FINANCIAL RESULTS

Highlights on Financial Results

HK$ million	**2005**	2004	% increase/ (decrease)
		(Restated)	
Turnover	**3,980**	4,057	(1.9%)
Gross profit	**454**	464	(2.1%)
Other income and gains	**175**	53	230.2%
Finance costs	**(23)**	(6)	283.3%
Share of profit of Haier Electronics as an associate	**—**	49	N/A
Tax	**(18)**	(18)	—
Profit for the year attributable to minority interests	**(28)**	(80)	(65.0%)
Profit for the year attributable to shareholders of the Company	**225**	107	110.3%

Adoption of New Accounting Standards

During the year, the Company has adopted the new financial reporting standards which came into effect on 1 January 2005. The effect of the adoption of these financial reporting standards have been summarized in notes 2.2, 2.3 and 2.4 of the financial statement.

Discussion on Financial Results

The Group recorded a turnover of HK$3,980 million during the year of 2005, which represents a decrease of 1.9% over the corresponding previous year. The decrease is mainly attributable to the price reduction of certain telecom products and delay in shipment of goods of our factories arisen from the continuous labour shortage in the Pearl River Delta region throughout the year 2005.

Gross profit decreased by 2.1% due to decrease in turnover.

Operating profit for our manufacturing business dropped due to the decrease in sale price and increase in the operating costs.

Other income and gains amounted to HK$175 million, more than tripled that of previous year mainly due to the realized gain of HK$109 million arising from the disposal and deemed disposal of 19.6% interest in Haier Electronics in January 2005.

Effective from January 2005, Haier Electronics ceased to be an associate of the Group and the Group has since ceased to share any of the results of Haier Electronics. In 2004, the Group's investment in Haier Electronics was classified as an interest in an associate. As a result of the adoption of the reverse acquisition accounting method by Haier Electronics, the results of Haier Electronics in prior years have been restated. The Group's share of result of Haier Electronics for the year ended 31 December 2004 was therefore restated from a loss to a profit of HK$49 million.

FINANCIAL RESULTS *(Continued)*

Discussion on Financial Results *(Continued)*

Finance costs surged by approximately 283.3% to HK$23 million in 2005. The increase was mainly attributable to the increase in bank loans borrowed for the operations and the increase in interest rates during the year. Also, due to the adoption of the new HKAS 32, a deemed effective interest of approximately HK$5 million was accrued on the zero rate convertible bonds of the Company. Despite the increase in finance costs, the Company maintains a very healthy financial position as its gearing ratio is only 14.6% and interest cover is over 12 times.

Profit shared by minority interest decreased sharply by 65% because the Group increased its shareholding in CCT Tech during the year.

Profit after tax attributable to shareholders of the Company for the year under review amounted to HK$225 million, up 110.3% from that of previous year, attributable mainly to the investment gains from disposal and dilution of our interest in Haier Electronics and the reversal of previous impairment loss of the investment property.

Analysis by Business Segment

	Turnover (excluding other revenue)				
	2005		2004		
HK$ million	**Amount**	**Relative %**	Amount	Relative %	% increase/ (decrease)
Telecom and electronic products	**3,846**	**96.8%**	3,906	96.4%	(1.5%)
Baby products	**124**	**3.1%**	146	3.6%	(15.0%)
Investments	**2**	**0.1%**	—	—	N/A
Total	**3,972**	**100.0%**	4,052	100.0%	(1.9%)

	Operating profit (before finance costs and tax)		
HK$ million	**2005**	2004	% increase/ (decrease)
		(Restated)	
Telecom and electronic products	**189**	222	(14.9%)
Baby products	**6**	14	(57.1%)
Investments	**165**	1	16,400%
Corporate and others	**(74)**	(77)	(3.9%)
Total	**286**	160	78.8%

During the year, telecom and electronic product business continued to be the principal business of the Group, accounting for approximately 96.8% (2004: 96.4%) of the Group's total revenue (excluding other revenue). The baby product business, accounted for approximately 3.1% (2004: 3.6%) and the investment business accounted for approximately 0.1% (2004: nil) of the total revenue.

