
TECHNOLOGY

contents

chairman's letter

On behalf of the Board of CCT Telecom Holdings Limited, I am pleased to announce the results of the Group for the year ended 31 December 2006.

I am delighted to report that the performance of the Group in 2006 was its best ever since its inception. Both revenue and profit set new records. Turnover increased by 5.5% to HK$4,199 million. Profit attributable to shareholders of the Company, including gains from investments, rose to HK$358 million, representing a significant jump of approximately 59.1%.

The year 2006 has also been a year of opportunity and challenges for the Group. In 2006, the Group's manufacturing business continued to face various challenges and operated in a business environment that was even more difficult than that of 2005. Market competition, high material costs and rising labor costs and overheads in China imposed pressure on our costs and margins, resulting in a fall in the profit of our manufacturing business.

Despite a difficult environment in 2006, the Group maintained its position as the worldwide leading ODM manufacturer of cordless phones and hi-tech electronic products. Our market diversification strategy has been successful. We have gained new customers and have expanded both our customer base and market demography. We have also made significant progress in growing our revenue outside the US. Turnover to the markets outside the US reached HK$2,057 million, representing 49.0% of the total turnover.

Technology remains our core strength. In 2006, we launched a wide range of premium quality cordless phone products to meet market demand. In a swift response to the Federal Communications Commission's approval on DECT standard for communications in the US, we became the world's first manufacturer to launch DECT 6.0 cordless phones in the US market in the second half of 2006, thereby, giving us a decisive lead over our competitors. Our achievement in this regard is a clear testament to our ability to stay closely in tune with the ever-changing demands of our markets and our ability to react swiftly to such changes.

Other than the manufacturing business, the performance of our securities investment business was excellent. In early 2006, the Group realized a gain of HK$316 million from the disposal of all our remaining equity interest in Haier Electronics. Furthermore, capturing the advantages of the buoyant Hong Kong stock market, we actively engaged in trading of listed securities and placing of funds into equity-linked deposits and treasury products during 2006 and achieved satisfactory returns and income in the amount of HK$48 million.

To capture the many business opportunities arising from the Hong Kong and mainland China property markets, the Group established a new business division in 2006 — the Property Investment and Development Group — that is solely dedicated to exploring and seeking business opportunities in this area. This new business division has so far actively pursued property projects located within Hong Kong and mainland China especially in cities where we already have industrial investments. Given our wealth of knowledge and experience in doing business in China and Hong Kong, we are in an ideal position to explore and develop both residential and commercial property projects whether for sale or for lease. We believe that this new business division has great potential and will generate business growth and attractive returns for the Group in the near future.

The Board recommends the payment of a final dividend of HK$0.025 per share for the year 2006 to the shareholders whose names appear on the register of members of the Company on Wednesday, 23 May 2007, 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 payable from the Company's retained profits and will be paid on or around Friday, 8 June 2007 following the shareholders' approval at the forthcoming annual general meeting of the Company. Taking into account the HK$0.02 per share 2006 interim dividend paid in October 2006, the total dividend per ordinary share amounted to HK$0.045 per share for this financial year 2006, compared with the total dividend of HK$0.70 per ordinary share (including the special interim dividend of HK$0.68 per share paid in 2005) distributed in respect of the financial year 2005.

CONVERSION OF CONVERTIBLE NOTES AND SALE OF SHARES IN CCT TECH

In May 2006, we converted all the convertible notes due to us by CCT Tech and sold 13.8 billion shares ("CCT Tech Sale Shares") in CCT Tech to Deutsche Bank and three other independent investors for a total consideration of approximately HK$303.6 million. At the same time, the Company also entered into a put agreement ("Put Agreement") with Deutsche Bank granting the bank a right to put back the CCT Tech Sale Shares to the Company pursuant to the Put Agreement. The consideration for the sale of the CCT Tech Sale Shares has been paid to Deutsche Bank as an effective collateral to secure the Company's obligations under the Put Agreement. If the CCT Tech Sale Shares are disposed of by the investors and the put options are not exercised, the consideration will be refunded back pursuant to the terms of the Put Agreement. Upon the completion of the CCT Tech Sale Shares in May 2006, the public float of CCT Tech has been restored and the Group still maintained its controlling interest in CCT Tech.

