

# report of the directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the manufacture and sale of telecom products and accessories, the manufacture and sale of baby and health care products. 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 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 41 to 90.

A special interim dividend of HK\$0.10 per ordinary share 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 directors recommend the payment of a final dividend of HK\$0.020 (2003: HK\$0.015) per ordinary share in respect of the year to shareholders 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. This recommendation has been incorporated in the financial statements as an allocation of capital reserve within the capital and reserves section of the balance sheet.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 91. This summary does not form part of the audited financial statements.

## FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and the investment properties of the Group during the year are set out in note 14 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised share capital during the year. Details of movements in the Company's issued share capital and share options during the year are set out in notes 32 and 33 to the financial statements, respectively.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Companies Law (2002 Revision) Chapter 22 of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the listed shares of the Company during the year.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

Under the Companies Law (2002 Revision) Chapter 22 of the Cayman Islands, the share premium account of the Company is available for distribution of dividends to shareholders subject to the provisions of the Company's Memorandum and Articles of Association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as and when they fall due in the ordinary course of business.

In accordance with the Company's Articles of Association, dividends can only be distributed out of profits and reserves available for distribution including the share premium and capital reserve account of the Company. As at 31 December 2004, the Company had a net credit balance of approximately HK\$2,216 million (2003: HK\$2,176 million) of which HK\$8 million has been proposed as a final dividend for the year maintained in the reserve accounts which would be available for distribution.

## CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$3 million (2003: HK\$2 million).

## 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	
	2004	2003	2004	2003
Largest customer	44%	51%		
Five largest customers in aggregate	76%	80%		
Five largest suppliers in aggregate			<30%	<30%

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 of the Company during the year and up to the date of this report were as follows:

### ***Executive directors:***

Mak Shiu Tong, Clement  
 Tam Ngai Hung, Terry  
 Cheng Yuk Ching, Flora  
 William Donald Putt

### ***Independent non-executive directors:***

Samuel Olenick  
 Tam King Ching, Kenny  
 Lau Ho Man, Edward

In accordance with the articles of association of the Company, Messrs. Tam King Ching, Kenny and Lau Ho Man, Edward will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

The independent non-executive directors of the Company are not appointed for any specific terms and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and, as at the date of this report, still considers them to be independent.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 16 to 19 of the 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

A share option scheme was adopted by the Company on 28 February 2002 (the "Share Option Scheme") to comply with the new amendments to the Listing Rules in respect of the share option schemes of a listed company. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from the date of the adoption. As at 31 December 2004, there were 41,780,000 share options outstanding under the Share Option Scheme. Based on these outstanding share options, the total number of shares available for issue is 41,780,000, which represents approximately 9.89% of the existing issued share capital of the Company as at the date of this report. No share options has been granted 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 Group's operation. 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 of directors of the Company (the "Board"), 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 shares subject to any other share option scheme(s) of the Company, must not exceed 10% of the issued share capital of the Company as at the date of adoption of the Share Option Scheme or 30% of the issued share capital of the Company from time to time.

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 of the Company in issue as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the shareholders' approval of the 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 independent non-executive directors of the Company, excluding the independent non-executive director(s) of the Company who is/are the grantee(s) of the share options. In addition, any share option granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue as at the date of grant or with an aggregate value (based on the closing price of the Company's 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 the shareholders' approval of the Company in advance at a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the 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 of the Company as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant, which must be a trading day; (ii) the average closing price of the shares of the Company 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 of the Company.

**SHARE OPTION SCHEME** (Continued)

Details of the movements of share options under the Share Option Scheme during the year were as follows:

Name or category of participant	Outstanding as at 1 January 2004	Number of share options			Outstanding as at 31 December 2004	Date of grant of share options	Exercise period of share options	Exercise price per share (Note 1) HK\$	Price of the shares at exercise date of share options (Note 2) HK\$
		Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year					
<b>Executive directors</b>									
Mak Shiu Tong, Clement	420,000	—	—	—	420,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	N/A
Cheng Yuk Ching, Flora	4,200,000	—	—	—	4,200,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	N/A
Tam Ngai Hung, Terry	4,200,000	—	—	—	4,200,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	N/A
William Donald Putt	420,000	—	—	—	420,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	N/A
	9,240,000	—	—	—	9,240,000				
<b>Independent non-executive directors</b>									
Samuel Olenick	420,000	—	—	—	420,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	N/A
Tam King Ching, Kenny	420,000	—	—	—	420,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	N/A
Lau Ho Man, Edward	420,000	—	—	—	420,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	N/A
	1,260,000	—	—	—	1,260,000				
<b>Other employees</b>									
In aggregate	31,700,000	—	(420,000)	—	31,280,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.40
	31,700,000	—	(420,000)	—	31,280,000				
	42,200,000	—	(420,000)	—	41,780,000				

Notes:

- The exercise price of the share options is subject to adjustment(s) in the case of rights or bonus share issues, or other similar changes in the share capital of the Company.
- The price of the shares of the Company as at the date of exercise of the share options is the weighted average of the closing price of the shares of the Company as listed on the Stock Exchange on the trading date immediately before the date on which the share options were exercised.