FINANCIAL RESULTS *(Continued)*

Analysis by Business Segment *(Continued)*

The telecom and electronic product business contributed HK$189 million in operating profit in the year, represented a decrease of approximately 14.9% as compared with 2004. The decrease was due to the decrease in turnover and the increase in costs. The decrease of the operating profit of the baby product business from HK$14 million in 2004 to HK$6 million in 2005 was attributable to keen competition and rising operating costs.

The investment business contributed HK$165 million profit after related expenses in the year, representing mainly the realized gain on disposal and deemed disposal of the 19.6% interest in Haier Electronics and the reversal of the impairment on the investment property in the year. Corporate segment represented the net amount of the unallocated corporate administrative and other expenses incurred for the year. The net amount of the corporate expenses for 2005 remained the same as 2004.

Analysis by Geographical Segment

	Turnover (excluding other revenue)				
	2005		2004		
HK$ million	**Amount**	**Relative %**	Amount	Relative %	% increase/ (decrease)
United States of America ("U.S.")	**2,360**	**59.4**	2,516	62.1%	(6.2%)
Rest of the World	**1,612**	**40.6**	1,536	37.9%	4.9%
Total	**3,972**	**100.0%**	4,052	100.0%	

The U.S. remained the major market of the Group accounting for approximately 59.4% (2004: 62.1%) of the total revenue (excluding other revenue) for the year. The decrease in revenue from the U.S. was attributable to decrease in sales as a result of the labor shortage and reduction in sale price. We achieved good progress in developing markets outside the U.S. in the rest of the world include the PRC (including Hong Kong), the Asian Pacific regions and European Union and others. The business in the rest of the world performed well and the revenue from these regions accounted for approximately 40.6% (2004: 37.9%) of the Group's revenue. Our reliance on our major U.S. market has gradually decreased as the sales to the emerging markets have increased.

FINANCIAL POSITION

Highlights on Financial Position and Major Balance Sheet Items

HK$ million	**31 December 2005**	31 December 2004 (Restated)	% increase/ (decrease)
Property, plant and equipment	**1,253**	1,273	(1.6%)
Investment properties	**257**	101	154.5%
Prepaid land lease payments	**220**	225	(2.2%)
Goodwill	**110**	28	292.9%
Interest in an associate	**—**	222	N/A
Available-for-sale financial assets/other assets/long-term investments (non-current assets)	**18**	16	12.5%
Held-to-maturity financial assets	**18**	—	N/A
Financial assets at fair value through profit or loss (non-current assets)	**37**	—	N/A
Other non-current assets	**48**	32	50.0%
Total non-current assets	**1,961**	1,897	3.4%
Financial assets at fair value through profit or loss/short term investments (under current assets)	**24**	3	700.0%
Available-for-sale financial assets (under current assets)	**551**	—	N/A
Cash and cash equivalents	**528**	832	(36.5%)
Non-current liabilities	**296**	189	56.6%
Minority interest	**68**	197	(65.5%)
Equity attributable to shareholders of the Company	**2,642**	2,210	19.5%

Discussion on Financial Position and Major Balance Sheet Items

The property, plant and equipment represent fixed assets held by the Group for its own use and were stated at cost less accumulated depreciation and impairment losses. The decrease in their net book value in the year under review was attributable to the net effect of reclassification of a property to investment property and depreciation less additions during the year.

Investment properties in the amount of HK$257 million (31 December 2004: HK$101 million (restated)) represents the fair value of the properties and car parks held by the Group for rental and investment purposes. The increase is mainly attributable to the reclassification of a property from property, plant and equipment to investment property due to a change of use from own use to investment and the reversal of the previous impairment loss of such property during the year.

