------|------|
| US | 2,377 | 62% | 1,244 | 65% |
| PRC (including Hong Kong) | 641 | 17% | 344 | 18% |
| European Union and others | 829 | 21% | 338 | 17% |
| Total | 3,847 | 100% | 1,926 | 100% |

The Group is one of the world's major suppliers of cordless telecom products and the Group's turnover was primarily derived from the export of telecom products to its worldwide customers for the year under review. The US was the primary market of the Group, accounted for about 62% (2003: 65%) of the Group's total turnover for the year with an increase turnover of 91.1% from HK\$1,244 million in 2003 to HK\$2,377 million in 2004. The PRC (including Hong Kong) and European Union and others accounted for about 17% (2003: 18%) and 21% (2003: 17%) respectively of the Group's total turnover. The proportion of the turnover in the US market decreased was due to our expansion in the European Union and Asia Pacific markets during the year under review. The diversification of geographic regions has proven to be successful and has reduced our reliance on markets in a single region.

FINANCIAL POSITION**Consolidated Balance Sheet Summary**

| HK\$ million | 31 December 2004 | 31 December 2003 | % Change |
|-------------------------|------------------|------------------|----------|
| Non-current assets | 746 | 768 | (3%) |
| Current assets | 1,432 | 1,306 | 10% |
| Total assets | 2,178 | 2,074 | 5% |
| Current liabilities | 1,239 | 1,105 | 12% |
| Non-current liabilities | 640 | 827 | (23%) |
| Total liabilities | 1,879 | 1,932 | (3%) |
| Net assets | 299 | 142 | 111% |

Non-current assets

The 3% decrease in non-current assets was mainly due to the decrease in goodwill as a result of the disposal of the power supply component business.

Current assets

The 10% increase in current assets was mainly due to the increase in inventory and trade and bills receivables, which is in line with the growth of the Group's business during the year.

Current liabilities

The 12% increase in current liabilities was mainly due to (i) the increase in trade and bills payables, which is in line with the growth of the Group's business during the year and (ii) the reclassification of convertible notes as current liabilities amounted to HK\$45 million.

Non-current liabilities

The 23% decrease in non-current liabilities was mainly due to the decrease in convertible notes as a result of the conversion of convertible notes in the amount of HK\$32 million and the cancellation of part of the 2008 convertible notes in the amount of HK\$139 million in relation to the disposal of the power supply component business and the industrial property during the year.

FINANCIAL POSITION (Cont'd)**Liquidity and Financial Resources**

| HK\$ million | 31 December 2004 | 31 December 2003 |
|---------------------|------------------|------------------|
| Current assets | 1,432 | 1,306 |
| Current liabilities | 1,239 | 1,105 |
| | 116% | 118% |

The current ratio (a ratio of current assets over current liabilities) as at 31 December 2004 was approximately 116% (2003: 118%), reflected a healthy financial position of the Group and was in line with the growth of business of the Group.

As at 31 December 2004, the Group maintained a cash balance of approximately HK\$517 million (2003: HK\$550 million). The strong cash balance plus the cash generated from the Group's operations and funds available from bank facilities are expected to be sufficient to cover all cash requirements, including working capital and capital expenditure needs.

Capital Structure and Gearing Ratio

| HK\$ million | As at 31 December 2004 | | As at 31 December 2003 | |
|------------------------|------------------------|------------|------------------------|------------|
| | Amount | Relative % | Amount | Relative % |
| Bank borrowings | 137 | 13% | 111 | 10% |
| Convertible notes | 660 | 60% | 831 | 77% |
| Finance lease payables | 2 | 0% | 2 | 0% |
| Total borrowings | 799 | 73% | 944 | 87% |
| Equity | 299 | 27% | 142 | 13% |
| Total capital employed | 1,098 | 100% | 1,086 | 100% |

The Group's gearing ratio, calculated on the basis of the Group's total borrowings over total capital employed (equity plus total borrowings), decreased to 73% at 31 December 2004 (2003: 87%). The improvement in the gearing ratio was mainly due to the decrease in outstanding convertible notes as further explained below.

The Group's outstanding bank borrowings increased to approximately HK\$137 million as at 31 December 2004 (2003: HK\$111 million), which was increased in line with the growth in business in 2004. Among the total outstanding bank borrowings of HK\$137 million, HK\$22 million is repayable within 2 years. The balance of HK\$115 million was arranged on a short-term basis for ordinary business operations and is repayable within one year. There is no material effect of seasonality on the Group's borrowing requirements.