OUTLOOK

Looking into the future, we are cautiously optimistic about the outlook of the financial year of 2007.

On the negative side, high oil prices, increased interest rates and the downturn of the US property market have dampened the US economy. Market competition continues to be keen. The acute shortage of labour in the Pearl River Region continues to affect our production in Guangdong factories and raise our labor costs. Furthermore, any further appreciation of Renminbi will no doubt further increase our production costs. On the positive side, oil prices have dropped by more than 15% from its peak level and the prices of raw materials and components are stabilizing. The consumer spending in the US remains strong and the US housing market appears to be near bottom. Many are of the view that the rising trend of US interest rates has ended and it is widely expected that interest rates will go down in the second half of 2007. The demand of telecom products from our markets in Europe and the emerging markets remains strong and we believe that this will be a crucial driving force to our growth in revenue and profit in 2007.

Our product roadmap holds great potential. We believe the broadband cordless phones, WiFi cordless phones, and VoIP cordless phones that we intend to launch in 2007 will provide momentum for growth and will improve profitability as these new products have higher price points giving better margins. We also expect that our inroads into the commercial telecommunication market by the introduction of SOHO telecom products, multi-line cordless phones and cordless conference boxes will provide us a new platform for growth in business.

To deal with the production issues, we have decided to establish a new plant in the Chaoyang City, Liaoning Province, in north-eastern China. The first phase of the new factory in Chaoyang is expected to commence mass production in the second half of 2007. The new factory in Chaoyang will enable us to tap into the abundant supply of low-cost labor in the region and help us resolve the labor shortage problem in our existing Guangdong factories. We believe the new plant in Chaoyang will deliver significant cost savings and will further strengthen our competitiveness which will improve the profitability of the Group.

Given the continuing strong economic growth in Hong Kong and China, we are optimistic about the new businesses of securities investment and property investment and development. We believe these businesses will provide great potential for growth as well as attractive income and returns.

On the basis of the abovementioned measures and potential business opportunities, the management is cautiously optimistic about the Group's continuous growth in the years ahead. We will continue to explore new market opportunities and income sources that are in line with our long-term growth strategy.

ACKNOWLEDGEMENTS

I would like to take this opportunity to express my gratitude to the members of the board for their diligent guidance and support, and to thank the Group's management team for their sound leadership and management, the staff for their hard work, and our shareholders, customers and suppliers, business partners and bankers for their continued support and confidence in the Group. We are confident of continuous growth in the years ahead and look forward to creating greater opportunities and delivering increased returns to our shareholders in the foreseeable future.

Mak Shiu Tong, Clement
Chairman

Hong Kong, 18 April 2007

review of operations

During the year under review, the Group was engaged in the following principal activities: (i) manufacture and sale of telecom and electronic products; (ii) manufacture and sale of plastic and electronic components; (iii) manufacture and sale of baby products; (iv) provision of e-commerce services; (v) investment in securities; and (vi) property investment and development.

TELECOM AND ELECTRONIC PRODUCTS BUSINESS

The manufacture and sale of telecom and electronic products is carried out by our listed subsidiary, CCT Tech and its subsidiaries. In 2006, the business reported turnover of HK$3,882 million, up marginally by 0.9% from 2005 and representing 92.5% of the Group's total turnover. The sales performance of the business would have been better if not for the shortage of workers in our Guangdong factories.

Our key market in the US reported a decline in turnover due to the slow down of the US economy and the shortage of workers in our factories which caused delay in shipments of certain orders. However, considerable progress has been achieved in the growth of sales to markets outside the US. The performance in Europe and the Asia Pacific region was encouraging, reporting double digit growth in turnover in 2006. Our market diversification strategy has proven to be successful. We continued to gain new customers and have broadened our customer base to include many of the global leading distributors and renown brands.

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 for indoor communications. 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 phone in the US market, giving us a decisive lead over our competitors. The 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 in the US market. 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 enable 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, cordless phones with Skype feature, WiFi cordless phones 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 into 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 42.3% 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 the 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 plan to hire about 5,000 workers for the first phase operations of the new plant and the number of workers to be hired in the Chaoyang plant is expected to increase to over 10,000 and more when the second phase of the new plant is opened in 2008. 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.

