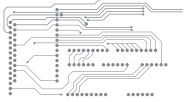


CCT



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. 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 124.

The Directors do not recommend payment of any dividend for the year (2004: 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 restated/reclassified as appropriate, is set out on page 126. 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 Group during the year are set out in notes 14 and 15 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTES

There were no movements in either the Company's authorised or issued share capital during the year. Details of movements in the Company's share capital, share options and convertible notes during the year are set out in notes 30, 31 and 28 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 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 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2005, 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 did not make any charitable contributions (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 | 47% | 47% | | |
| Five largest customers in aggregate | 74% | 80% | | |
| Largest supplier | | | 10% | 9% |
| Five largest suppliers in aggregate | | | 32% | 31% |

CCT Telecom, a substantial shareholder of the Company, had beneficial interests in two 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 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

Tong Chi Hoi

William Donald Putt

Independent non-executive Directors:

Chow Siu Ngor

Lau Ho Kit, Ivan

Chen Li

In accordance with the bye-laws of the Company, Messrs. Tong Chi Hoi and Chow Siu Ngor 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

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 (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. The Company became a holding company of CCT Technology Holdings Limited by way of a scheme of arrangement (the "Scheme of Arrangement") under section 99 of the Companies Act 1981 of Bermuda (as amended) (as detailed in the circular of the Company dated 20 September 2002). The Scheme of Arrangement took effect on 4 November 2002. The Share Option Scheme became effective on 7 November 2002 upon the listing of the shares of the Company on the Stock Exchange. 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 by the then sole shareholder. 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 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, 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 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 and the shareholders of CCT Telecom, the holding company of the Company, on 27 May 2004. As at the date of this Annual Report, the total number of the shares available for issue in respect thereof is 1,344,882,612, which represents approximately 8.44% 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 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 OPTION SCHEME *(Continued)*

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 (and if required, the approval of the INEDs of the holding company), excluding the INED(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 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 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 (Continued)

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 | 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) HK\$ |
|--|----------------------------------|-------------------------|---------------------------|-----------------------------------|------------------------------------|------------------------------------|--------------------------------------|--------------------------------------|
| | Outstanding as at 1 January 2005 | 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 a 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 jointly issued by the Company and CCT Telecom, Jade Assets Company Limited ("Jade Assets"), a wholly-owned subsidiary of CCT Telecom, as the offeror, made the voluntary conditional cash offers to acquire all the then issued shares from the then independent shareholders of the Company and to acquire the then convertible note due 2005 of the Company and to cancel all the then outstanding share options of the Company (the "General Offers"). All optionholders had accepted the General Offers in respect of their entire holding of the share options at the consideration of HK\$0.009 per share option. The General Offers had become unconditional in all respects as to acceptances on 21 April 2005 and all the then outstanding 1,082,781,000 share options under the Share Option Scheme had been cancelled in accordance with the terms of the General 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 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 Company as at 31 December 2005

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

(b) Interests and short positions in the shares and the underlying shares of the convertible bonds of an associated corporation — CCT Telecom as at 31 December 2005

(i) *Long positions in the shares of CCT Telecom:*

| 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 |
| Tong Chi Hoi | | 300,000 | — | — | 300,000 | 0.05 |
| William Donald Putt | | 591,500 | — | — | 591,500 | 0.09 |

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.
- (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.

DIRECTORS' INTERESTS *(Continued)*

(b) Interests and short positions in the shares and the underlying shares of the convertible bonds of an associated corporation — CCT Telecom as at 31 December 2005 *(Continued)*

(ii) *Long positions in the underlying shares of the 2010 convertible bonds of CCT Telecom:*

| 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 CCT Telecom 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 CCT Telecom at the conversion price of HK\$0.604 per share (subject to adjustments according to the terms of the convertible bonds).

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 holding company, 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 (other than the Directors or the chief executive of the Company) 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 as 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 | Notes | Number of the shares held | Approximate percentage of the total issued share capital (%) |
|--------------------------------------|-------|------------------------------|---|
| CCT Telecom | (a) | 13,407,179,696 | 84.12 |
| CCT Technology Investment Limited | (b) | 13,407,179,696 | 84.12 |
| Jade Assets | | 9,707,179,696 | 60.91 |
| 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 | 6.27 |

Notes:

- (a) The interest disclosed represents 13,407,179,696 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 represents 9,707,179,696 shares held by Jade Assets, 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 the companies are wholly-owned subsidiaries of CCT Technology Investment Limited.