**SHARE OPTION SCHEME** *(Continued)*

The financial impact of the share options granted is not recorded in the balance sheet of the Company or the Group until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding share options.

**DIRECTORS' INTERESTS**

As at 31 December 2004, 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 or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") adopted by the Company:

**(a) Interests and short positions in the shares, underlying shares and debentures of the Company***(i) Long positions in the shares of the Company:*

Name of director	Notes	Number of shares beneficially held and nature of interest				Total	Approximate percentage of total shareholding (%)
		Personal	Family	Corporate			
Mak Shiu Tong, Clement	(a)	—	—	86,261,941		86,261,941	20.42
Cheng Yuk Ching, Flora	(b)	9,876,713	100,000	—		9,976,713	2.36
William Donald Putt		171,500	—	—		171,500	0.04
Samuel Olenick	(c)	—	—	125,000		125,000	0.03

Notes:

- (a) The shares were held by Capital Force International Limited and Capital Interest Limited, which are corporations controlled by Mr. Mak Shiu Tong, Clement. These interests in the shares have also been disclosed under the section headed "Substantial Shareholders' Interests" below.
- (b) The family interest of Ms. Cheng Yuk Ching, Flora in 100,000 shares was held by her spouse, Mr. Po Pui Lam, and she was deemed to be interested in the same under the provisions of Part XV of the SFO.
- (c) Mr. Samuel Olenick was deemed to be interested in 125,000 shares under the provisions of Part XV of the SFO.

*(ii) Long positions in the underlying shares of equity derivatives of the Company — Share options:*

The Company has granted to certain directors of the Company the rights to subscribe for shares in the share capital of the Company. Details of the interests in the share options granted under the Share Option Scheme to the directors of the Company are disclosed under the section headed "Share Option Scheme" above.

**DIRECTORS' INTERESTS** (Continued)**(b) Interests and short positions in the shares, underlying shares and debentures of associated corporations**

- (i) *Long positions in the shares of Haier-CCT Holdings Limited (renamed to Haier Electronics Group Co., Ltd. on 31 January 2005) ("Haier"):*

Name of director	Notes	Number of shares beneficially held and nature of interest		Approximate percentage of total shareholding (%)
		Personal	Corporate	
Mak Shiu Tong, Clement	(a)	—	107,219,667	1.076
Cheng Yuk Ching, Flora		19,312,498	—	0.194
Tam Ngai Hung, Terry		10,000,000	—	0.100
William Donald Putt		179,112	—	0.002
Samuel Olenick	(b)	—	130,548	0.001

Notes:

- (a) The shares were held by Capital Winner Investments Limited and Capital Interest Limited, which are corporations controlled by Mr. Mak Shiu Tong, Clement.

- (b) Mr. Samuel Olenick was deemed to be interested in 130,548 shares under the provisions of Part XV of the SFO.

- (ii) *Long positions in the underlying shares of equity derivatives of Haier — Share options:*

Name of director	Date of grant of share options	Exercise period of share options	Exercise price per share HK\$	Number of share options outstanding	Number of total underlying shares	Approximate percentage of total shareholding (%)
Mak Shiu Tong, Clement	16/8/2002	16/8/2003 – 15/8/2007	0.156	89,000,000	89,000,000	0.89
Cheng Yuk Ching, Flora	16/8/2002	16/8/2003 – 15/8/2007	0.156	89,000,000	89,000,000	0.89
Tam Ngai Hung, Terry	16/8/2002	16/8/2003 – 15/8/2007	0.156	89,000,000	89,000,000	0.89
William Donald Putt	16/8/2002	16/8/2003 – 15/8/2007	0.156	5,000,000	5,000,000	0.05

**DIRECTORS' INTERESTS** (Continued)**(b) Interests and short positions in the shares, underlying shares and debentures of associated corporations** (Continued)

(iii) Long positions in the underlying shares of equity derivatives of CCT Tech International Limited ("CCT Tech"):

(1) Share options:

Name of director	Date of grant of share options	Exercise period of share options	Exercise price per share HK\$	Number of share options outstanding	Number of total underlying shares	Approximate percentage of total shareholding (%)
Mak Shiu Tong, Clement	30/4/2003	30/4/2003 – 29/4/2008	0.014	100,000,000*	100,000,000	0.63
Cheng Yuk Ching, Flora	30/4/2003	30/4/2003 – 29/4/2008	0.014	100,000,000*	100,000,000	0.63
Tam Ngai Hung, Terry	30/4/2003	30/4/2003 – 29/4/2008	0.014	100,000,000*	100,000,000	0.63

