financial review

HIGHLIGHTS ON FINANCIAL RESULTS

HK$ million	2006	2005	% Increase/ (decrease)
Turnover	3,858	3,795	1.7%
Profit before finance costs and tax	149	185	(19.5%)
Finance costs, net	(33)	(54)	(38.9%)
Profit before tax	116	131	(11.5%)
Tax	(16)	(18)	(11.1%)
Profit attributable to shareholders of the Company	100	113	(11.5%)

DISCUSSION ON FINANCIAL RESULTS

Turnover of the Group for the year ended 31 December 2006 rose 1.7% to HK$3,858 million. The growth was contributed from our excellent performance in Europe and the emerging markets during the year.

Profit before finance cost and tax decreased by 19.5% from HK$185 million to HK$149 million. The decrease was attributable to the reduction of average selling prices of certain product models and the substantial increase in the operating costs due to the rising costs of certain materials and components and salaries and wages and overheads.

Decrease in finance costs was attributable to the reduction of our finance cost on the convertible notes due by the Company to CCT Telecom, which were fully converted into shares during the first half of the year.

Profit attributable to shareholders of the Company for the year amounted to HK$100 million, representing a decrease of approximately 11.5% as compared to that of 2005, attributable mainly to the decrease in operating profit, partly offset by the decrease in finance cost as mentioned above.

ANALYSIS BY BUSINESS SEGMENT

	Revenue (excluding other revenue)		Operating profit before corporate and others, finance costs and tax	
HK$ million	2006	2005	2006	2005
Telecom and electronic products	3,858	3,795	128	185

During the year under review, the Group continued to focus on the manufacturing and sale of telecom and hi-tech electronic products as its core business which accounted for 100% of the turnover of the Group.

ANALYSIS BY BUSINESS SEGMENT *(Continued)*

During the year under review, the Group faced various adverse factors including: (i) the reduction in average selling price of certain products due to market competition; (ii) the increase in the cost of certain materials and components; (iii) the rising costs of salaries and wages due to shortage of labor in our PRC factories; and (iv) the appreciation of the Renminbi. The operating profits of the telecom product business decreased by 30.8% from HK$185 million in the financial year of 2005 to HK$128 million in the financial year of 2006.

ANALYSIS BY GEOGRAPHICAL SEGMENT

	Turnover				
	2006		2005		
HK$ million	**Amount**	**Relative %**	Amount	Relative %	% change
US	**2,040**	**53%**	2,295	60%	(11%)
Asia Pacific Region	**1,197**	**31%**	1,044	28%	15%
Europe	**621**	**16%**	456	12%	36%
Total	**3,858**	**100%**	3,795	100%	

Our sales to the US market decreased by 11% to HK$2,040 million, affected by the slow down of the US economy and the shortage of workers in our factories. The reliance on the US market for generating revenue has gradually been reduced and now contributes approximately 53% (as opposed to 60% in 2005) of the Group's turnover for the year under review. The performance of our business in the Asia Pacific regions and Europe was remarkable. Sales to markets in the Asia Pacific region and Europe accounted for approximately 31% (2005: 28%) and approximately 16% (2005: 12%) respectively, representing increases of 15% and 36% respectively from 2005.

HIGHLIGHTS ON FINANCIAL POSITION

HK$ million	**2006**	2005	% increase/ (decrease)
Non-current assets	**844**	856	(1.4%)
Inventories	**191**	267	(28.5%)
Trade and bill receivables	**822**	805	2.1%
Cash and cash equivalents	**470**	419	12.2%
Non-current liabilities	**33**	735	(95.5%)
Shareholders' funds	**1,182**	426	177.5%

DISCUSSION ON FINANCIAL POSITION

The decrease in non-current assets by approximately 1.4% was attributable mainly to the additions of machinery, toolings, moulds and the capitalization of deferred development costs during the year offset by the annual depreciation of fixed assets and amortisation of the deferred development costs.

Inventories decreased significantly by 28.5% mainly due to improved inventory management. Trade and bill receivables increased in line with the increase in sales. Increase in cash and cash equivalents was mainly attributable to cash generated from operations.

Non-current liabilities decreased by approximately 95.5% to HK$33 million. The significant decrease was mainly due to the full conversion of all the convertible notes by CCT Telecom during the year.

Shareholders' funds increased from HK$426 million to HK$1,182 million as at 31 December 2006 as a result of full conversion of all convertible notes due by the Company to CCT Telecom into shares of the Company and the carried forward of the net profits earned by the Group for the year.

