

r e p o r t o f t h e d i r e c t o r s

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

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 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 51 to 109.

The directors do not recommend payment of any dividend for the year (2005: 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 110. 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 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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed Shares 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 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda, amounted to HK\$7 million.

CHARITABLE CONTRIBUTIONS

During the year, the Group did not made any charitable contributions (2005: Nil).

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	
	2006	2005	2006	2005
Largest customer	46%	47%		
Five largest customers in aggregate	78%	74%		
Largest supplier			8%	10%
Five largest suppliers in aggregate			27%	32%

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

Cheng Yuk Ching, Flora

Tam Ngai Hung, Terry

William Donald Putt

Li Man To, Feynman (Appointed on 1 June 2006)

Tong Chi Hoi (Resigned on 11 November 2006)

Independent non-executive Directors:

Chow Siu Ngor

Lau Ho Kit, Ivan

Chen Li

In accordance with the bye-laws of the Company, Messrs. William Donald Putt, Lau Ho Kit, Ivan and Li Man To, Feynman will retire and, being eligible, offer themselves for re-election at the forthcoming AGM of the Company.

The INEDs of the Company are not appointed for any specific terms. According to the bye-laws of the Company, all Directors (except for the Chairman) are subject to retirement by rotation and re-election at the AGM of the Company.

The Company has received from each of the INEDs of the Company 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 18 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

The current Share Option Scheme was effective on 7 November 2002. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period of 10 years from the date of its adoption. As at 31 December 2006, there were no share options outstanding under the Share Option Scheme. No share options has been granted, exercised, lapsed and cancelled 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 operation 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 the 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 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 and the shareholders of CCT Telecom, the ultimate holding company of the Company, on 27 May 2004. As at the date of this Annual Report, the total number of Shares available for issue in respect thereof is 1,344,882,612, which represents approximately 2.09% 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 in issue as at the date of grant. Any further grant of the 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 (and if required, the approval of the shareholders of the holding company) at a general meeting.

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 of the Company (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 in issue as at the date of grant or with an aggregate value (based on the closing price of the Shares 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 (and if required, the approval of the shareholders of the holding company) in advance at a general meeting.

SHARE OPTION SCHEME (Continued)

The offer of a grant of the share options may be accepted within 28 days from the date of 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 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 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.

DIRECTORS' INTERESTS

As at 31 December 2006, 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/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:

(a) **Interests and short positions in the Shares and the underlying Shares as at 31 December 2006**

None of the Directors had any interest and short position in respect of the shares, debentures, convertible bonds, equity derivatives or interests in the underlying shares of the Company as at 31 December 2006.

(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 2006**

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

Name of the Director	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	715,652	—	221,040,977	221,756,629	28.44
Cheng Yuk Ching, Flora (Note)	14,076,713	120,000	—	14,196,713	1.82
Tam Ngai Hung, Terry	500,000	—	—	500,000	0.06
William Donald Putt	591,500	—	—	591,500	0.08

Note: Included in the shareholdings in which Ms. Cheng Yuk Ching, Flora was interested, 120,000 shares of CCT Telecom were held by the spouse of Ms. Cheng Yuk Ching, Flora who is 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 2006 (Continued)

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

Name of the Director	Description of equity derivatives	Notes	Number of the total underlying shares	Approximate percentage of the total issued share capital (%)
Mak Shiu Tong, Clement	2010 convertible bonds	(1)	47,185,430	6.05
	2009 convertible bonds	(2)	26,548,672	3.40

Notes:

- (1) The convertible bonds with an outstanding principal amount of HK\$28,500,000 as at 31 December 2006, were issued by CCT Telecom to New Capital Industrial Limited (a company controlled by Mr. Mak Shiu Tong, Clement) on 25 April 2005. The convertible bonds, due on 25 April 2010, are interest free and convertible into the shares of CCT Telecom at the conversion price of HK\$0.604 per share of CCT Telecom (subject to adjustments according to the terms of the convertible bonds).
- (2) The convertible bonds with an outstanding principal amount of HK\$30,000,000 as at 31 December 2006, were issued by CCT Telecom to Capital Winner Investments Limited (a company controlled by Mr. Mak Shiu Tong, Clement) on 23 June 2006. The convertible bonds, due on 23 June 2009, are interest free and convertible into the shares of CCT Telecom at the conversion price of HK\$1.13 per share of CCT Telecom (subject to adjustments according to the terms of the convertible bonds).