\* According to the composite offer and response document dated 31 March 2005 (the "Composite Offer Document") jointly issued by the Company and CCT Tech, Jade Assets Company Limited (the "Offeror"), a wholly-owned subsidiary of the Company, made the voluntary conditional cash offers to acquire all the issued shares from the independent shareholders of CCT Tech and to acquire the convertible note due 2005 of CCT Tech and to cancel all the outstanding share options of CCT Tech (the "Offers"). All directors have accepted the Offers in respect of their entire holding of the share options at the consideration of HK\$0.009 per share option. The Offers have become unconditional in all respects as to acceptances on 21 April 2005 and all such outstanding share options under the share option scheme of CCT Tech will be cancelled in accordance with the terms of the Offers.

(2) Convertible note:

Name of director	Description of equity derivatives	Number of total underlying shares	Approximate percentage of total shareholding (%)
Mak Shiu Tong, Clement (Note)	HK\$45 million zero coupon convertible note due 2005*	4,500,000,000	28.23

Note: The HK\$45 million zero coupon convertible note due 2005 was held by New Capital Industrial Limited, which is a corporation wholly-owned by Mr. Mak Shiu Tong, Clement and his family members.

\* Pursuant to the Offers as detailed in the Composite Offer Document, New Capital Industrial Limited has accepted the Offers in respect of its entire holding of the convertible note due 2005 and opted for the convertible bonds due 2010 to be issued by the Company. The Offers have become unconditional in all respects as to acceptances on 21 April 2005 and the convertible note due 2005 will be transferred to the Offeror in accordance with the terms of the Offers.

Save as disclosed above, as at 31 December 2004, 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 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.



## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the section headed "Share Option Scheme" above in respect of the share options granted to the directors by the Company under the Share Option Scheme and the section headed "Directors' Interests — Interests and short positions in the shares, underlying shares and debentures of associated corporations" above in respect of the share options granted by the associated corporations to the directors of the Company, at no time during the year were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) granted to any director of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2004, 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 of the Company 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:

Long positions in the shares of the Company:

Name of shareholder	Number of shares held	Approximate percentage of total shareholding (%)
Capital Force International Limited (Note)	56,850,093	13.46
Capital Interest Limited (Note)	29,411,848	6.96
	86,261,941	20.42

Note: Capital Force International Limited and Capital Interest Limited are corporations controlled by Mr. Mak Shiu Tong, Clement. These interests in the shares have also been disclosed under the section headed "Directors' Interests" above.

Save as disclosed above, as at 31 December 2004, there was no other person (other than the directors or the chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company 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

During the year, the Company and the Group had the following connected and continuing connected transactions, certain details of which are disclosed in accordance with the requirements of Chapter 14A of the Listing Rules.

- (1) On 2 March 2004, the Company entered into a sale and purchase agreement with New Capital Industrial Limited, a company controlled by Mr. Mak Shiu Tong, Clement and his family members to dispose of the HK\$45 million zero coupon convertible notes issued to the Company by CCT Tech for a cash consideration of HK\$45 million.

The transaction was completed on 15 April 2004.

- (2) On 2 June 2004, the Company and CCT Tech (an indirect non wholly-owned listed subsidiary of the Company) entered into a conditional agreement pursuant to which the Company agreed (i) to acquire the entire interest in First Precision Holdings Limited ("First Precision") and CCT Investment Limited ("CCT Investment"), both are the then indirect wholly-owned subsidiaries of CCT Tech, from CCT Tech; and (ii) to assign their interest-free shareholders' loans due from First Precision and CCT Investment to the Company as at the completion date of this transaction, at a total consideration of HK\$139 million. The consideration was satisfied by cancellation of the convertible note in the same amount which was issued by CCT Tech to an indirect wholly-owned subsidiary of the Company on 30 June 2003.

The transaction was completed on 13 September 2004 and further details of the acquisition of First Precision and CCT Investment by CCT Telecom from CCT Tech are set out in the Company's circular dated 20 August 2004.

- (3) During the year, certain indirect wholly-owned subsidiaries of the Company had the following material transactions with CCT Tech (the "Continuing Connected Transactions").