MANUFACTURING OF PLASTIC AND ELECTRONICS COMPONENTS

To provide vertical support for CCT Tech's telecom product manufacturing business, the subsidiaries of CCT Telecom have been engaged in the manufacture of plastic and electronic components, including plastic casings, power supply and transformers mainly for use internally by the CCT Tech Group for the production of its telecom and electronic products. The production of plastic and electronic components provides the CCT Tech Group with a stable supply of high quality plastic casings and electronic components at competitive prices. A small part of the components products were sold to independent third parties. During 2006, the production costs of the plastic and electronic components substantially increased due to high raw materials costs and rising costs of labor and overheads. Considerable efforts have been devoted by management to improve efficiency, enhance automation and control costs. Looking forward, we are beginning to see the costs of plastic and components raw materials stabilizing. The production costs of the components manufacturing business are expected to gradually fall after the new Chaoyang plant is opened for operations.

BABY PRODUCT BUSINESS

In 2006, the baby product business reported an operating profit of HK$8 million, despite keen market competition and high materials prices. The Group intends to grow the business and will continue its efforts in developing new products, exploring new markets and expanding its customer base.

PROVISION OF E-COMMERCE SERVICES

In April 2006, we increased our shareholding interest in Tradeeasy, a company listed on the GEM of the Stock Exchange, from 22.18% to 66.26%. As a result, Tradeeasy has become a subsidiary of the Company. Tradeeasy is engaged in the provision of e-commerce services. During the period from April 2006 to December 2006, the provision of e-commerce services business contributed a turnover of HK$34 million to the Group. We believe the e-commerce business has great potential in China and Tradeeasy has directed more resources to expand its business in China. We are optimistic about the business of Tradeeasy which will generate additional revenue to the Group in the future.

INVESTMENT IN SECURITIES

In 2006, the performance of the securities business was outstanding. In January 2006, we disposed of all our remaining holdings of 3,926,774,819 ordinary shares in Haier Electronics. As a result, we received net proceeds from the disposal amounting to HK$551 million and recorded a realized gain of HK$316 million in the first half of 2006. In the second half of 2006, capturing the benefit of the blooming Hong Kong Stock Market, we actively engaged in the trading of shares listed on the Stock Exchange (including H-shares and Hang Seng Index constituent stocks). We have also placed funds in the high yield deposits linked with shares listed on the Stock Exchange. The objective of the securities investment is to derive gains from those investments as a proxy hedge against rise in oil price and appreciation of Renminbi. During the year 2006, the securities business performed well as we took advantages of the buoyant stock market and derived gains and interest income in the amount of HK$48 million.

PROPERTY INVESTMENT AND DEVELOPMENT

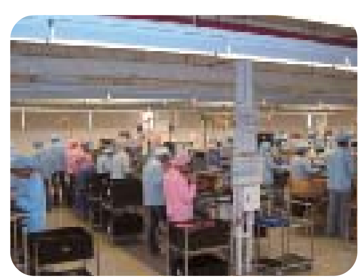
We are optimistic about the property markets in Hong Kong and China. The property market in Hong Kong has further recovered and the price of luxury properties continue to set new records. The rapid growth of the Chinese economy and the rise of Chinese residents' income and consumption power have resulted in an increasing demand for housing and commercial properties. The property market in China looks promising and we believe that the market offers huge business opportunities.

The property markets within the region have undergone incredible growth over the past few years. To capture the many business opportunities arising from such growth, the Group established a new business division in 2006 — the Property Investment and Development Group — that is solely dedicated to exploring and seeking business opportunities in this area. This new business division has so far actively pursued property projects located within Hong Kong and Mainland China especially in cities where we already have industrial investments. These efforts have resulted in the acquisition of two prime luxury residential properties in Hong Kong during 2006 and the exploration of various property projects in Mainland China especially in the provinces where we have industrial investment. Given our wealth of knowledge and experience in doing business in China and Hong Kong, we are in an ideal position to explore and develop both residential and commercial property projects whether for sale or for lease. We believe that this new business division has great potential and will generate business growth and attractive returns for the Group in the near future.