DIRECTORS' INTERESTS (Continued)**(c) Interests and short positions in the shares and the underlying shares of the share options of an associated corporation — Tradeeasy as at 31 December 2006**

Long positions in the underlying shares of the share options of Tradeeasy:

Name of the Director	Date of grant of the share options	Exercise period of the share options	Exercise price per share HK\$	Number of the share options outstanding	Number of the total underlying shares	Approximate percentage of the total issued share capital (%)
Mak Shiu Tong, Clement	14/8/2006	14/8/2006 – 13/8/2011	0.038	45,000,000	45,000,000	4.63
Cheng Yuk Ching, Flora	14/8/2006	14/8/2006 – 13/8/2011	0.038	5,000,000	5,000,000	0.51
Tam Ngai Hung, Terry	14/8/2006	14/8/2006 – 13/8/2011	0.038	28,000,000	28,000,000	2.88
William Donald Putt	14/8/2006	14/8/2006 – 13/8/2011	0.038	5,000,000	5,000,000	0.51

Save as disclosed above, as at 31 December 2006, 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 and/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 section headed "Directors' Interests" above, at no time during the year was the Company, or any of its holding company, subsidiaries or associated corporations, 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 the shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2006, the following persons (other than the Directors or the chief executive of the Company) had interests or short positions in the Shares or underlying Shares 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 recorded in the register required to be kept by the Company under section 336 of the SFO:

(i) Long positions in the Shares as at 31 December 2006:

Name of the Shareholder	Notes	Number of the Shares held	Approximate percentage of the total issued share capital (%)
CCT Telecom	(1)	48,035,751,124	74.63
CCT Technology Investment Limited	(2)	48,035,751,124	74.63
Jade Assets Company Limited		44,335,751,124	68.88
Deutsche Bank Aktiengesellschaft		6,430,262,699	9.99

Notes:

- (1) The interest disclosed represents 48,035,751,124 Shares indirectly owned by CCT Technology Investment Limited through the subsidiaries stated in Note (2) below. CCT Technology Investment Limited is a wholly-owned subsidiary of CCT Telecom.
- (2) The interest disclosed represents 44,335,751,124 Shares held by Jade Assets Company Limited, 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 them are wholly-owned subsidiaries of CCT Technology Investment Limited.

(ii) Long positions in the underlying Shares of equity derivatives of the Company as at 31 December 2006:

Name of the Shareholder	Notes	Number of the total underlying Shares interested under equity derivatives	Approximate percentage of the total issued share capital (%)
CCT Telecom	(1)	13,800,000,000	21.44
Deutsche Bank Aktiengesellschaft	(2)	7,369,737,301	11.45

Notes:

- (1) The interest disclosed represents long positions in 13,800,000,000 underlying Shares which may be acquired by CCT Telecom upon the exercise of the put options granted by CCT Telecom to Deutsche Bank AG in relation to the sale of 13,800,000,000 Shares under the terms of the put agreement entered into between CCT Telecom and Deutsche Bank AG on 17 March 2006.
- (2) The interest disclosed represents long positions in 7,369,737,301 underlying Shares which may be acquired by Deutsche Bank AG upon the exercise of the put options granted by Deutsche Bank AG to the three third party investors, which bought 7,369,737,301 Shares from CCT Telecom.

SUBSTANTIAL SHAREHOLDERS' INTERESTS (Continued)

(iii) Short positions in the underlying Shares of equity derivatives of the Company as at 31 December 2006:

Name of the Shareholder	Number of the total underlying Shares interested under equity derivatives	Approximate percentage of the total issued share capital (%)
Deutsche Bank Aktiengesellschaft (Note)	13,800,000,000	21.44

Note: The interest disclosed represents short positions in 13,800,000,000 underlying Shares whereas Deutsche Bank AG has a right to sell back part or whole of 13,800,000,000 Shares to CCT Telecom by exercising of the put options granted by CCT Telecom to Deutsche Bank AG under the terms of the put agreement entered into between CCT Telecom and Deutsche Bank AG on 17 March 2006.

Save as disclosed above, as at 31 December 2006, there were 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 underlying Shares 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 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 2006, 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	Note	Year ended 31 December	
		2006	2005
Fellow subsidiaries:			
Purchase of plastic casings and components	(i)	298	315
Purchase of power supply components	(ii)	168	157
Factory rental income	(iii)	6	6
Factory rental expenses	(iv)	6	6
Office rental expenses	(v)	3	3
Purchase of non-electronic baby products	(vi)	—	32
Sale of consumer electronic products	(vii)	26	—
Ultimate holding company:			
Management information system service fee	(viii)	4	4

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Continued)

Notes:

- (i) The Company and CCT Telecom entered into a manufacturing agreement (the “Components Manufacturing Agreement”) dated 4 May 2004, 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 the production of telecom and electronics products for the Group.