FINANCIAL POSITION *(Continued)*

Discussion on Financial Position and Major Balance Sheet Items *(Continued)*

In prior years, leasehold land and buildings held for own use were classified as properties and were stated at cost less accumulated depreciation and any impairment losses. With effect from 1 January 2005, the Group has adopted the new financial reporting standard HKAS 17 under which interest in leasehold land is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Land lease payments under operating leases are initially stated at cost and subsequently amortized on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings element, the entire lease payments are included in the properties, plant and equipment. The comparative amounts in the balance sheet as at 31 December 2004 have been restated to reflect the reclassification of the leasehold land in accordance with HKAS 17. The decrease in prepaid land lease payments represents the amortization during the year.

Available-for-sale financial assets/other assets/long term investment in the amount of HK$18 million under non-current assets represent the fair value of certain unlisted equity securities and club debenture held for non-trading purposes.

Goodwill increased by almost 3 times to HK$110 million due to the increase in shareholdings in CCT Tech arising from the general offers made during the year.

Other non-current assets increased by 50.0% to HK$48 million due to the increase in capitalized product development costs attributable to new products developed.

As a result of the adoption of the new financial reporting standards, certain cash deposits previously classified as cash and cash equivalents have been reclassified in the current year and categorised with reference to the purpose and terms for which they were held. These deposits were reclassified in accordance with HKAS 32 and HKAS 39 and accounted for in the balance sheet as at 31 December 2005 separately as held-to-maturity financial assets in the amount of HK$18 million under non-current assets, financial assets at fair value through profit or loss in the amount of HK$37 million under non-current assets and financial assets at fair value through profit or loss in the amount of HK$20 million under current assets. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated and these assets were included as part of the cash and cash equivalents under the current assets in the prior years.

FINANCIAL POSITION *(Continued)*

Discussion on Financial Position and Major Balance Sheet Items *(Continued)*

Available-for-sale financial assets classified under the current assets as at 31 December 2005 in the amount of HK$551 million represents the fair value of the Group's interest in Haier Electronics. Upon completion of the asset injection by the Haier Group in January 2005, our interest in Haier Electronics reduced and we ceased to have board representation in Haier Electronics. As such, Haier Electronics ceased to be an associate of the Group in 2005. Accordingly, the Group's interest in Haier Electronics was classified as available-for-sale financial assets in the year in accordance with the new financial reporting standard HKAS 39. The fair value of the Group's interest in Haier Electronics as at 31 December 2005 amounted to HK$551 million, determined with reference to the price for the sale of such interest to Deutsche Bank in January 2006. Such investment was however accounted for as interest in an associate in prior years and was stated in 2004's balance sheet at the Group's share of net assets under the equity method of accounting, as restated by adoption of the new financial reporting standards. An adjustment of HK$316 million was credited to the revaluation reserve during 2005, as a result of the adjustment of the value of the investment in Haier Electronics from book value to its fair value. In January 2006, we disposed all our remaining interest in Haier Electronics and we have ceased to have any interest in that company since then.

Cash and cash equivalents decreased by 36.5%, mainly due to the use of cash for the general offers related to CCT Tech during the year and the special dividend paid in August, which was partially off-set by the proceeds on disposal of interest in Haier Electronics in January 2005 and the cash generated from operations. The decrease in cash and cash equivalents is also attributable to the reclassification of certain deposits in the current year to other assets in accordance with HKAS 39 as elaborated above but comparative amounts have not been restated.

The increase in non-current liabilities of approximately 56.6% was mainly due to the increase in bank loans and other borrowings utilized for the operations of the Group and the issuance of convertible bonds of approximately HK$155 million pursuant to the offers relating to CCT Tech to holders who accepted the offers and elected for convertible bonds, of which HK$103 million remained outstanding as at 31 December 2005. Out of the convertible bonds outstanding as at 31 December 2005, HK$72 million together with deemed effective interest of HK$5 million was accounted for as the non-current liability and HK$31 million was accounted for as the equity component in accordance with HKAS 32. Minority interests decreased sharply by 65.5% due to the reduction of the minority shareholders' interest in CCT Tech as a result of the general offers made on CCT Tech during the year.

