

# financial review

## FINANCIAL RESULTS

### Summary of Results

HK\$ million	2004	2003	% Change
Turnover	4,057	3,441	18%
Operating profit	165	149	11%
Net profit/(loss)	56	(118)	N/A

The Group recorded a turnover of approximately HK\$4,057 million, an increase of approximately 18% due to the encouraging growth in our telecom product manufacturing business. Operating profit came in HK\$165 million, up 11% from HK\$149 million in last year and the net profit recorded HK\$56 million, turnaround from a net loss of HK\$118 million in last year. The results were driven by the satisfactory performance of the telecom product business.

The net loss in last year was mainly due to the share of loss of approximately HK\$200 million from Haier Electronics in relation to the significant amortisation and impairment of goodwill of its mobile handset business.

### Dividends

A special interim dividend of HK\$0.10 per share, amounted to approximately HK\$42 million, was declared and funded by the net sale proceeds of the disposal of CCT Tech's convertible note to New Capital, a company controlled by Mr. Mak, the chairman of the Company. The special interim dividend was approved in the board meeting of the Company held on 28 April 2004 and was paid on 18 June 2004.

An interim dividend of HK\$0.010 (2003: HK\$0.015) per ordinary share was paid on 19 October 2004.

The Board recommends the payment of a final dividend of HK\$0.02 per share for the year 2004 to the shareholders whose names appear on the register of members of the Company on 26 May 2005, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company. The proposed final dividend will be paid on or around 16 June 2005 following the shareholders' approval at the forthcoming annual general meeting of the Company.

### Analysis by Business Segment

HK\$ million	Turnover		2003	Relative %	% change
	2004	Relative %			
Telecom products	3,906	96%	3,224	94%	21%
Baby and health care products	146	4%	157	5%	(7%)
Corporate and others	5	—	60	1%	(92%)
Total	4,057	100%	3,441	100%	18%

**FINANCIAL RESULTS** (Continued)**Analysis by Business Segment** (Continued)

HK\$ million	Operating profit		
	2004	2003	% Change
Telecom products	225	215	5%
Baby and health care products	14	19	(26%)
Corporate and others	(74)	(85)	(13%)
Total	165	149	11%

In 2004, the telecom products segment continued to dominate the Group's turnover, accounting for 96% of the Group. Although global, and particularly the US consumer markets were clouded by uncertainties brought by rising oil prices and interest rates, our telecom products segment was able to achieve an encouraging growth in revenue. The turnover of telecom products segment increased 21% to HK\$3,906 million in 2004. The operating profit of telecom products segment rose 5% to HK\$225 million in 2004.

The remaining turnover was contributed by the baby and health care products accounting for 4% (2003: 5%) of the total turnover. Corporate and others items which represented mainly interest income contributed insignificant revenue in 2004 and represented about 1% in 2003.

The change in the turnover and net profit of the baby and health care business was caused by the competitive market condition in the US and increase in costs of plastic raw materials. We expect this situation will continue in the year 2005 and we will manage the issues by diversification of our products range and cost control.

The significant drop in operating loss from corporate and others segment was mainly attributable to our improvement in resources allocation and success of cost control measures.

**Analysis by Geographical Segment**

HK\$ million	Turnover				
	2004	Relative %	2003	Relative %	% change in sales amount
United States of America ("US")	2,516	62%	2,222	65%	13%
PRC, including Hong Kong	701	17%	645	19%	9%
European Union and others	840	21%	574	16%	46%
Total	4,057	100%	3,441	100%	18%

US continued to be the major market of the Group, accounted for 62% (2003: 65%) of the Group's total turnover for the year. The Group has adopted strategic means in diversify our geographical presence. On the one hand, we have continued to strengthen our leading position in the US market, which grew by 13% in terms of turnover in 2004. On the other hand, through careful product differentiation and diversification, we have extended the breadth and depth of our product coverage in order to capture a wider range of customers and to penetrate further into the reach of distinct new customers groups. Such strategy proved to be success which has boosted our sales in European and Asia Pacific market. Owing to the increase in sales to Europe and Asia Pacific, we have reduced our dependence on the US market.

