

r e v i e w o f o p e r a t i o n s

During the year under review, the Group was engaged in the following principal activities: (i) manufacture and sale of telecom and electronic products; (ii) manufacture and sale of plastic and electronic components; (iii) manufacture and sale of baby products; (iv) provision of e-commerce services; (v) investment in securities; and (vi) property investment and development.

TELECOM AND ELECTRONIC PRODUCTS BUSINESS

The manufacture and sale of telecom and electronic products is carried out by our listed subsidiary, CCT Tech and its subsidiaries. In 2006, the business reported turnover of HK\$3,882 million, up marginally by 0.9% from 2005 and representing 92.5% of the Group's total turnover. The sales performance of the business would have been better if not for the shortage of workers in our Guangdong factories.

Our key market in the US reported a decline in turnover due to the slow down of the US economy and the shortage of workers in our factories which caused delay in shipments of certain orders. However, considerable progress has been achieved in the growth of sales to markets outside the US. The performance in Europe and the Asia Pacific region was encouraging, reporting double digit growth in turnover in 2006. Our market diversification strategy has proven to be successful. We continued to gain new customers and have broadened our customer base to include many of the global leading distributors and renown brands.

In 2006, our key products of 2.4GHz and 5.8GHz cordless phones and DECT cordless phones continued to sell well. The trend of global standardization of communication protocol has provided us with significant business opportunities. The DECT standard as adopted by most European countries for the past two decades appears to have become the universal standard for indoor communications. This development is particularly beneficial to us as we are strong in DECT technology. In 2006, shortly after the approval of the DECT standard by the US Federal Communications Commission, we were the world's first manufacturer to launch DECT 6.0 cordless phone in the US market, giving us a decisive lead over our competitors. The products have been well received by our US customers and consumers. Up to now, we have already sold approximately 1 million DECT 6.0 cordless phones in the US market. We believe that DECT 6.0 cordless phones will become the mainstay product in the US market.





Technology continues to be our core strength. We have committed to R&D development and have built up strong R&D teams in Hong Kong, Shenzhen and Singapore. This network allows us to keep abreast of the latest technology and enable us to launch many new products with premium quality each year to meet customers' needs and expectations. During the year under review, our R&D teams developed many advance products including VoIP cordless phones, cordless phones with Skype feature, WiFi cordless phones and broadband cordless phones which we intend to launch in various markets in 2007. We believe these new products will generate significant revenue for years to come as the demand for broadband and internet cordless phones is high. So far, we have focused on the residential communication market. We intend to penetrate into the commercial communication market. We have already developed SOHO products, multi-line cordless phones and cordless conference boxes during 2006 in preparation of their launch in 2007. We believe our product diversification and our inroads into the commercial market will provide us with a new platform for future growth and increased profitability.

In 2006, we continued to face the same operating challenges that we encountered in 2005. Market competition remained keen and drove the average selling prices of certain product models down. High oil prices and the buoyant economy in China and the emerging markets pushed up the prices of plastic raw materials and copper, which are some of the key materials for production of our cordless products. Furthermore, the shortage of labor and electricity in the Pearl River Region continued to affect our factories in the Guangdong Province and the costs of labor wages and overheads increased substantially. These issues exerted considerable pressure on the production costs and profit margin of the Group. We have already taken initiatives to improve efficiency, enhance automation and control costs and these measures have partly mitigated the impact of the aforementioned adverse factors. Nevertheless, the operating profit of our manufacturing business suffered and recorded a drop of 42.3% in 2006.



In order to reduce production costs and resolve the issues of labor and power shortage in our Guangdong factories on a long term basis, in 2006, we made an important move to establish a new plant in the Chaoyang City, Liaoning Province, in north-eastern China. The new plant in Chaoyang will enable us to tap into the abundant supply of low-cost labor in the region. The project is fully supported by the municipal and provincial governments and will offer us preferential treatments in terms of costs and fees which are not available in the Guangdong Province. The construction of the first phase of the new plant will be completed in the first half of 2007 and mass production will commence in the second half of 2007. We plan to hire about 5,000 workers for the first phase operations of the new plant and the number of workers to be hired in the Chaoyang plant is expected to increase to over 10,000 and more when the second phase of the new plant is opened in 2008. We believe that the new factory will deliver significant costs savings to the Group and will further strengthen the competitiveness and improve the profitability of the Group.



