FINANCIAL RESULTS

Highlights on Financial Results

HK$ million	2005	2004	% increase/ (decrease)
		(Restated)	
Turnover	**3,795**	3,847	(1.4%)
Gross Profit	**357**	336	6.3%
Operating profit	**185**	174	6.3%
Gain on disposal of business and assets to CCT Telecom	**—**	20	
Profit before finance cost and tax	**185**	194	
Finance costs, net	**(54)**	(55)	(1.8%)
Profit before tax	**131**	139	
Tax	**(18)**	(16)	
Profit after tax	**113**	123	(8.1%)

Adoption of New Accounting Standards

During the year, the Company adopted the new financial reporting standards which became effective on 1 January 2005. The effect of the adoption of these financial reporting standards are detailed in note 2 of the financial statements.

Discussion on Financial Results

Turnover of the Group for the year ended 31 December 2005 amounted to HK$3,795 million which represents a slight decrease of approximately 1.4% as compared to the year of 2004. The decrease is mainly attributable to (i) reduction of average sale prices as a result of keen market competition and (ii) delay of certain shipments due to the continuing labour shortage problem in the Pearl River Delta region of the PRC.

Despite a difficult operating environment in 2005, the Group achieved growth in both gross profit and operating profit, amounting to HK$357 million and HK$185 million respectively, representing an increase of 6.3% and 6.3% respectively from that of the previous year. The good result was attributable to the successful development and marketing of our products together with the improvement of our production efficiency and stringent cost control measures. The gain of HK$20 million represents the one-off gain made on the disposal of the power component business and the industrial property to CCT Telecom in the year 2004. There was no such gain in the year 2005. As such, the profit before finance cost and tax decreased slightly by HK$9 million to HK$185 million in 2005. .

The net finance costs represent the interest on bank borrowings in the amount of HK$8 million and interest on the convertible notes in the amount of HK$52 million less the decrease in the fair value of the 2007 convertible note in the amount of HK$6 million.

FINANCIAL RESULTS *(Continued)*

Discussion on Financial Results *(Continued)*

Interest on bank borrowings increased due to increase in bank borrowings and increase in interest rate but the amount of the interest was insignificant as the Group continued to maintain a low gearing ratio.

The interest on the convertible notes represents the interest on the 2007 convertible note and 2008 convertible note. CCT Telecom intends to fully convert both convertible notes in order to sell 13.8 billion shares in the Company to Deutsche Bank and the third party investors, subject to certain conditions including the approval by its shareholders. The interest on the convertible notes will be fully eliminated if CCT Telecom fully converts the convertible notes.

The decrease in fair value of the 2007 convertible note represents the accounting treatment on the extension of the maturity date of the convertible note from 17 May 2005 to 31 December 2007, in accordance with the new accounting standards adopted during the year.

Profit after tax for the year amounted to HK$113 million, represented a slight decrease of approximately 8.1% as compared to that of 2004, attributable mainly to one-off gain of HK$20 million in 2004 but not in 2005, as mentioned above.

Analysis by Business Segment

	Turnover (excluding other revenue)		**Operating profit before corporate and others, finance costs and tax**	
HK$ million	**2005**	2004	**2005**	2004
Telecom and electronic products	**3,789**	3,846	**185**	191

During the year under review, the Group continued to focus on the manufacturing and sales of telecom and electronic products as its principal source of revenue that accounted for 100% of the turnover and operating profit of the Group during the year under review.

During the year under review, the Group faced a number of challenges including the reduction in selling price, the rise in the cost of materials, salaries and wages, all of which placed considerable pressure on the Group's profit margin. The Group, however, was able to combat such difficulties by successful product and market diversification, improvement in efficiency and stringent cost control. The ratio of the operating profit (before corporate and others, finance costs and taxation) as a percentage of turnover in respect of the telecom and electronic product segment, therefore, was maintained at 4.9% similar to that of 2004.

FINANCIAL RESULTS *(Continued)*

Analysis by Geographical Segment

	Turnover				
	2005		2004		
HK$ million	**Amount**	**Relative %**	Amount	Relative %	% increase/ (decrease)
United States of America ("U.S.")	**2,295**	**60.6%**	2,377	61.8%	(3.4%)
Rest of the World	**1,494**	**39.4%**	1,469	38.2%	1.7%
Total	**3,789**	**100%**	3,846	100%	

The Group is one of the world's major manufacturers and suppliers of cordless telecom products. The Group's turnover was primarily derived from the export of telecom products to its worldwide customers.