**FINANCIAL RESULTS** *(Continued)***Analysis by Geographical Segment** *(Continued)*

The PRC (including Hong Kong) and European Union and others, accounted for 17% (2003: 19%) and 21% (2003: 16%), respectively, of the Group's total turnover. The Group has signed up major new customers in the European and Asia Pacific market and continues to view the European and Asia Pacific market as a long-term strategy with great potential.

**FINANCIAL POSITION****Consolidated Balance Sheet Summary**

HK\$ million	As at 31 December 2004	As at 31 December 2003	% Change
Non-current assets	1,990	1,868	7%
Current assets	1,987	1,872	6%
<b>Total assets</b>	<b>3,977</b>	<b>3,740</b>	<b>6%</b>
Current liabilities	1,293	1,202	8%
Non-current liabilities	189	142	33%
<b>Total liabilities</b>	<b>1,482</b>	<b>1,344</b>	<b>10%</b>
<b>Total assets less total liabilities</b>	<b>2,495</b>	<b>2,396</b>	<b>4%</b>
<b>Minority interests</b>	<b>196</b>	<b>101</b>	<b>94%</b>
<b>Net asset values</b>	<b>2,299</b>	<b>2,295</b>	<b>0.2%</b>

*Non-current Assets*

The 7% increase in non-current assets was mainly due to additions of new production facilities in our factories.

*Current Assets*

The 6% increase in current assets was mainly due to the increase in inventory and trade receivables which is in line with our growth in the Group's business during the year.

*Current Liabilities*

The rise in current liabilities was partly due to the increase in trade and bills payables and bank financing which is in line with our growth in the Group's business. The increase was also due to the sale of the \$45 million convertible notes due by CCT Tech to a company controlled by Mr. Mak which constituted a current liability of the Group.

*Non-current Liabilities*

The change in non-current liabilities was mainly due to the increase in bank financing in relation to our trading operation and capital expenditure.

**FINANCIAL POSITION** *(Continued)***Capital Structure and Gearing Ratio**

HK\$ million	As at 31 December 2004		As at 31 December 2003	
	Amount	Relative %	Amount	Relative %
Bank loans	321	12%	253	10%
Convertible notes	45	2%	18	1%
Finance lease payable	13	—	2	—
Total borrowings	379	14%	273	11%
Equity	2,299	86%	2,295	89%
Total capital employed	2,678	100%	2,568	100%

The financial position of the Group remains strong, with a low gearing ratio (total borrowings over total capital employed) of only 14% at 31 December 2004 (31 December 2003: 11%), reflecting a healthy financial position and the prudent financial policy of the Group.

As at 31 December 2004, total borrowings (including bank borrowings, finance lease payables and convertible notes) of the Group was approximately HK\$379 million (31 December 2003: 273 million).

Outstanding bank loans amounted to HK\$321 million at 31 December 2004 (31 December 2003: HK\$253 million). Approximately 45% of these bank loans were arranged on a short-term basis for the ordinary business of the Group and were repayable within one year. The remaining 55% were of long-term nature, principally comprised of mortgage loans on properties used by the Group.

Certain of assets of the Group were financed by finance leases and the total outstanding for finance leases payable at 31 December 2004 amounted to HK\$13 million (31 December 2003: HK\$2 million).

As at 31 December 2004, the outstanding convertible notes, amounted to HK\$45 million were issued by the Company's listed subsidiary, CCT Tech to a company controlled by Mr. Mak, at a conversion price of HK\$0.01 per share of CCT Tech, interest free and falling due in May 2005.

As at 31 December 2004, the maturity profile of the bank loans and other borrowings and convertible notes falling due within one year, in the second to the fifth year and in the sixth to the tenth year amounted to HK\$195 million, HK\$113 million and HK\$71 million, respectively (2003: HK\$138 million, HK\$73 million and HK\$62 million, respectively). There was no material effect of seasonality on the Group's borrowing requirements.

