

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 2004.

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 disposed of its entire interest in First Precision Holdings Limited ("First Precision") and its subsidiaries (collectively referred to as the "First Precision Group") and CCT Investment Limited to CCT Telecom Holdings Limited ("CCT Telecom"), the ultimate holding company of the Company, details of which are set out in notes 32(c) and 37(1) to the financial statements.

The principal activities of First Precision Group are the design, manufacture and sale of power supply components including linear and switching transformers and adaptors. The principal activity of CCT Investment Limited is property holding.

RESULTS AND DIVIDEND

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 43 to 84.

The directors do not recommend payment of any dividend for the year (2003: 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 85. 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 14 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 29 and 30 to the financial statements, respectively.

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 31(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2004, 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 totaling HK\$3 million (2003: 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	
	2004	2003	2004	2003
Largest customer	47%	52%		
Five largest customers in aggregate	80%	83%		
Largest supplier			9%	9%
Five largest suppliers in aggregate			31%	31%

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.

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

Independent non-executive directors:

Chow Siu Ngor
Lau Ho Kit, Ivan
Chen Li (appointed on 24 September 2004)

In accordance with the bye-laws of the Company, Ms. Cheng Yuk Ching, Flora, Mr. Tam Ngai Hung, Terry and Mr. Chen Li 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.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and, as at the date of this report, still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out from pages 16 to 20 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, its holding 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 Listing Rules in respect of the share option schemes of a listed company. 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 2004, 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 6.79% of the existing issued share capital of the Company as at the date of this report. No share options has been granted under the Share Option Scheme during the year.

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") or 30% of the issued share capital of the Company from time to time.

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.

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 daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

SHARE OPTION SCHEME (Cont'd)

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 2004	Number of share options			Outstanding as at 31 December 2004	Date of grant of share options	Exercise period of share options	Exercise price per share (Note) HK\$
		Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year				
Executive directors								
Mak Shiu Tong, Clement	100,000,000	—	—	—	100,000,000	30/4/2003	30/4/2003 – 29/4/2008	0.014
Cheng Yuk Ching, Flora	100,000,000	—	—	—	100,000,000	30/4/2003	30/4/2003 – 29/4/2008	0.014
Tam Ngai Hung, Terry	100,000,000	—	—	—	100,000,000	30/4/2003	30/4/2003 – 29/4/2008	0.014
Tong Chi Hoi	50,000,000	—	—	—	50,000,000	30/4/2003	30/4/2003 – 29/4/2008	0.014
	350,000,000	—	—	—	350,000,000			
Independent non-executive directors								
Chow Siu Ngor	8,000,000	—	—	—	8,000,000	30/4/2003	30/4/2003 – 29/4/2008	0.014
Lau Ho Kit, Ivan	8,000,000	—	—	—	8,000,000	30/4/2003	30/4/2003 – 29/4/2008	0.014
	16,000,000	—	—	—	16,000,000			
Other employees								
In aggregate	716,781,000	—	—	—	716,781,000	30/4/2003	30/4/2003 – 29/4/2008	0.014
	716,781,000	—	—	—	716,781,000			
	1,082,781,000	—	—	—	1,082,781,000*			

Note: 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.

* According to the composite offer and response document dated 31 March 2005 (the "Composite Offer Document") jointly issued by the Company and CCT Telecom, Jade Assets Company Limited (the "Offeror"), a wholly-owned subsidiary of CCT Telecom, made the voluntary conditional cash offers to acquire all the issued shares from the independent shareholders of the Company and to acquire the convertible note due 2005 of the Company and to cancel all the outstanding share options of the Company (the "Offers"). All optionholders have accepted the Offers in respect of their entire holding of the share options at the consideration of HK\$0.009 per share option. The Offers have become unconditional in all respects as to acceptances on 21 April 2005 and all such outstanding 1,082,781,000 share options under the Share Option Scheme will be cancelled in accordance with the terms of the Offers.

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.

DIRECTORS' INTERESTS

As at 31 December 2004, 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 corporations (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 Issuers (the "Model Code") adopted by the Company:

(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:

(i) *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.