MANUFACTURING OF PLASTIC AND ELECTRONICS COMPONENTS

To provide vertical support for CCT Tech's telecom product manufacturing business, the subsidiaries of CCT Telecom have been engaged in the manufacture of plastic and electronic components, including plastic casings, power supply and transformers mainly for use internally by the CCT Tech Group for the production of its telecom and electronic products. The production of plastic and electronic components provides the CCT Tech Group with a stable supply of high quality plastic casings and electronic components at competitive prices. A small part of the components products were sold to independent third parties. During 2006, the production costs of the plastic and electronic components substantially increased due to high raw materials costs and rising costs of labor and overheads. Considerable efforts have been devoted by management to improve efficiency, enhance automation and control costs. Looking forward, we are beginning to see the costs of plastic and components raw materials stabilizing. The production costs of the components manufacturing business are expected to gradually fall after the new Chaoyang plant is opened for operations.

BABY PRODUCT BUSINESS

In 2006, the baby product business reported an operating profit of HK\$8 million, despite keen market competition and high materials prices. The Group intends to grow the business and will continue its efforts in developing new products, exploring new markets and expanding its customer base.

PROVISION OF E-COMMERCE SERVICES

In April 2006, we increased our shareholding interest in Tradeeasy, a company listed on the GEM of the Stock Exchange, from 22.18% to 66.26%. As a result, Tradeeasy has become a subsidiary of the Company. Tradeeasy is engaged in the provision of e-commerce services. During the period from April 2006 to December 2006, the provision of e-commerce services business contributed a turnover of HK\$34 million to the Group. We believe the e-commerce business has great potential in China and Tradeeasy has directed more resources to expand its business in China. We are optimistic about the business of Tradeeasy which will generate additional revenue to the Group in the future.

INVESTMENT IN SECURITIES

In 2006, the performance of the securities business was outstanding. In January 2006, we disposed of all our remaining holdings of 3,926,774,819 ordinary shares in Haier Electronics. As a result, we received net proceeds from the disposal amounting to HK\$551 million and recorded a realized gain of HK\$316 million in the first half of 2006. In the second half of 2006, capturing the benefit of the blooming Hong Kong Stock Market, we actively engaged in the trading of shares listed on the Stock Exchange (including H-shares and Hang Seng Index constituent stocks). We have also placed funds in the high yield deposits linked with shares listed on the Stock Exchange. The objective of the securities investment is to derive gains from those investments as a proxy hedge against rise in oil price and appreciation of Renminbi. During the year 2006, the securities business performed well as we took advantages of the buoyant stock market and derived gains and interest income in the amount of HK\$48 million.

PROPERTY INVESTMENT AND DEVELOPMENT

We are optimistic about the property markets in Hong Kong and China. The property market in Hong Kong has further recovered and the price of luxury properties continue to set new records. The rapid growth of the Chinese economy and the rise of Chinese residents' income and consumption power have resulted in an increasing demand for housing and commercial properties. The property market in China looks promising and we believe that the market offers huge business opportunities.

The property markets within the region have undergone incredible growth over the past few years. To capture the many business opportunities arising from such growth, the Group established a new business division in 2006 — the Property Investment and Development Group — that is solely dedicated to exploring and seeking business opportunities in this area. This new business division has so far actively pursued property projects located within Hong Kong and Mainland China especially in cities where we already have industrial investments. These efforts have resulted in the acquisition of two prime luxury residential properties in Hong Kong during 2006 and the exploration of various property projects in Mainland China especially in the provinces where we have industrial investment. Given our wealth of knowledge and experience in doing business in China and Hong Kong, we are in an ideal position to explore and develop both residential and commercial property projects whether for sale or for lease. We believe that this new business division has great potential and will generate business growth and attractive returns for the Group in the near future.