



review of operations

The Group is engaged in the (i) manufacturing and sale of telecom and electronic products (ii) manufacturing and sale of plastic and electronic components, (iii) manufacturing and sale of baby products, and (iv) investments in properties and securities.

TELECOM AND ELECTRONIC PRODUCTS

The principal businesses of the Group remain the manufacture and sale of telecom and electronic products through our listed subsidiary, CCT Tech.

Despite a challenging operating landscape in the global market, the Group was still able to expand its customer base to a number of worldwide distributors of telecom products, thereby, broadening our customer base and facilitating future growth. Our customers are mostly well-known multinational companies and owners of renowned global household brands. During the year under review, both of sales orders and sales volume increased.

We continued to benefit from robust consumer spending in the U.S. market in 2005, thus, enabling us to achieve growth in sales orders and volume from our U.S. customers. Revenue, however, decreased slightly due to the reduction in the average selling price of our products. Our business in the markets outside the U.S., especially Europe and the Asian Pacific regions, performed well as the markets in these regions continued to grow. The increase in revenue from these regions has been encouraging to say the least.

Turnover, however, decreased due to the reduction of prices for some of our products and shortage of workers. Competition in the consumer telecom products industry continued to be fierce and the Group faced tremendous pressure from our customers on pricing. Labour shortage in the Guangdong Province became more apparent and this has caused delay of certain shipments during the year under review.

The operating profit of our telecom product business dropped partly due to price reduction and partly due to escalating operating costs and overheads.





Rising interest rates and oil prices began to affect global economic growth during the year under review. The costs of certain raw materials and other components, in particular, plastic resin and copper, increased significantly. The shortage of electricity and labour in the Pearl River Delta region and the rising cost of wages for staff and workers in Hong Kong and the PRC is another major operating issue that increased our operating costs. In order to alleviate such pressures, the Group has actively and continuously invested in new technologies and highly automated procedures and equipment to enhance product quality and efficiency on one hand and to reduce over-reliance on labour on the other. We also implemented cost cutting and control measures and improved our operational efficiencies in all respects.

The Group's core strength and competitive edge continue to be our strong research and development ("R&D") capabilities, efficient production management, advanced production facilities and our economies of scale. To expand our R&D capabilities, during the year of 2005, we have established a new R&D center in Singapore and have already recruited over 40 highly qualified engineers and research staff in Singapore. We believe the Singapore R&D center will become an important contributor to our product development roadmap. We will continue to increase the number of engineers in Singapore and Shenzhen. Together with our strong team of engineers in Hong Kong, we have been able to launch new and innovative products to stimulate demands as evidenced by the encouraging reaction we have received from our customers so far on the launch of our new products during the year under review (such as 5.8 GHz digital cordless phones, cordless phones with multi-handsets, colour LCD display, camera and short message features and DECT phones with advanced features).

We have developed advanced consumer wireless electronic products such as VoIP (Voice over Internet Protocol) cordless phones, cordless phones with Skype and wireless broadband products and these new products have attracted significant market interest. We expect these new products to generate substantial business in the years ahead.

We have continued to utilize advanced machinery and equipment as well as information technology to manufacture our telecom products at our facilities in Huiyang and Dongguan, the PRC. During the year, we continued to invest considerably in our production machinery and equipment. We now have a total number of 61 surface mount technology ("SMT") manufacturing lines and 132 bonding machines to support our increasing ODM and contract manufacturing orders. We also have advanced testing equipment such as automatic PCBA testers and automatic casing testers in order to ensure that only products with the best quality are delivered to our customers.

Our high volume of production and scale of operation places us in a position to benefit from various economies of scale, such as, our ability to command various sourcing and procurement advantages within the industry. We have established long-term relationship and continue to enhance our strategic alliance with key component and chipset suppliers for worldwide market. We have taken initiatives to minimize component lead-time and improve supplier chain management through e-procurement and ERP system of SAP.

MANUFACTURING OF PLASTIC AND ELECTRONICS COMPONENTS

We manufacture components mainly for internal use in our telecom and electronics product business. We manufacture plastic and power supply components mainly for our own use. Our production base is located within the Group's production plants in Huiyang and Dongguan, the PRC and are some of the largest plastic injection manufacturing facilities in the district. We currently have a total of over 354 advance mould injection machines, including 45 automatic robotic plastic moulding machines. We are also engaged in other plastic products-related activities such as auto-



spraying, silk-screening and UV printing, hot-stamping, laser marking, tempo-printing, assembly and ultrasonic welding. Furthermore, we have the capability to manufacture moulds ourselves. We possess the most advanced mould building equipment including digital milling machines, wire-cutting machines, electrical discharge machines and computer numerical control processing centers.

During the year, the performance of our component business was affected by the increase in the price of raw materials especially plastic and copper. In order to counter-balance such difficulties, we have actively implemented cost control and cutting measures and continued to improve our operational efficiencies.

BABY PRODUCT BUSINESS

The baby product segment is engaged in the production of a variety of traditional plastic baby products, baby toys and other accessories, with its principal market in the US. Like other manufacturing businesses, the baby product business during the year under review was affected by keen price competition and increase in operating costs. Both gross profit and operating margin of the business have decreased due to the increasing cost of raw materials. Further cost control measures have already been implemented to tackle the difficult business environment in this sector.

Our major customers are multinational distributors of baby products with renowned household brands. The business from these customers has been stable. We have made efforts to develop new products with a view to stimulate growth and attract new business.

INVESTMENT BUSINESS

The Group has engaged in the business of investments in properties and securities. This sector performed extremely well during the year.

During the year, the Group derived a realized gain of HK\$109 million arising from the disposal and deemed disposal of the 19.6% interest in Haier Electronics. One of the properties that we invested has appreciated in value resulting in the reversal of previous impairment loss in the amount of HK\$64 million. The investment properties also generate recurrent rental income. We will continue to look for investment opportunities on a prudent basis in order to maximize the returns to our shareholders.





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







Our factory complex in Dongguan, Guangdong Province, the PRC