(ii) *Convertible note:*

Name of director	Description of equity derivatives	Number of total underlying shares	Approximate percentage of total shareholding (%)
Mak Shiu Tong, Clement (Note)	HK\$45 million zero coupon convertible note due 2005*	4,500,000,000	28.23

Note: The HK\$45 million zero coupon convertible note due 2005 was held by New Capital Industrial Limited, which is a corporation wholly-owned by Mr. Mak Shiu Tong, Clement and his family members. This interest in the underlying shares has also been disclosed under the section headed "Substantial Shareholders' Interests" below.

* Pursuant to the Offers as detailed in the Composite Offer Document, New Capital Industrial Limited has accepted the Offers in respect of its entire holding of the convertible note due 2005 and opted for the convertible bonds due 2010 to be issued by CCT Telecom. The Offers have become unconditional in all respects as to acceptances on 21 April 2005 and the convertible note due 2005 will be transferred to the Offeror in accordance with the terms of the Offers.

DIRECTORS' INTERESTS (Cont'd)**(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	Notes	Number of shares beneficially held and nature of interest			Total	Approximate percentage of total shareholding (%)
		Personal	Family	Corporate		
Mak Shiu Tong, Clement	(a)	—	—	86,261,941	86,261,941	20.42
Cheng Yuk Ching, Flora	(b)	9,876,713	100,000	—	9,976,713	2.36
Tong Chi Hoi		282,000	—	—	282,000	0.07
William Donald Putt		171,500	—	—	171,500	0.04

Notes:

- (a) The shares were held by Capital Force International Limited and Capital Interest Limited, which are corporations controlled by Mr. Mak Shiu Tong, Clement.
- (b) The family interest of Ms. Cheng Yuk Ching, Flora in 100,000 shares was held by her spouse, Mr. Po Pui Lam, and she was deemed to be interested in the same 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	Exercise period of share options	Exercise price per share HK\$	Number of share options outstanding	Number of total underlying shares	Approximate percentage of total shareholding (%)
Mak Shiu Tong, Clement	17/3/2003	17/3/2003 – 16/3/2008	0.75	420,000	420,000	0.10
Cheng Yuk Ching, Flora	17/3/2003	17/3/2003 – 16/3/2008	0.75	4,200,000	4,200,000	1.00
Tam Ngai Hung, Terry	17/3/2003	17/3/2003 – 16/3/2008	0.75	4,200,000	4,200,000	1.00
Tong Chi Hoi	17/3/2003	17/3/2003 – 16/3/2008	0.75	1,000,000	1,000,000	0.24
William Donald Putt	17/3/2003	17/3/2003 – 16/3/2008	0.75	420,000	420,000	0.10

Save as disclosed above, as at 31 December 2004, none of the directors and the chief executive of the Company and/or any of their respective associates had any interest and short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (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 — Interests and short positions in the shares, underlying shares and debentures of an associated corporation — CCT Telecom" 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 debentures of, the Company or any of its associated corporations (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 corporations (within the meaning of Part XV of the SFO) a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2004, the following persons (other than the directors or the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were 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 shareholder	Notes	Number of shares held	Approximate percentage of total shareholding (%)
CCT Telecom	(a)	5,500,000,000	34.51
CCT Technology Investment Limited	(b)	5,500,000,000	34.51
Jade Assets Company Limited		1,800,000,000	11.29
CCT Assets Management Limited		1,350,000,000	8.47
Expert Success International Limited		1,350,000,000	8.47
Noble Team Investments Limited		1,000,000,000	6.28
Kwong Cheong Trading Limited		2,000,000,000	12.55
Yang Shao Wu	(c)	2,000,000,000	12.55
Deutsche Bank Aktiengesellschaft		1,285,280,000	8.06

Notes:

- (a) The interest disclosed represented 5,500,000,000 shares indirectly 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 represented 1,800,000,000 shares held by Jade Assets Company Limited, 1,350,000,000 shares held by CCT Assets Management Limited, 1,350,000,000 shares held by Expert Success International Limited and 1,000,000,000 shares held by Noble Team Investments Limited, all of them are wholly-owned subsidiaries of CCT Technology Investment Limited.
- (c) The interest disclosed represented 2,000,000,000 shares held by Kwong Cheong Trading Limited, which is wholly-owned by Mr. Yang Shao Wu. Other than the holding of a 12.55% interest in the Company, each of Kwong Cheong Trading Limited and Mr. Yang Shao Wu is independent of, and not connected with CCT Telecom, its directors, chief executive, substantial shareholders and their respective associates.