The United States remained the primary market of the Group, accounting for approximately 60.6% (2004: 61.8%) of the Group's turnover for the year under review. We achieved good progress in developing markets outside the U.S. such as the PRC (including Hong Kong), the Asian Pacific regions and the European Union. Our business in these regions accounted for approximately 39.4% (2004: 38.2%) of the Group's turnover. Our reliance on our major U.S. market has gradually decreased as the sales to the emerging markets have increased.

Highlights on Financial Position and Major Balance Sheet Items

HK$ million	**2005**	2004 (Restated)	% increase/ (decrease)
Property, plant and equipment	**559**	607	(7.9%)
Investment property	**178**	—	N/A
Prepaid land lease payments	**51**	84	(39.3%)
Other non-current assets	**68**	54	25.9%
Total non-current assets	**856**	745	14.9%
Net current assets	**305**	195	56.4%
Non-current liabilities	**735**	640	14.8%
Shareholders' funds	**426**	300	42%

FINANCIAL RESULTS *(Continued)*

Discussion on Financial Position And Major Balance Sheet Items

The property, plant and equipment in the year under review represent fixed assets held for own use and were stated at cost less accumulated depreciation and impairment loss. Additional fixed assets in the amount of HK$164 million were acquired during the year to cope with the needs of production. However, the net book value of these fixed assets decreased by 7.9% due to reclassification of the investment properties in the current year but not in 2004.

The investment properties represents the factory premises leased by the Group to a subsidiary of CCT Telecom for the production of plastic components that are mainly supplied to the Group for production of telecom products. The Group has adopted the new financial reporting standard of HKAS 40 with effect from 1 January 2005, and has reclassified the factory building held for investment from the properties, plant and equipment. The factory building held for investment together with the related land lease payments has been classified as the investment property since 1 January 2005 and was stated at fair value less any impairment as at 31 December 2005. The comparative amounts for 2004 have not been restated.

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 amortised on a straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the property, plant and equipment. The comparative amount in the balance sheet as at 31 December 2004 has been restated to reflect the reclassification of the leasehold land. The reduction in the prepaid land lease payments during the year of 2005 was due to the reclassification of the prepaid land lease payments attributable to the investment properties.

The other non-current assets increased by approximately 25.9% during the year, mainly attributable to the increase in the capitalised products development costs to cope with the needs of production.

Net current assets increased by approximately 56.4%, mainly due to increase in inventories in the amount of HK$99 million as a result of the deliberate act of the Group to accumulate certain materials and components to cope with shortage.

The increase in non-current liabilities of approximately 14.8% was mainly due to increase of secured bank loans to fund the construction of additional factory building and the inclusion of the convertible notes in the principal amount of HK$45 million due to the extension of the maturity date of the convertible notes.

Shareholders' funds increased by 42% due mainly to net profit earned during the year.

FINANCIAL RESULTS *(Continued)*

Capital Structure and Gearing Ratio

	31 December 2005		31 December 2004	
HK$ million	**Amount**	**Relative %**	Amount	Relative %
Bank loans	**209**	**16%**	137	13%
Convertible notes (liability component)	**655**	**51%**	659	60%
Finance lease payable	**3**	**—**	2	—
Total borrowings	**867**	**67%**	798	73%
Equity	**426**	**33%**	300	27%
Total capital employed	**1,293**	**100%**	1,098	100%

The Group's gearing ratio, calculated on the basis of the Group's total borrowings (including bank borrowings, convertible notes and finance lease payables) over total capital employed (total shareholders' fund plus total borrowings), decreased to approximately 67% as at 31 December 2005 (31 December 2004: 73%) as a result of the increase in equity due to earnings in the year. Assuming the convertible notes had been fully converted, the gearing ratio would have been only 16% (31 December 2004: 13%).