The equity attributable to shareholder of the Company increased by of approximately 19.5%, mainly due to the profit for the year, the inclusion of the revaluation reserve attributable to the investment in Haier Electronics, the partial conversion of the convertible bonds and exercise of the share options less the dividend paid in cash during the year.

FINANCIAL POSITION *(Continued)*

Capital Structure and Gearing Ratio

HK$ million	**31 December 2005** Amount	**31 December 2005** Relative %	31 December 2004 Amount (Restated)	31 December 2004 Relative %
Bank loans	**364**	**11.8%**	321	12.4%
Convertible bonds (liability component)	**77**	**2.5%**	45	1.7%
Finance lease payable	**10**	**0.3%**	13	0.5%
Total borrowings	**451**	**14.6%**	379	14.6%
Equity	**2,642**	**85.4%**	2,210	85.4%
Total capital employed	**3,093**	**100.0%**	2,589	100.0%

The Group's gearing ratio, calculated on the basis of the Group's total borrowings (including bank and other borrowings, convertible notes and finance lease payables) over total capital employed (total shareholders' fund plus total borrowings), was approximately 14.6% as at 31 December 2005 which was the same as that at 31 December 2004. The low gearing ratio reflects a healthy financial position and the prudent financial policy of the Group.

Outstanding bank borrowings amounted to HK$364 million at 31 December 2005 (31 December 2004: HK$321 million). Approximately 41.8% of these bank borrowings was arranged on a short-term basis for the ordinary business of the Group and was repayable within one year. The remaining 58.2% of the bank borrowings was of long-term nature, principally comprised of mortgage loans on properties held by the Group.

As a result of the offers made by the Company relating to CCT Tech during the year, the Company issued convertible bonds in an aggregate principal amount of approximately HK$155 million, among which the convertible bonds with total principal amounts of approximately HK$52 million were converted into shares of the Company during the year. As at the balance sheet date, the total outstanding carrying amount of the convertible bonds amounted to HK$108 million (including HK$77 million accounted for as a liability and HK$31 accounted for as equity in accordance with HKAS 32). The convertible bonds are interest free and will mature in 2010.

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 as at 31 December 2005 amounted to approximately HK$10 million (31 December 2004: HK$13 million).

As at 31 December 2005, the maturity profile of the bank and other borrowings and the liability component of the convertible notes of the Group falling due within one year, in the second to the fifth year and in the sixth to the tenth year amounted to HK$158 million, HK$240 million and HK$53 million, respectively (31 December 2004: HK$195 million, HK$113 million and HK$71 million, respectively). There was no material effect of seasonality on the Group's borrowing requirements.

FINANCIAL POSITION *(Continued)*

Liquidity and Financial Resources

HK$ million	**31 December 2005**	31 December 2004
Current assets	**2,357**	1,992
Current liabilities	**1,312**	1,293
Current ratio	**180%**	154%

Current ratio (a ratio of current assets over current liabilities) as at 31 December 2005 was 180% (31 December 2004: 154%). The strong liquid position was attributable to strong cash flow from the operations and the effective financial management of the Group.

As at 31 December 2005, the cash balance (excluding amounts reclassified as other assets under HKAS 39) of the Group amounted to HK$599 million (31 December 2004: HK$949 million), among which HK$71 million (31 December 2004: HK$117 million) was pledged for general banking facilities.

Almost all of the Group's cash was placed on deposits with licensed banks in Hong Kong. The strong cash balance plus the cash generated from the Group's operations and funds available from the bank facilities are expected to be sufficient to cover all cash requirements, including working capital and capital expenditure needs.