SUBSTANTIAL SHAREHOLDERS' INTERESTS (Cont'd)

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

Name of holder of equity derivatives	Notes	Description of equity derivatives	Number of total underlying shares	Approximate percentage of total shareholding (%)
CCT Telecom	(a)	HK\$615 million prime or best lending rate plus 2% convertible note due 2008	43,928,571,428	275.61
CCT Technology Investment Limited	(b)	HK\$615 million prime or best lending rate plus 2% convertible note due 2008	43,928,571,428	275.61
Noble Team Investments Limited		HK\$615 million prime or best lending rate plus 2% convertible note due 2008	43,928,571,428	275.61
New Capital Industrial Limited	(c)	HK\$45 million zero coupon convertible note due 2005*	4,500,000,000	28.23

Notes:

- (a) The interest disclosed represented 43,928,571,428 underlying shares indirectly owned by CCT Technology Investment Limited through the subsidiary stated in note (b) below. CCT Technology Investment Limited is a wholly-owned subsidiary of CCT Telecom.
- (b) The interest disclosed represented 43,928,571,428 underlying shares held by Noble Team Investments Limited, which is a wholly-owned subsidiary of CCT Technology Investment Limited.
- (c) New Capital Industrial Limited is a corporation wholly-owned by Mr. Mak Shiu Tong, Clement and his family members. This interest in the underlying shares has also been disclosed under the section headed "Directors' Interests" above.
- * Pursuant to the Offers as detailed in the Composite Offer Document, New Capital Industrial Limited has accepted the Offers in respect of its entire holding of the convertible note due 2005 and opted for the convertible bonds due 2010 to be issued by CCT Telecom. The Offers have become unconditional in all respects as to acceptances on 21 April 2005 and the convertible note due 2005 will be transferred to the Offeror in accordance with the terms of the Offers.

Save as disclosed above, as at 31 December 2004, there was no other person (other than the directors or the chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had the following connected and continuing connected transactions, certain details of which are disclosed in accordance with the requirements of Chapter 14A of the Listing Rules.

- (1) On 2 June 2004, the Company and CCT Telecom entered into a conditional agreement pursuant to which the Company agreed (i) to dispose of its entire interest in First Precision and CCT Investment Limited to CCT Telecom; and (ii) to assign the interest-free shareholders' loans owed by First Precision and CCT Investment Limited to CCT Telecom as at the completion date of this transaction, at a total consideration of HK\$139 million. The consideration was satisfied by cancellation of the convertible note in the same amount which was issued by the Company to an indirect wholly-owned subsidiary of CCT Telecom on 30 June 2003.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Cont'd)

The transaction was approved by the independent shareholders of the Company in a special general meeting held on 8 September 2004 and was completed on 13 September 2004. Further details of the transaction are set out in the circular of the Company dated 20 August 2004.

- (2) During the two years ended 31 December 2004, the Company and certain of its indirect wholly-owned subsidiaries had the following material transactions with CCT Telecom and certain of its subsidiaries:

2004	Period	Notes	HK\$ million
Purchase of plastic casings and components	1 January 2004 to 14 June 2004	(i)	147
	15 June 2004 to 31 December 2004	(i)	166
Purchase of materials	1 January 2004 to 14 June 2004	(ii)	13
Factory rental income	1 January 2004 to 31 December 2004	(iii)	6
Office rental expenses	1 January 2004 to 31 December 2004	(iv)	3
Management information system service fee	1 January 2004 to 31 December 2004	(v)	3
			Year ended
			31 December 2003
2003		Notes	HK\$ million
Purchase of plastic casings and components		(i)	132
Purchase of materials		(ii)	24
Factory rental income		(iii)	3
Office rental expenses		(iv)	2
Management information system service fee		(v)	1