**FINANCIAL POSITION** *(Continued)***Liquidity and Financial Resources**

	As at 31 December 2004 HK\$ million	As at 31 December 2003 HK\$ million
Current ratio		
Current assets	1,987	1,872
Current liabilities	1,293	1,202
Current ratio	154%	156%

Current ratio (a ratio of current assets over current liabilities) as at 31 December 2004 was 154% (31 December 2003: 156%). The strong liquid position was attributable to strong cash flow from the operations and the prudent investment strategy of management.

At 31 December 2004, the Group maintained a total cash balance of HK\$949 million (31 December 2003: HK\$973 million), decreased by HK\$24 million as compared with 2003 to fund investment in fixed assets.

Among the total cash balance of HK\$949 million, approximately HK\$117 million (31 December 2003: HK\$100 million) was pledged for general banking facilities. Almost all of the Group's cash was placed on deposits with licensed banks in Hong Kong.

At 31 December 2004, the Group had banking facilities of HK\$767 million (31 December 2003: HK\$584 million), of which HK\$395 million (31 December 2003: HK\$327 million) had been utilised.

*Capital Commitments*

The Group had authorised and contracted capital commitments of approximately HK\$33 million (31 December 2003: HK\$62 million) at 31 December 2004. These capital commitments mainly relate to capital expenditure for the expansion of the manufacturing business of the Group and 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 small portion of the receipts denominated in Hong Kong dollars and Euros. Payments were mainly made in Hong Kong dollars, US dollars and Renminbi with some in Euros. Cash was generally placed in short-term deposits and medium-term deposits denominated in Hong Kong dollars, US dollars and Euros. At 31 December 2004, the Group's outstanding borrowings were mainly denominated in Hong Kong dollars and US dollars and the Group's borrowings were principally made on a floating rate basis.

The Group does not have any significant interest rate risk as the interest rate is stable and remains at low level. The Group does not foresee a substantial risk or exposure from having the majority of its receipts and payments in United States dollar. The Group's exposure to foreign exchange risk is not substantial and forward exchange contracts have been entered into, where appropriate, to minimize such risks when necessary and appropriate.

## OTHER INFORMATION

### Employees and Remuneration Policy

The total number of employees of the Group as at 31 December 2004 was 18,477 (31 December 2003: 18,673). 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. At 31 December 2004, there were outstanding share options of approximately HK\$42 million.

### Significant Investment

During the year, the Group acquired a residential property (the "Property") in Repulse Bay for a consideration of approximately HK\$91 million. The Property funded by internal resources and a mortgage loan, which is currently being leased to an independent third party. The Group is confident in the future of the luxurious property market and such acquisition is likely to provide the Group with satisfactory return in the investment.

Besides the Property, there was no significant investment unrelated to the core manufacturing businesses during the year. During the year, HK\$391 million was used for capital expenditure, mainly relating to the Group's core manufacturing business.

### Acquisition and Disposal of Material Subsidiaries and Associates

During the year, the Group did not have any significant acquisition and disposal of material subsidiaries and associates.

In August 2004, CCT Tech, the listed subsidiary of the Company, sold its entire interests of the electronic component business and the factory property in Tongxia, Dongguan to the Company. The consideration was satisfied by cancellation of part of convertible notes issued by CCT Tech to the Company in the amount of HK\$139 million. The internal group restructuring aims at capturing further economies of scale by means of centralising the existing resources on component business within the Group and rationalising the business of the respective listed groups.

### Pledge of Assets

At 31 December 2004, certain of the Group's assets with a net book value of HK\$254 million (31 December 2003: HK\$255 million) and time deposits of HK\$117 million (31 December 2003: HK\$100 million) were pledged to secure the general banking facilities granted to the Group.

### Contingent Liabilities

As at 31 December 2004, the banking facilities granted to the subsidiaries subject to the corporate guarantees given to the banks by the Company were utilized to the extent of approximately HK\$173 million (2003: HK\$142 million).

Apart from guarantees in lieu of property rental of HK\$48 million (31 December 2003: HK\$45 million) and a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$9 million as at 31 December 2004 (31 December 2003: HK\$8 million), the Group did not have any other significant contingent liabilities at 31 December 2004.