



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 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the manufacture, sale, design and development of telecom and electronic products and accessories, the manufacture and sale of baby products, the manufacture of plastic and power supply components and investment in securities and properties. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 55 to 137.

A special interim dividend of HK\$0.68 per ordinary share was paid on 19 August 2005.

The Directors recommend the payment of a final dividend of HK\$0.020 (2004: HK\$0.020) per ordinary share in respect of the year to the shareholders on the register of members of the Company on Tuesday, 23 May 2006 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 138. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and the investment properties of the Company and the Group during the year are set out in notes 14 and 15 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTE/BONDS

There were no movements in the Company's authorised share capital during the year. Details of movements in the Company's issued share capital, share options and convertible note/bonds during the year are set out in notes 35, 36 and 33 to the financial statements, respectively.

CHANGE OF DOMICILE

The Company has been deregistered from Cayman Islands and duly continued in Bermuda as an exempted company under the laws of Bermuda. The change of domicile became effective on 9 December 2005.

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 THE 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 37(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda, amounted to HK\$2,484 million, of which HK\$13 million has been proposed as a final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$9 million (2004: HK\$3 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	
	2005	2004	2005	2004
Largest customer	45%	44%		
Five largest customers in aggregate	70%	76%		
Five largest suppliers in aggregate			< 30%	< 30%

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 during the year and up to the date of this Annual Report were as follows:

Executive Directors:

Mak Shiu Tong, Clement

Tam Ngai Hung, Terry

Cheng Yuk Ching, Flora

William Donald Putt

Independent non-executive Directors:

Samuel Olenick

Tam King Ching, Kenny

Lau Ho Man, Edward

In accordance with the bye-laws of the Company, Ms. Cheng Yuk Ching, Flora and Mr. Samuel Olenick will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The INEDs are not appointed for any specific terms. According to the bye-laws of the Company, all Directors (except for the Chairman) are subject to the retirement by rotation and re-election at the annual general meeting of the Company.

The Company has received from each of the INEDs an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and, as at the date of this Annual Report, still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on page 16 of this 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

Save as disclosed in note 44 to the financial statements, 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 or any of its subsidiaries was a party during the year.

SHARE OPTION SCHEME

A share option scheme was adopted by the Company on 28 February 2002 (the "Share Option Scheme"). Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period of 10 years from the date of the adoption. As at 31 December 2005, there were no share options outstanding under the Share Option Scheme. 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 operation 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, 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 as at the date of the adoption of the Share Option Scheme or 30% of the issued share capital of the Company from time to time. The general limit on grant of the share options under the Share Option Scheme was refreshed to 10% of the shares in issue as at the date of approval by the shareholders of the Company on 19 May 2003. As at the date of this Annual Report, the total number of the shares available for issue in respect thereof is 42,221,046, which represents approximately 6.44% of the total issued share capital of the Company as at the date of this Annual Report.

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 the shareholders' approval of the 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 INEDs, excluding the INED(s) who is/are the grantee(s) of the share options. In addition, any share option granted to a substantial shareholder or an INED 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 Company's shares 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 the shareholders' approval of the 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.

SHARE OPTION SCHEME (Continued)

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.

Details of the movements of the share options under the Share Option Scheme during the year were as follows:

Name or category of the participant	Outstanding as at 1 January 2005	Number of the share options			Outstanding as at 31 December 2005	Date of grant of the share options	Exercise period of the share options	Exercise price per share (Note 1) HK\$	Price of the shares at the date of exercise of the share options (Note 2) HK\$
		Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year					
Executive Directors									
Mak Shiu Tong, Clement	420,000	—	420,000	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.720	
Cheng Yuk Ching, Flora	4,200,000	—	4,200,000	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.720	
Tam Ngai Hung, Terry	4,200,000	—	4,200,000	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.740	
William Donald Putt	420,000	—	420,000	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.740	
	9,240,000	—	9,240,000	—					
Independent non-executive Directors									
Samuel Olenick	420,000	—	420,000	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.720	
Tam King Ching, Kenny	420,000	—	420,000	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.740	
Lau Ho Man, Edward	420,000	—	420,000	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.740	
	1,260,000	—	1,260,000	—					
Other employees									
In aggregate	31,280,000	—	31,280,000	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.721	
	31,280,000	—	31,280,000	—					
	41,780,000	—	41,780,000	—					

Notes:

- The exercise price of the share options is subject to adjustment(s) in the case of a rights or bonus share issues, or other similar changes in the share capital of the Company.
- The price of the shares of the Company as at the date of exercise of the share options is the weighted average of the closing price of the shares of the Company as listed on the Stock Exchange on the trading date immediately before the date on which the share options were exercised.

SHARE OPTION SCHEME (Continued)

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 the share options.