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 "First Manufacturing Agreement") entered into between CCT HK and Neptune on 15 May 2003. During the year, CCT HK and Neptune agreed to early terminate the First Manufacturing Agreement and on 4 May 2004, the Company and CCT Telecom entered into a new manufacturing agreement (the "Second Manufacturing Agreement") pursuant to which CCT Telecom and its subsidiaries (collectively refer as to the "CCT Telecom Group") agreed to manufacture certain plastic casings and components and toolings for telecom products and accessories and other products for the Group. The Second Manufacturing Agreement became effective on 15 June 2004.

The purchase prices under both agreements were determined based on the direct material costs plus a mark-up of no more than 300%.

- (ii) The purchase of materials was made by Electronic Sales Limited ("ESL"), a wholly-owned subsidiary of First Precision, from Neptune. The purchase prices were determined based on the direct costs of the materials plus a mark-up of up to 50% of such direct costs in accordance with the terms and conditions set out in a manufacturing agreement (the "Third Manufacturing Agreement") entered into between Neptune and ESL on 23 July 2002. During the year, both parties agreed to early terminate the Third Manufacturing Agreement and on 4 May 2004, the Company and CCT Telecom entered into the Second Manufacturing Agreement, details of which are set out in paragraph (i) above.
- (iii) 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.
- (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 a rate 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 15 September 2003 and 17 September 2004, and between CCT R&D and Goldbay on 23 December 2003, respectively.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Cont'd)

- (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.

The transactions contemplated under the First Manufacturing Agreement are referred to as the "First Manufacturing Transaction", those under the Second Manufacturing Agreement are referred to as the "Second Manufacturing Transaction" and those under the Third Manufacturing Agreement are referred to as the "Third Manufacturing Transaction" (the First Manufacturing Transaction, Second Manufacturing Transaction and Third Manufacturing Transaction collectively referred to as "Manufacturing Transaction"). The transactions contemplated under the Huiyang Tenancy Agreement, the Hong Kong Tenancy Agreements and the MIS Agreement are collectively referred to as the "Second Transactions".

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

- (a) the aggregate value under the First Manufacturing Transaction as indicated in note (i) above for the period from 1 January 2004 to 14 June 2004 did not exceed 12.5% of the consolidated cost of sales of the Group;
- (b) the aggregate value under the Second Manufacturing Transaction as indicated in note (i) above for the period from 15 June 2004 to 31 December 2004 did not exceed the cap amount, which is HK\$350,000,000 for the year ended 31 December 2004;
- (c) the aggregate value under the Third Manufacturing Transaction as indicated in note (ii) above for the period from 1 January 2004 to 14 June 2004 did not exceed the cap amount of HK\$116,000,000;
- (d) the consideration receivable from/payable to the Group under each of the Second Transactions during the year did not exceed the higher of HK\$10,000,000 or 3% of the net tangible asset value of the Company;
- (e) the Manufacturing Transaction was entered into in the ordinary and usual course of businesses of the Group;
- (f) the Manufacturing Transaction and Second Transactions were conducted on normal commercial terms; and
- (g) the Manufacturing Transaction and Second Transactions were conducted in accordance with the terms of the agreements governing such transactions.
- (3) ESL and CCT Investment Limited had been the indirect wholly-owned subsidiaries of the Company throughout the period up to 12 September 2004, the date on which these two subsidiaries were disposed of to CCT Telecom.