The purchase prices were determined based on the direct material costs plus a mark-up of no more than 300%.

- (ii) The power supply components were purchased by the Group from the 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.

- (iii) 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 5 December 2005.

- (iv) The factory rental expenses were charged to the Group by the 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 the tenancy agreement (“Dongguan Tenancy Agreement”) entered into between the Group and CCT Telecom on 13 September 2004.

- (v) The office rental expenses were charged to CCT Telecom (HK) Limited (“CCT HK”) and CCT 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 rates determined in accordance with the terms and conditions set out in six tenancy agreements (the “Hong Kong Tenancy Agreements”) entered into between CCT HK and Goldbay on 5 December 2005 and 12 October 2006, and between CCT R&D and Goldbay on 5 December 2005 and 12 October 2006.

- (vi) The non-electronic baby products and related components were purchased by the Group from 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. No such purchase was made in 2006.

- (vii) The consumer electronic products were sold to the CCT Telecom Remaining Group by the Group and the selling prices were determined based on the direct material costs of the products plus a mark-up of up to 120% of such direct material costs pursuant to a consumer electronic products manufacturing agreement (the “CEP Manufacturing Agreement”) entered into between the Company and CCT Telecom on 14 July 2006.

- (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 5 December 2005.

The transactions contemplated under the Components Manufacturing Agreement are referred to as the “Components 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 CEP Manufacturing Agreement are referred to as the “CEP Manufacturing 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”.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Continued)

The INEDs of the Company have reviewed and confirmed that:

- (a) the aggregate value of the Components Manufacturing Transactions for the year ended 31 December 2006 as indicated in note (i) above did not exceed the cap amount, of HK\$580 million;
- (b) the aggregate value of the PSC Manufacturing Transactions for the year ended 31 December 2006 as indicated in note (ii) above did not exceed the cap amount of HK\$280 million;
- (c) the annual consideration of each of the Administrative Transactions during the year did not exceed the higher of HK\$10,000,000 or 2.5% of each of the percentage ratios (other than the profit ratio and the equity ratio which were not applicable);
- (d) the aggregate value of the Dongguan Rental Transactions for the year ended 31 December 2006 as indicated in note (iv) above did not exceed the cap amount of HK\$8,640,000;
- (e) there were no Outsourcing Transactions for the year ended 31 December 2006;
- (f) the aggregate value of the CEP Manufacturing Transactions for the year ended 31 December 2006 as indicated in note (vii) above did not exceed the cap amount of HK\$100 million;
- (g) the Components Manufacturing Transactions, PSC Manufacturing Transactions, Outsourcing Transactions, CEP Manufacturing Transactions, Administrative Transactions and Dongguan Rental Transactions were entered into in the usual and ordinary course of businesses of the Group;
- (h) the Components Manufacturing Transactions, PSC Manufacturing Transactions, Outsourcing Transactions, CEP Manufacturing Transactions, Administrative Transactions and Dongguan Rental Transactions were conducted on normal commercial terms; and
- (i) the Components Manufacturing Transactions, PSC Manufacturing Transactions, Outsourcing Transactions, CEP Manufacturing Transactions, Administrative Transactions and Dongguan Rental Transactions were conducted in accordance with the terms of the agreements governing such transactions.

COMPLIANCE WITH THE 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 the deviations from code provisions A.2.1, A.4.1 and A.4.2. Detailed information of such deviations and their respective considered reasons as well as other information on 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

Following the disapproval of the Scheme of Arrangement in relation to the privatisation of the Company by CCT Telecom in February 2006, the public float of the Company was below the minimum requirement under Rule 8.08 of the Listing Rules. The Company and CCT Telecom had therefore applied, and the Stock Exchange had granted, waivers from strict compliance with Rule 8.08 of the Listing Rules up to 19 May 2006. As jointly announced by the Company and CCT Telecom on 21 March 2006, CCT Telecom and Deutsche Bank AG entered into the sale and purchase agreement on 17 March 2006 in order to restore the public float of the Company. The sale of 13,800,000,000 Shares to Deutsche Bank AG and three third party investors by CCT Telecom took place on 9 May 2006. The public float of the Company was then restored from 15.88% to 25.38% on 9 May 2006.

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float of not less than 25% of the total issued share capital of the Company as required under the Listing Rules since 9 May 2006 and up to the date of this Annual Report.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 40 to the financial statements.

AUDITORS

The financial statements for the year ended 31 December 2006 have been audited by Messrs. 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 AGM of the Company.

ON BEHALF OF THE BOARD

Mak Shiu Tong, Clement

Chairman

Hong Kong

18 April 2007