CAPITAL STRUCTURE AND GEARING RATIO

	31 December 2006		31 December 2005	
HK$ million	Amount	Relative %	Amount	Relative %
Bank loans	200	15%	209	16%
Convertible notes	—	—	655	51%
Finance lease payables	1	—	3	—
Total borrowings	201	15%	867	67%
Equity	1,182	85%	426	33%
Total capital employed	1,383	100%	1,293	100%

The Group's gearing ratio substantially improved from 67% in 2005 to 15% as at 31 December 2006 as a result of the increase in shareholders' equity due to the full conversion of all the convertible notes and the carried forward of the net profit during the year. After taking into account the cash on hand, the Group did not have any net borrowings and in fact had a positive net cash balance.

The Group's outstanding bank borrowings amounted to approximately HK$200 million as at 31 December 2006 (31 December 2005: HK$209 million). Among the total outstanding bank borrowings of HK$200 million, HK$29 million is repayable within the second year. The balance of HK$171 million was arranged on a short-term basis for ordinary business operations and is repayable within one year.

Following the full conversion of all the outstanding convertible notes of the Company by CCT Telecom in May 2006, there are no more convertible notes outstanding as at 31 December, 2006.

Acquisition of certain of the Group's assets were financed by way of finance leases and the total outstanding finance lease payables for the Group as at 31 December 2006 amounted to approximately HK$1 million (31 December 2005: HK$3 million).

CAPITAL STRUCTURE AND GEARING RATIO *(Continued)*

As at 31 December 2006, the maturity profile of the bank and other borrowings of the Group falling due within one year and in the second year amounted to HK$172 million and HK$29 million, respectively (31 December 2005: HK$135 million (within one year) and HK$732 million (within two to five years)). There is no material effect of seasonality on the Group's borrowing requirements.

LIQUIDITY AND FINANCIAL RESOURCES

HK$ million	31 December 2006	31 December 2005
Current assets	1,591	1,608
Current liabilities	1,220	1,303
Current ratio	130%	123%

Current ratio as at 31 December 2006 maintained at a healthy level of 130% (31 December 2005: 123%). As at 31 December 2006, the Group's cash balance increased to HK$553 million (31 December 2005: HK$490 million), of which HK$83 million (31 December 2005: HK$71 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 strong cash flow 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 EXPENDITURES AND COMMITMENTS

During the year, the Group incurred capital expenditure amounting to approximately HK$91 million, including the expenditure of approximately HK$19 million for expansion of production facilities in the PRC and approximately HK$72 million for purchase of tools, moulds, plant and machinery and furniture and office equipment of the Group.

As at 31 December 2006, there were outstanding capital commitment contracted by the Group but not yet provided for in the accounts amounted to approximately HK$33 million (31 December 2005: HK$7 million), which was mainly related to the capital expenditure in relation to the new factory in the Liaoning Province and the additions for machinery and toolings for the Group's existing production facilities in the PRC. The capital commitment will be funded by internal resources.

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. The Group's borrowings were principally made on a floating rate basis.

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 overhead) 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. In addition, 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. The Company also entered into non-deliverable forward contracts with CCT Telecom for the six months ended 31 December 2006, which have partially hedged the Group's exposure to Renminbi appreciation during the second half of year 2006. The Group does not speculate in currencies and forward contracts were only entered, where appropriate, to hedge some of the Group's foreign currency exposure.

Our future production costs will no doubt be increased by the possible further appreciation of Renminbi. 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 will continue to explore ways and methods to hedge future appreciation of Renminbi and will only consider to enter into any forward contracts at appropriate costs and pricing.

ACQUISITIONS AND DISPOSALS 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 2006 (31 December 2005: Nil).

PLEDGE OF ASSETS

As at 31 December 2006, certain of the Group's assets with net book value of HK$516 million (31 December 2005: HK$535 million) and time deposits of approximately HK$83 million (31 December 2005: HK$71 million) were pledged to secure general banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 2006, corporate guarantees of HK$754 million (31 December 2005: HK$499 million) were given by the Company to banks in connection with facilities granted to subsidiaries of the Company, of which approximately HK$327 million (31 December 2005: HK$304 million) were utilised.

As at 31 December 2006, the Group had contingent liability in respect of possible future long service payments to employees amounted to approximately HK$0.3 million (31 December 2005: HK$1.0 million). Save as aforesaid, the Group did not have any other significant contingent liabilities as at 31 December 2006.

EMPLOYEES AND REMUNERATION POLICY

The total number of employees of the Group as at 31 December 2006 was 14,380 (31 December 2005: 14,091). 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, there were no outstanding share options (31 December 2005: Nil) issued by the Company as at 31 December 2006.