SUBSTANTIAL SHAREHOLDERS' INTERESTS (Continued)

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

| Name of the holder of convertible notes | Notes | Description of the convertible notes | Number of the total underlying shares | Approximate percentage of the total issued share capital (%) |
|---|-------|--------------------------------------|---------------------------------------|--|
| CCT Telecom | (a) | The 2008 CN* | 43,928,571,428 | 275.61 |
| | | The 2007 CN [#] | 4,500,000,000 | 28.23 |
| CCT Technology Investment Limited | (b) | The 2008 CN* | 43,928,571,428 | 275.61 |
| | | The 2007 CN [#] | 4,500,000,000 | 28.23 |
| Noble Team Investments Limited | | The 2008 CN* | 43,928,571,428 | 275.61 |
| Jade Assets | | The 2007 CN [#] | 4,500,000,000 | 28.23 |

Notes:

(a) The interest disclosed represents the convertible notes, convertible into a total of 48,428,571,428 underlying 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 represents the convertible note due 2008, convertible into 43,928,571,428 underlying shares, held by Noble Team Investments Limited, and the convertible note due 2007, convertible into 4,500,000,000 underlying shares, held by Jade Assets. Both companies are wholly-owned subsidiaries of CCT Technology Investment Limited.

* The 2008 CN: The convertible note with an outstanding principal amount of HK\$615,000,000 as at 31 December 2005, was issued by the Company to Noble Team Investments Limited on 30 June 2003. The convertible note, due on 30 June 2008, with interest payable at prime or best lending rate plus 2% per annum, is convertible into the shares of the Company at the conversion price of HK\$0.014 per share (subject to adjustments according to its terms). The convertible note was transferred by Noble Team Investments Limited to Jade Assets on 16 February 2006.

[#] The 2007 CN: The zero coupon convertible note with an outstanding principal amount of HK\$45,000,000 as at 31 December 2005, was transferred to Jade Assets on 25 April 2005 pursuant to the General Offers. The convertible note, due on 31 December 2007, is interest free and convertible into the shares of the Company at the conversion price of HK\$0.01 per share (subject to adjustments according to its terms). The original due date of the 2007 CN was 17 May 2005 and was extended to 31 December 2007 on 9 May 2005.

Save as disclosed above, as at 31 December 2005, there was no other persons (other than the Directors or the chief executive of the Company) 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 as recorded in the register required to be kept by the Company under section 336 of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

- (1) During the two years ended 31 December 2005, the Company and certain of its indirect wholly-owned subsidiaries had the following material transactions with CCT Telecom (the Company's ultimate holding company) and certain of its subsidiaries, other than the Group.

| HK\$ million | Year ended 31 December | |
|---|------------------------|------|
| | 2005 | 2004 |
| Fellow subsidiaries: | | |
| Purchase of plastic casings and components | (i) 315 | 313 |
| Purchase of materials | (ii) — | 13 |
| Purchase of power supply components | (iii) 157 | 47 |
| Factory rental income | (iv) 6 | 6 |
| Factory rental expenses | (v) 6 | 2 |
| Office rental expenses | (vi) 3 | 3 |
| Outsourcing of non-electronic baby products | (vii) 32 | — |
| Ultimate holding company: | | |
| Management information system service fee | (viii) 4 | 3 |

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"), a 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. CCT HK and Neptune agreed to early terminate the First Manufacturing Agreement on 4 May 2004 and at the same time, the Company and CCT Telecom entered into a new manufacturing agreement (the "Second Manufacturing Agreement") pursuant to which CCT Telecom agree to manufacture through the CCT Telecom Remaining Group (CCT Telecom and its subsidiaries excluding the Group) certain plastic casings and components and toolings for telecom products and other products for the Group. The Second Manufacturing Agreement became effective on 15 June 2004.
- The purchase prices 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") from Neptune for the period up to 12 September 2004 when ESL ceased to be a subsidiary of the Company and became a subsidiary of CCT Telecom. 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. The Third Manufacturing Agreement was terminated on 4 May 2004 and was replaced by the Second Manufacturing Agreement.
- (iii) The power supply components were purchased by the Group from CCT Telecom Remaining Group and the purchase price was determined based on the direct material costs of the products plus a mark-up of up to 100% of such direct material costs pursuant to a power supply components manufacturing agreement ("PSC Manufacturing Agreement") entered into between the Company and CCT Telecom on 2 June 2004.
- (iv) 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.
- (v) The factory rental expenses were charged to the Group by CCT Telecom Remaining Group, for the provision of factory spaces in Dongguan, the PRC, at rates determined in accordance with the terms and conditions set out in tenancy agreements ("Dongguan Tenancy Agreement") entered into between the Group and CCT Telecom on 13 September 2004.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Notes: *(Continued)*