DIRECTORS' INTERESTS

As at 31 December 2005, 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 and 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 adopted by the Company:

(a) Interests and short positions in the shares and the underlying shares of the convertible bonds of the Company as at 31 December 2005

(i) *Long positions in the shares of the Company:*

Name of the Director	Notes	Number of the shares beneficially held and nature of interest			Total	Approximate percentage of the total issued share capital (%)
		Personal	Family	Corporate		
Mak Shiu Tong, Clement	(a)	715,652	—	126,280,640	126,996,292	19.37
Cheng Yuk Ching, Flora	(b)	14,076,713	120,000	—	14,196,713	2.17
Tam Ngai Hung, Terry		1,868,000	—	—	1,868,000	0.28
William Donald Putt		591,500	—	—	591,500	0.09
Samuel Olenick	(c)	—	—	545,000	545,000	0.08

Notes:

- (a) Included in the shareholdings in which Mr. Mak Shiu Tong, Clement was interested, 126,280,640 shares were held by the corporations controlled by Mr. Mak Shiu Tong, Clement, whose interest in such shares has also been disclosed under the section headed "Substantial Shareholders' Interests" below.
- (b) Included in the shareholdings in which Ms. Cheng Yuk Ching, Flora was interested, 120,000 shares were held by the spouse of Ms. Cheng Yuk Ching, Flora, who was deemed to be interested in such shares under the provisions of Part XV of the SFO.
- (c) Mr. Samuel Olenick was deemed to be interested in 545,000 shares under the provisions of Part XV of the SFO.

DIRECTORS' INTERESTS (Continued)

(a) Interests and short positions in the shares and the underlying shares of the convertible bonds of the Company as at 31 December 2005 (Continued)

(ii) Long positions in the underlying shares of the 2010 convertible bonds of the Company:

Name of the Director	Number of the total underlying shares	Approximate percentage of the total issued share capital (%)
Mak Shiu Tong, Clement (Note)	171,357,615	26.13

Note: The convertible bonds with an outstanding principal amount of HK\$103,500,000 as at 31 December 2005, were issued by the Company to New Capital Industrial Limited ("New Capital"), a company controlled by Mr. Mak Shiu Tong, Clement, on 25 April 2005. The convertible bonds, due on 25 April 2010, are interest free, convertible into the shares of the Company at the conversion price of HK\$0.604 per share (subject to adjustments according to the terms of the convertible bonds). The interest of Mr. Mak Shiu Tong, Clement in these underlying shares of the Company has also been disclosed under the section headed "Substantial Shareholders' Interests" below.

(b) Interests and short positions in the shares and the underlying shares of the share options of associated corporations as at 31 December 2005

(i) Long positions in the shares of Haier Electronics:

Name of the Director	Notes	Number of the shares beneficially held and nature of interest		Approximate percentage of the total issued share capital (%)
		Personal	Corporate	
Mak Shiu Tong, Clement	(a)	—	30,717,334	0.184
Cheng Yuk Ching, Flora		19,195,498	—	0.115
Tam Ngai Hung, Terry		3,070,000	—	0.018
William Donald Putt		179,112	—	0.001
Samuel Olenick	(b)	—	130,548	0.001

Notes:

(a) The shares were held by a corporation controlled by Mr. Mak Shiu Tong, Clement.

(b) Mr. Samuel Olenick was deemed to be interested in 130,548 shares under the provisions of Part XV of the SFO.

DIRECTORS' INTERESTS (Continued)**(b) Interests and short positions in the shares and the underlying shares of the share options of associated corporations as at 31 December 2005** (Continued)

(ii) Long positions in the underlying shares of the share options of Haier Electronics:

Name of the Director	Date of grant of the share options	Exercise period of the share options	Exercise price per share HK\$	Number of the share options outstanding	Number of the total underlying shares	Approximate percentage of the total issued share capital (%)
Mak Shiu Tong, Clement	16/8/2002	16/8/2003 – 15/8/2007	0.156	89,000,000	89,000,000	0.53
Cheng Yuk Ching, Flora	16/8/2002	16/8/2003 – 15/8/2007	0.156	74,000,000	74,000,000	0.44
Tam Ngai Hung, Terry	16/8/2002	16/8/2003 – 15/8/2007	0.156	78,000,000	78,000,000	0.47
William Donald Putt	16/8/2002	16/8/2003 – 15/8/2007	0.156	5,000,000	5,000,000	0.03

(iii) Interests and short positions in the shares and the underlying shares of CCT Tech:

None of the Directors had interests and short positions in respect of the shares, debentures, equity derivatives or interests in the underlying shares of CCT Tech.

Save as disclosed above, as at 31 December 2005, 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 adopted by the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the sections headed "Share Option Scheme" and "Directors' Interests" above, at no time during the year was the Company, or any of its subsidiaries or associated companies, a party to any arrangement to enable the Directors (including their respective spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2005, the following persons had interests or short positions in the shares or the 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 as at 31 December 2005:

Name of the shareholder	Number of the shares held	Approximate percentage of the total issued share capital (%)
Capital Force International Limited (Note)	96,868,792	14.77
Capital Interest Limited (Note)	29,411,848	4.49
	126,280,640	19.26

Note: Capital Force International Limited and Capital Interest Limited are corporations controlled by Mr. Mak Shiu Tong, Clement, whose interest in such shares has also been disclosed under the section headed "Directors' Interests" above.