Capital Expenditure and Commitments

During the year, the Group incurred capital expenditure amounted to approximately HK$201 million, which was mainly related to the core manufacturing businesses of the Group. The Group also incurred HK$55 million for research and development expenditure which has been capitalized as intangible assets and amortised in accordance with the financial standard.

The Group had authorised and contracted capital commitments of approximately HK$7 million (31 December 2004: HK$33 million) as at 31 December 2005, which was mainly related to capital expenditure for the expansion of the manufacturing business of the Group and all of which will be financed by internal resources.

FINANCIAL POSITION *(Continued)*

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 the Euro. Payments were mainly made in Hong Kong dollars, US dollars and Renminbi and some made in Euros. Cash was generally placed in short-term deposits and medium-term deposits denominated in Hong Kong dollars and US dollars and some in European currencies. As at 31 December 2005, the Group's borrowings were mainly denominated in Hong Kong dollars and US dollars. As at 31 December 2005, other than the convertible bonds in an aggregate principal amount of approximately HK$103 million which is interest-free, the Group's borrowings were principally made on a floating rate basis.

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 both the borrowings of the Group and the interest rates currently remain at low levels. In terms of foreign exchange exposures, the Group is principally exposed to two major currencies, namely the US dollar in terms of receipts and the Renminbi in terms of the production costs (including mainly wages and overhead) in China.

For US dollar exposure, since the Hong Kong dollar remains pegged to the US dollar, the exchange fluctuation is not expected to be significant. The introduction of the refinements to the operation of the Linked Exchange Rate System by the Hong Kong Monetary Authority in 2005, which limits the fluctuation between the two currencies, further reinforces the stability of exchange rates between Hong Kong dollar and US dollar. Above all, as most of the Group's purchases are also made in US dollars, which are to be paid out of our sales receipts in US dollars, the management considers that the foreign exchange exposure risk for the US dollar is not material.

For Renminbi exposure, the Group entered into forward exchange contracts with banks in China to cover a significant part of our Renminbi expenses for the period up to mid 2006. Our risk to any Renminbi fluctuation has, therefore, been partly hedged for the period up to mid 2006 although the appreciation of the Renminbi has increased forward rates which has made hedging more costly. Our future production costs will no doubt be increased by the Renminbi appreciation. Any further appreciation of Renminbi in the future will be of concern to all manufacturers with manufacturing facilities in China, and to their respective customers.

Acquisition and Disposal of Material Subsidiaries and Associates

The asset injection for Haier Electronics was successfully completed on 28 January 2005. Following the Asset Injection and after the placing of shares to restore the public float of Haier Electronics in January this year, the Company's interest in Haier Electronics was reduced from 43.6% to 24.0% during the year under review. Since then, Haier Electronics ceased to be an associate of the Group and became an investment held by the Group.

The Group further disposed its entire remaining interest of in 3,926,774,819 shares in Haier Electronics to Deutsche Bank on 5 January 2006. Since then, the Group does not own any interest in Haier Electronics.

FINANCIAL POSITION *(Continued)*

Significant Investment

There was no significant investment unrelated to the core manufacturing businesses of the Group during the year under review.

Pledge of Assets

As at 31 December 2005, certain of the Group's assets with a net book value of HK$821 million (31 December 2004: HK$254 million) and time deposits of HK$71 million (31 December 2004: HK$117 million) were pledged to secure the general banking facilities granted to the Group.

Contingent Liabilities

As at 31 December 2005, the banking facilities granted to the subsidiaries subject to the corporate guarantees given to the banks by the Company were utilized to the extent of approximately HK$154 million (31 December 2004: HK$173 million).

As at 31 December 2005, the Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$1 million (31 December 2004: HK$9 million). Save as aforesaid, the Group did not have any other significant contingent liabilities as at 31 December 2005.

Employees and Remuneration Policy

The total number of employees of the Group as at 31 December 2005 was 17,697 (31 December 2004: 18,477). 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 2005, there were no outstanding share options issued by the Company.