HK\$ million	Notes	2004	2003
Factory rental expenses	(a)	6	3
Factory rental income	(b)	5	1
Office rental income	(c)	3	1
Management information system service fee	(d)	3	1

Notes:

- (a) The factory rental expenses were charged to Shine Best Developments Limited ("Shine Best"), an indirect wholly-owned subsidiary of the Company, by CCT Enterprise Limited ("CCT Ent"), an indirect wholly-owned subsidiary of CCT Tech, 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 entered into between Shine Best and CCT Ent on 15 May 2003.
- (b) The factory rental income was charged to CCT Investment, an indirect wholly-owned subsidiary of CCT Tech, by CCT Properties (Dongguan) Limited ("CCT Prop"), an indirect wholly-owned subsidiary of the Company, for the provision of factory space in Dongguan, the PRC, at a rate determined in accordance with the terms and conditions set out in a tenancy agreement entered into between CCT Investment and CCT Prop on 15 May 2003 ("First Tenancy Agreement"). Both parties agreed to have an early termination of the First Tenancy Agreement in accordance with the provisions of the agreement and entered into two new tenancy agreements with CCT Investment and Electronic Sales Limited ("ESL", a subsidiary of First Precision) with a greater floor area (the "Dongguan Tenancy Agreement"). Upon completion of transaction as mentioned in (2) above, CCT Investment and ESL have ceased to be subsidiaries of CCT Tech and have become indirect wholly-owned subsidiaries of the Company.
- (c) The office rental income was charged to CCT Telecom (HK) Limited ("CCT HK") and CCT Telecom R&D Limited ("CCT R&D"), indirect wholly-owned subsidiaries of CCT Tech, by Goldbay Investments Limited ("Goldbay"), an indirect wholly-owned subsidiary of the Company, for the provision of office space in Hong Kong, at a rate determined in accordance with the terms and conditions set out in three tenancy agreements entered into between CCT HK and Goldbay on 15 September 2003 and 17 September 2004, and between CCT R&D and Goldbay on 23 December 2003.
- (d) The management information system service fee was charged to the Company and its wholly-owned subsidiaries 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 entered into between the Company and CCT HK on 15 May 2003.

**CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS** *(Continued)*

For transactions under (a), (c) and (d), the Stock Exchange has granted conditional waivers to the Company from strict compliance with the connected transactions requirements as set out in the Listing Rules for the three financial years ending 31 December 2005. The Continuing Connected Transactions have obtained the approval of the independent non-executive directors of the Company.

The independent non-executive directors of the Company have reviewed and confirmed that:

- (i) the consideration receivable from/payable to the Group for the year ended 31 December 2004 did not exceed the higher of HK\$10 million or 3% of the net tangible asset value of the Company;
- (ii) the Continuing Connected Transactions were conducted on normal commercial terms; and
- (iii) the Continuing Connected Transactions were conducted in accordance with the terms of the agreements governing such transactions.

For transactions under (b), the Stock Exchange has granted conditional waivers to the Company from strict compliance with the connected transactions requirements as set out in the Listing Rules for the three financial years ending 31 December 2006. The Continuing Connected Transactions have obtained the approval of the independent non-executive directors of the Company.

The independent non-executive directors of the Company have reviewed and confirmed that:

- (i) the consideration receivable from the CCT Tech Group for the year ended 31 December 2004 did not exceed the higher of HK\$10 million or 3% of the net tangible asset value of the Company;
- (ii) the Continuing Connected Transactions were conducted either (A) on normal commercial terms; or (B) if there is no available comparison, on terms that are fair and reasonable; and
- (iii) the Continuing Connected Transactions were conducted in accordance with the terms of the agreements governing such transactions.

**POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events of the Group are set out in note 41 to the financial statements.

**COMPLIANCE WITH THE CODE OF BEST PRACTICE**

In the opinion of the Board, the Company has complied with the code of best practice (the "Code") as set out in Appendix 14 to the Listing Rules which was in force prior to 1 January 2005, throughout the financial year covered by this report, except that the independent non-executive directors of the Company are not appointed for any specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

**MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

The Company has adopted the Model Code on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules. Having made specific enquiries with all directors of the Company, they confirmed that they have complied with the required standard set out in the Model Code adopted by the Company throughout the financial year covered by this report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, the Company has maintained a sufficient public float of not less than 25% of the Company's total issued share capital as required under the Listing Rules throughout the financial year covered by this report.

## AUDIT COMMITTEE

Pursuant to the requirements of the Listing Rules, the Company has established an audit committee (the "Audit Committee") with specific written terms of reference which deal clearly with the authorities and duties of the Audit Committee. The Audit Committee consists of three members comprising the three independent non-executive directors of the Company, namely Messrs. Tam King Ching, Kenny, Lau Ho Man, Edward and Samuel Olenick, two of whom are qualified accountants and have extensive experience in accounting and financial matters.

The Audit Committee is answerable to the Board and the principal duties of the Audit Committee include the review and supervision of the financial reporting process and internal controls of the Company. The Audit Committee has reviewed the audited consolidated financial statements of the Company for the year ended 31 December 2004 with the management and the auditors. Regular meetings have been held by the Audit Committee since its establishment and the Audit Committee has held three meetings in 2004.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

**Mak Shiu Tong, Clement**

*Chairman*

Hong Kong, 25 April 2005