FINANCIAL POSITION *(Cont'd)***Capital Structure and Gearing Ratio** *(Cont'd)*

At the balance sheet date, the total outstanding convertible notes issued by the Company amounted to HK\$660 million (2003: HK\$831 million) which comprised:

- (i) HK\$45 million zero coupon convertible notes due 2005 to a company controlled by Mr. Mak Shiu Tong, Clement (the Chairman of the Company), with a conversion price of HK\$0.01 per share; and
- (ii) HK\$615 million at best lending rate plus 2% per annum convertible notes due 2008 to a wholly-owned subsidiary of CCT Telecom, with a conversion price of HK\$0.014 per share.

The decrease in the outstanding convertible notes in the amount of HK\$171 million was due to (i) the conversion of convertible notes in the amount of HK\$32 million into 2,800,000,000 ordinary shares of the Company and (ii) the cancellation of the 2008 convertible notes due to CCT Telecom in the amount of HK\$139 million for the satisfaction of the consideration by CCT Telecom in respect of the disposal of the power supply component business and the industrial property by the Company to CCT Telecom during the year. The convertible notes do not impose any immediate repayment pressure on funding as most of the total outstanding convertible notes are due to a wholly-owned subsidiary of CCT Telecom and are attached with a relatively long maturity period of redemption.

Acquisition of certain of the Group's assets were financed by way of finance leases and the total outstanding finance lease payables for the Group at 31 December 2004 amounted to approximately HK\$2 million (2003: HK\$2 million).

Capital Expenditure and Commitments

During the financial year under review, the Group incurred capital expenditure amounted to approximately HK\$132 million, including the expenditure of approximately HK\$75 million for expansion of production facilities in the PRC.

As at 31 December 2004, there were outstanding capital commitment contracted by the Group but not yet provided for in the accounts amounted to approximately HK\$20 million (2003: HK\$2 million), which was mainly related to the expansion of the production facilities in the PRC and all of which would be financed internally.

OTHER INFORMATION**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, the Group's receipts were mainly denominated in US dollars, with some in Hong Kong dollars and Euro. Payments were mainly made in Hong Kong dollars, US dollars and Renminbi, with some in Euro. Cash was generally placed in short-term deposits denominated in Hong Kong dollars and US dollars. At 31 December 2004, the Group's outstanding borrowings were denominated in Hong Kong dollars and US dollars. Other than the convertible notes in principle amount of HK\$45 million with zero interest rate, the Group's borrowings were principally made on a floating rate basis.

OTHER INFORMATION (Cont'd)**Treasury Management** (Cont'd)

The objective of the Group's treasury policies is to minimise risks and exposures due to 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. Since the Hong Kong dollar remains pegged to the US dollar, the Group does not foresee a substantial exposure in US dollar receipts and payments. The Group's exposure to foreign exchange risk is not substantial and forward exchange contracts have been entered into to minimise such risk when necessary and appropriate.

Significant Investment

The Group did not hold any significant investment at 31 December 2004 (2003: Nil).

Pledge of Assets

At 31 December 2004, certain of the Group's time deposits of approximately HK\$95 million (2003: HK\$100 million) were pledged to secure general banking facilities granted to the Group.

Contingent Liabilities

At 31 December 2004, corporate guarantees of HK\$426 million (2003: HK\$346 million) were given by the Company to banks in connection with facilities granted to subsidiaries of the Company, of which approximately HK\$223 million (2003: HK\$183 million) were utilised.

At 31 December 2004, the Group had contingent liability in respect of possible future long service payments to employees amounted to approximately HK\$6 million (2003: HK\$5 million). Save as aforesaid, the Group did not have any other significant contingent liabilities at 31 December 2004.

Employees and Remuneration Policy

The total number of employees of the Group as at 31 December 2004 was 13,170 (2003: 15,545). 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 2004, there were outstanding share options of approximately 1,083 million (2003: 1,083 million).

Acquisition and Disposal of Material Subsidiaries and Associates

During the year, the Company disposed of its power supply component business and an industrial property to CCT Telecom for a consideration of HK\$139 million, which was satisfied by the cancellation of the convertible note in the same amount owed to CCT Telecom. The transaction was approved by the independent shareholders in the special general meeting held on 8 September 2004 and was completed on 13 September 2004. Further details of the transaction were set out in the circular of the Company dated 20 August 2004. As the power supply component business represented only a relatively small percentage to the Group's business, the disposal did not have any significant adverse financial impact on the Group. On the contrary, the cancellation of the convertible notes in the amount of HK\$139 million has reduced the Group's liabilities and the corresponding finance cost. The disposal was in the interest of the Group as it improved its financial position.

Apart from the above, the Group did not acquire or dispose of any material subsidiaries and associates during the year ended 31 December 2004.