

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

The year of 2006 has been a year of opportunity and challenges for the Group.

In 2006, we managed to maintain our leading position in the production of cordless phones and advance hi-tech electronic products on an ODM and contract manufacturing basis. We are the world's largest ODM manufacturer of cordless phones in terms of volume. Our market diversification strategy has proven to be successful. We continue to gain new customers and have broadened our customer base to include many of the global leading distributors and renown brands.

During the year under review, the Group's turnover set a new record of HK\$3,858 million. Affected by the slow down of the US market and the shortage of workers in our Guangdong factories, sales to the US market dropped by 11% to HK\$2,040 million, yet still contributing 53% of the Group's total revenue. However, the strong demand of our telecom products in Europe and the Asia Pacific region has brought about significant growth of revenue from these markets which has more than offset the decline in sales in the US market, resulting in an overall increase in the Group's revenue by 1.7%.

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. 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 phones in the US market, thereby, giving us a decisive lead over our competitors. These new 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 to date. 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 enables 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, WiFi cordless phones, cordless phones with Skype feature 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 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 30.8% 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 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 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.









CCT Technology Park, our principal manufacturing base in Huiyang, Guangdong Province, the PRC







Our factory complex in Dongguan, Guangdong Province, the PRC







Our Group's new plant under construction in Chaoyang, Liaoning Province, the PRC