- (vi) The office rental expenses were charged to CCT HK and CCT Telecom R&D Limited ("CCT R&D"), both being 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 space in Hong Kong, at a rates determined in accordance with the terms and conditions set out in the five tenancy agreements (the "Hong Kong Tenancy Agreement") 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.
- (vii) The non-electronic baby products and related components were outsourced by the Group to the CCT Telecom Remaining Group. The purchase price was determined based on direct material costs plus a mark-up of no more than 300% of such material costs in accordance with the terms and conditions set out in an outsourcing agreement (the "Outsourcing Agreement") entered into between the Company and CCT Telecom on 29 November 2004 which became effective from 1 January 2005.
- (viii) 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, the Second Manufacturing Agreement and the Third Manufacturing Agreement are referred to as the "First Manufacturing Transactions", the "Second Manufacturing Transactions" and the "Third Manufacturing Transactions" respectively (the First Manufacturing Transactions, the Second Manufacturing Transactions and the Third Manufacturing Transactions are collectively referred to as "Manufacturing Transactions"). The transactions contemplated under the PSC Manufacturing Agreement are referred to as the "PSC Manufacturing Transactions". The transactions contemplated under the Outsourcing Agreement are referred to as the "Outsourcing Transactions". The transactions contemplated under the Huiyang Tenancy Agreement, the Hong Kong Tenancy Agreements and the MIS Agreement are collectively referred to as the "Administrative Transactions". The transactions contemplated under the Dongguan Tenancy Agreement is referred to as the "Dongguan Rental Transactions"

The INEDs of the Company have reviewed and confirmed that:

- (a) the aggregate value under the Second Manufacturing Transactions for the year ended 31 December 2005 as indicated in note (i) above did not exceed the cap amount, which is HK\$450 million;
- (b) the aggregate value under the PSC Manufacturing Transactions for the year ended 31 December 2005 as indicated in note (iii) above did not exceed the cap amount of HK\$220 million;
- (c) the consideration received/paid by the Group under each of the Administrative 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;
- (d) the aggregate value of the Dongguan Rental Transaction for the year ended 31 December 2005 as indicated in note (v) above did not exceed the cap amount of HK\$7,200,000;
- (e) the aggregate value of the Outsourcing Transactions for the year ended 31 December 2005 as indicated in note (vii) above did not exceed the cap amount of HK\$250 million;

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

- (f) the Manufacturing Transaction and PSC Manufacturing Transactions, Outsourcing Transactions, Administrative Transactions and Dongguan Rental Transactions were entered into in the usual and ordinary course of businesses of the Group;
 - (g) the Manufacturing Transactions, PSC Manufacturing Transactions, Outsourcing Transactions, Administrative Transactions and Dongguan Rental Transactions were conducted on normal commercial terms; and
 - (h) the Manufacturing Transactions, PSC Manufacturing Transactions, Outsourcing Transactions, Administrative Transactions and Dongguan Rental Transactions were conducted in accordance with the terms of the agreements governing such transactions.
- (2) ESL and CCT Investment Limited (“CCT Investment”) were 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 (the “Disposal”).

Before the completion of the Disposal on 13 September 2004, ESL and CCT Investment 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 |
|-------------------------|-------|---|
| Factory rental expenses | (i) | 4 |
| Rental expenses | (ii) | 1 |

Notes:

- (i) The factory rental expenses were charged to CCT Investment, 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.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

The INEDs of the Company have reviewed and confirmed that:

- (a) the aggregate value of the rental expenses as indicated in note (i) and note (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 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.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 41 to the financial statements.

COMPLIANCE WITH 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

On 25 October 2005, CCT Telecom requested the Board to put forward a proposal to the shareholders of the Company regarding a proposed privatisation of the Company. The scheme of arrangement in relation to the proposed privatisation of the Company by CCT Telecom was disapproved at the court meeting of the Company held on 13 February 2006. Accordingly, the proposed privatisation was not proceeded and the shares of the Company remain listed on the Stock Exchange.

As at the date of this Annual Report, the CCT Telecom group held 13,407,179,696 shares of the Company, representing approximately 84.12% of the total issued share capital of the Company. The CCT Telecom group also held the 2007 CN and the 2008 CN, the conversion of which would result in the issue of 4,500,000,000 new shares of the Company and 43,928,571,428 new shares of the Company respectively. The public float of the Company is only 15.88%, which is below the requirement under Rule 8.08 of the Listing Rules. CCT Telecom and the Company have applied, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.08 of the Listing Rules up to 19 May 2006.

SUFFICIENCY OF PUBLIC FLOAT *(Continued)*

As jointly announced by the Company and CCT Telecom on 21 March 2006, CCT Telecom and Deutsche Bank entered into the sale and purchase agreement and the put agreement on 17 March 2006 in order to restore the public float of the shares of the Company from 15.88% to 25.38%. The sale of 13,800,000,000 shares of the Company upon full conversion of the 2007 CN and the 2008 CN and the transactions contemplated under the aforesaid agreements are subject to certain conditions, inter alia, the approval by the shareholders of CCT Telecom at the special general meeting of CCT Telecom to be held on 27 April 2006.

CCT Telecom, the Company and their respective directors will use their reasonable endeavours to restore the public float of the Company by placing or sale of the shares of the Company to ensure sufficient public float exists in the shares of the Company as soon as practicable.

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