(ii) Long positions in the underlying shares of the 2010 convertible bonds of the Company as at 31 December 2005:

Name of the holder of the 2010 convertible bonds	Amount of the 2010 convertible bonds HK\$	Number of the total underlying shares	Approximate percentage of the total issued share capital (%)
New Capital (Note)	103,500,000	171,357,615	26.13

Note: The convertible bonds with an outstanding principal amount of HK\$103,500,000 as at 31 December 2005, were issued by the Company to New Capital on 25 April 2005. The convertible bonds, due on 25 April 2010, are interest free, convertible into the shares of the Company at the conversion price of HK\$0.604 per share (subject to adjustments according to the terms of the convertible bonds). The interest of Mr. Mak Shiu Tong, Clement in these underlying shares of the Company has also been disclosed under the section headed "Directors' Interests" above.

Save as disclosed above, as at 31 December 2005, there was no other persons who had an interest or short position in the shares or the 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 Company and 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 31 January 2005, the Company and CCT Tech jointly announced that a voluntary conditional cash offer with a securities exchange alternative (the “General Offers”) would be made by Jade Assets Company Limited (“Jade Assets”), a wholly-owned subsidiary of the Company to the shareholders of CCT Tech other than the Group, the holder of the convertible note due 2005 issued by CCT Tech (“CCT Tech 2005 CN”) and the option holders of CCT Tech. The CCT Tech 2005 CN was held by New Capital at that time. Pursuant to the General Offer, the CCT Tech 2005 CN was transferred to Jade Assets at a consideration of approximately HK\$103 million during the year in return for the issue of the Company’s 2010 convertible bonds in the amount of approximately HK\$103 million to New Capital. The General Offers were approved by the independent shareholders of the Company in the extraordinary general meeting held on 18 April 2005 and the transaction was completed on 25 April 2005. Further details of the General Offers were set out in the circular of the Company dated 31 March 2005.
- (2) During the year, certain indirect wholly-owned subsidiaries of the Company had the following material transactions with the wholly-owned subsidiaries of CCT Tech.

HK\$ million	Notes	2005	2004
Factory rental expenses	(a)	6	6
Office rental income	(b)	3	3
Management information system service fee	(c)	4	3

Notes:

- (a) The factory rental expenses were charged to Shine Best Developments Limited (“Shine Best”), an indirect wholly-owned subsidiary of the Company, by CCT Enterprise Limited (“CCT Ent”), an indirect wholly-owned subsidiary of CCT Tech, 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 entered into between Shine Best and CCT Ent on 15 May 2003.
- (b) The office rental income was charged to CCT Telecom (HK) Limited (“CCT HK”) and CCT Telecom R&D Limited (“CCT R&D”), indirect wholly-owned subsidiaries of CCT Tech, by Goldbay Investments Limited (“Goldbay”), an indirect wholly-owned subsidiary of the Company, for the provision of office space in Hong Kong, at a rate determined in accordance with the terms and conditions set out in the five tenancy agreements entered into between CCT HK and Goldbay on 17 September 2004 and 19 October 2005, and between CCT R&D and Goldbay on 17 December 2004.
- (c) The management information system service fee was charged to the Company and its wholly-owned subsidiaries 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 entered into between the Company and CCT HK on 15 May 2003.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

For transactions under (a), (b) and (c), the Stock Exchange has granted conditional waivers to the Company from strict compliance with the connected transactions requirements as set out in the Listing Rules for the three financial years ending 31 December 2005. The continuing connected transactions under (a), (b) and (c) above were approved by the INEDs of the Company.

The INEDs of the Company have reviewed and confirmed that:

- (i) the consideration received/paid by the Group in respect of each of the transactions under (a), (b) and (c) above for the year ended 31 December 2005 did not exceed the higher of HK\$10 million or 3% of the net tangible asset value of the Company;
- (ii) the continuing connected transactions under (a), (b) and (c) above were conducted on normal commercial terms; and
- (iii) the continuing connected transactions under (a), (b) and (c) above were conducted in accordance with the terms of the agreements governing such transactions.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 46 to the financial statements.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions under the Code set out in Appendix 14 to the Listing Rules throughout the financial year under review, except for deviations from code provisions A.2.1, A.4.1 and A.4.2. Details information of such deviations and their respective considered reasons as well as further information of the corporate governance practices of the Company are set out in the section headed "Corporate Governance Report" in this Annual Report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float of not less than 25% of the total issued share capital of the Company as required under the Listing Rules throughout the financial year under review and up to the date of this Annual Report.

AUDITORS

The financial statements for the year ended 31 December 2005 have been audited by Ernst & Young, who retire and being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

Mak Shiu Tong, Clement

Chairman

Hong Kong

19 April 2006