The Group's outstanding bank borrowings amounted to approximately HK$209 million as at 31 December 2005 (31 December 2004: HK$137 million). Amongst the total outstanding bank borrowings of HK$209 million, HK$76 million is repayable within two to five years. The balance of HK$133 million was arranged on a short-term basis for ordinary business operations and is repayable within one year.

As at the balance sheet date, principal amount of the total outstanding convertible notes issued by the Company amounted to HK$660 million (31 December 2004: HK$660 million) which comprised:

(i) HK$45 million zero coupon convertible note due 2007 (originally due on 17 May 2005, which was extended to 31 December 2007 during the year) due to a wholly-owned subsidiary of CCT Telecom, with a conversion price of HK$0.01 per share; and

(ii) HK$615 million at best lending rate plus 2% per annum convertible note due 2008 due to a wholly-owned subsidiary of CCT Telecom, with a conversion price of HK$0.014 per share.

Pursuant to HKAS 32, an amount of HK$655 million (including an accrued effective interest of approximately HK$2 million) of the convertible notes was classified as the liability component and the balance of HK$7 million was classified as the equity component.

Acquisition of certain of the Group's assets was 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$3 million (31 December 2004: HK$2 million).

As at 31 December 2005, the maturity profile of the bank and other borrowings and convertible notes of the Group falling due within one year and in the second to the fifth year amounted to HK$135 million and HK$732 million, respectively (31 December 2004 as restated: HK$160 million and HK$638 million, respectively). There is no material effect of seasonality on the Group's borrowing requirements.

FINANCIAL RESULTS *(Continued)*

Liquidity and Financial Resources

HK$ million	**31 December 2005**	31 December 2004
Current assets	**1,608**	1,433
Current liabilities	**1,303**	1,238
Current ratio	**123%**	116%

Current ratio (a ratio of current assets over current liabilities) as at 31 December 2005 was approximately 123% (31 December 2004: about 116%), reflecting a healthy and strong financial position of the Group.

As at 31 December 2005, the Group's cash balance amounted to HK$490 million (31 December 2004: HK$517 million), among which HK$71 million (31 December 2004: HK$95 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$164 million, including the expenditure of approximately HK$76 million for additions of factory buildings in the PRC and approximately HK$81 million for purchase of tools, moulds, plant and machinery and furniture and office equipment of the Group.

As at 31 December 2005, there were outstanding capital commitment contracted by the Group but not yet provided for in the accounts amounted to approximately HK$7 million (31 December 2004: HK$20 million), which was mainly related to the additions to factory buildings in the PRC and all of which would be financed internally.

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 denominated in Hong Kong dollars and US dollars. Other than the convertible notes in a principal amount of HK$45 million which is interest free, the Group's borrowings were principally made on a floating rate basis.

FINANCIAL RESULTS *(Continued)*

Treasury Management *(Continued)*

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 overheads) 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 the Renminbi in future will be of concern to all manufacturers with manufacturing facilities in China and to their respective customers.

The Group does not speculate in currencies. Forward contracts were only entered, where appropriate, to hedge some of the Group's foreign currency exposure.

Acquisition and Disposal of Material Subsidiaries and Associates

The Group did not acquire or dispose of any material subsidiaries and associates during the year.

Significant Investment

The Group did not hold any significant investment as at 31 December 2005 (31 December 2004: Nil).

Pledge of Assets

As at 31 December 2005, certain of the Group's assets with net book value of HK$535 million (31 December 2004: Nil) and time deposits of approximately HK$71 million (31 December 2004: HK$95 million) were pledged to secure general banking facilities granted to the Group.

FINANCIAL RESULTS *(Continued)*

Contingent Liabilities

As at 31 December 2005, corporate guarantees of HK$499 million (31 December 2004: HK$426 million) were given by the Company to banks in connection with facilities granted to subsidiaries of the Company, of which approximately HK$304 million (31 December 2004: HK$223 million) were utilised.

As at 31 December 2005, the Group had contingent liability in respect of possible future long service payments to employees amounted to approximately HK$1 million (31 December 2004: HK$6 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 14,091 (31 December 2004: 13,170). 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. During the year, all outstanding share options were cancelled pursuant to the terms of the voluntary conditional cash offer made by CCT Telecom. Accordingly, there were no outstanding share options (31 December 2004: 1,083 million) issued by the Company as at 31 December 2005.