Before the completion of the disposal of ESL and CCT Investment Limited on 13 September 2004, ESL and CCT Investment Limited had the following connected transactions with certain subsidiaries of CCT Telecom up to 12 September 2004:

	Notes	Period from 1 January 2004 to 12 September 2004 HK\$ million	Year ended 31 December 2003 HK\$ million
Factory rental expenses	(i)	4	1
Rental expenses	(ii)	1	2

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Cont'd)

Notes:

- (i) The factory rental expenses were charged to CCT Investment Limited, 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 "First Tenancy Agreement") entered into between CCT Investment and CCT Prop on 15 May 2003. Both parties agreed to have an early termination of the First Tenancy Agreement in accordance with the provisions of the First Tenancy Agreement and entered into a new tenancy agreement with a greater floor area on 14 January 2004.
- (ii) The rental expenses were 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 (the "Second Tenancy Agreement") entered into between ESL and CCT Prop on 15 April 2003. Both parties agreed to have an early termination of the Second Tenancy Agreement in accordance the provisions of the Second Tenancy Agreement and enter into a new tenancy agreement with a smaller floor area on 14 January 2004.

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

- (a) the aggregate value of the rental expenses as indicated in notes (i) to (ii) above for the period from 1 January 2004 to 12 September 2004 did not exceed the higher of HK\$10,000,000 or 3% of the net tangible asset value of the Company;
- (b) the transactions as indicated in notes (i) to (ii) above were entered into in the ordinary and usual and ordinary course of businesses of the Group;
- (c) the transactions as indicated in notes (i) to (ii) above were conducted on normal commercial terms; and
- (d) the transactions as indicated in notes (i) to (ii) above were conducted in accordance with the terms of the agreements governing such transactions.
- (4) The following ongoing connected transactions were conducted between the Company and CCT Telecom for the period from 13 September 2004 to 31 December 2004:

	Notes	Period from 13 September 2004 to 31 December 2004 HK\$ million
Factory rental expenses	(i)	2
Purchases of products	(ii)	47

Notes:

- (i) The factory rental expenses were charged to the Company by CCT Telecom for the provision of factory space in Dongguan, the PRC, at a rate determined in accordance with the terms and conditions as set out in a tenancy agreement (the "New Tenancy Agreement") entered into between the Company and CCT Telecom on 13 September 2004.
- (ii) The purchase prices were determined based on the direct material costs of the products plus a mark-up of up 100% of such direct material costs pursuant to a power supply components manufacturing agreement entered into between the Company and CCT Telecom on 2 June 2004.

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

- (a) the aggregate value of the factory rental expenses charged for the period from 13 September 2004 to 31 December 2004 did not exceed HK\$2,000,000;

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(Cont'd)*

- (b) the aggregate value of the purchases of products by the Company as indicated in note (ii) above for the period from 13 September 2004 to 31 December 2004 did not exceed the cap amount of HK\$170,000,000;
- (c) the transactions as indicated in notes (i) to (ii) above were entered into in the ordinary and usual course of businesses of the Group;
- (d) the transactions as indicated in notes (i) to (ii) above were conducted on normal commercial terms; and
- (e) the transactions as indicated in notes (i) to (ii) above were conducted in accordance with the terms of the agreements governing such transactions.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 38 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 which was in force prior to 1 January 2005, 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules. Having made specific enquiries with all directors of the Company, they confirmed that they have complied with the required standard set out in the Model Code adopted by the Company throughout the financial year covered by this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, the Company has maintained a sufficient public float of not less than 25% of the Company's total issued share capital as required under the Listing Rules throughout the financial year covered by this report.

AUDIT COMMITTEE

Pursuant to the requirements of the Listing Rules, the Company has established an audit committee (the "Audit Committee") with specific written terms of reference which deal clearly with the authorities and duties of the Audit Committee. The Audit Committee consists of three members comprising the three independent non-executive directors of the Company, namely Messrs. Lau Ho Kit, Ivan, Chow Siu Ngor and Chen Li, one of whom is a qualified accountant and has extensive experience in accounting and financial matters.

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 controls of the Company. The Audit Committee has reviewed the audited consolidated financial statements of the Company for the year ended 31 December 2004 with the management and the auditors. Regular meetings have been held by the Audit Committee since its establishment and the Audit Committee has held three meetings in 2004.

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
25 April 2005