TECHNOLOGY

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

Our factory complex in Dongguan, Guangdong Province, the PRC




中建科技

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

directors and senior management

EXECUTIVE DIRECTORS

Mr. MAK Shiu Tong, Clement, aged 53, has served as the Chairman, the CEO and an executive director of the Company since January 1994. Mr. Mak is a substantial shareholder and a member of the Remuneration Committee. Mr. Mak is responsible for the corporate planning, overall strategic direction of the Group and takes a leading role in managing the businesses. He has over 30 years of experience in the electronics manufacturing and distribution industry, specialising in telephone and telecom products. He holds a Diploma in Electrical Engineering. Mr. Mak is also the Chairman, the CEO and an executive director of CCT Tech, a company listed on the main board of the Stock Exchange, and Tradeeasy, a company listed on the growth enterprise market of the Stock Exchange.

Mr. TAM Ngai Hung, Terry**, aged 53, has served as an executive director of the Company and the Group Finance Director since March 2001. Mr. Tam was appointed as the Deputy Chairman of the Company on 9 December 2005 and is also a member of the Remuneration Committee. Mr. Tam is mainly responsible for the corporate finance and accounting function of the Group. Mr. Tam has more than 29 years of experience in finance and accounting management, and also has extensive experience in corporate finance matters, mergers and acquisitions. Mr. Tam is a fellow of the Association of Chartered Certified Accountants and an associate of both the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Secretaries and Administrators. Mr. Tam has previously held a number of senior positions in several listed companies. Mr. Tam is also an executive director of CCT Tech and Tradeeasy, both are non wholly-owned subsidiaries of the Company and whose shares are listed on the main board and the growth enterprise market, respectively, of the Stock Exchange. Mr. Tam was an executive director of Haier Electronics, a company listed on the main board of the Stock Exchange, until his resignation on 28 January 2005. Mr. Tam was a non-executive director of Tradeeasy until his resignation on 18 December 2003. Mr. Tam is also a director of certain subsidiaries of the Group.

Save as disclosed above, Mr. Tam did not hold any directorship in any listed public company in the past three years and does not hold any other positions with the Group.

Mr. Tam has entered into the service contracts with the Company and CCT Tech for a fixed term. Mr. Tam's directorship in the Company is subject to retirement by rotation and re-election at the AGM of the Company. His emoluments from the Company and CCT Tech comprise annual salary of HK$3,640,000 and bonuses. His emoluments are determined with reference to his duties and responsibilities with the Group, the Group's performance as well as the market benchmark.

Mr. Tam does not have any relationship with any director, senior management or substantial or controlling shareholder of the Company.

As at the date of this Annual Report, Mr. Tam had interests in 500,000 Shares and 28,000,000 share options of Tradeeasy which are exercisable during the period from 14 August 2006 to 13 August 2011 at a price of HK$0.038 per share of Tradeeasy. Save as disclosed above, as at the date of this Annual Report, Mr. Tam had no other interests (within the meaning of Part XV of the SFO) in any shares, underlying shares or debentures of the Company and/or its associated corporations.

EXECUTIVE DIRECTORS *(Continued)*

There is no information which should be disclosed under Rule 13.51(2)(h) to (v) of the Listing Rules. Save as disclosed above, there is no information which should be disclosed nor is/was Mr. Tam involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under Rule 13.51(2) of the Listing Rules nor are there other matters that need to be brought to the attention of the Shareholders.

Ms. CHENG Yuk Ching, Flora, aged 53, has served as an executive director of the Company since February 1998. Ms. Cheng assists the Chairman/CEO in overseeing the day-to-day management of the telecom product business, component and industrial product business of the Group. Ms. Cheng has over 27 years of experience in the electronics industry. She has held senior positions in various well-known electronics companies. She holds a Diploma in Business Administration. Ms. Cheng is also an executive director of CCT Tech, a company listed on the main board of the Stock Exchange, and Tradeeasy, a company listed on the growth enterprise market of the Stock Exchange.

Dr. William Donald PUTT**, aged 69, has served as an executive director of the Company since January 1997. Dr. Putt is responsible for the overseas business development and also assists the Chairman/CEO in setting the overall strategic direction of the Group. Dr. Putt obtained his PhD in Management from the Massachusetts Institute of Technology in the US. Dr. Putt has over 34 years of experience in the telecom industry, and was the president and co-founder of TeleConcepts Corporation, which specialised in the design, production and distribution of telecom products. Dr. Putt is also an executive director of CCT Tech and Tradeeasy, both are non wholly-owned subsidiaries of the Company and whose shares are listed on the main board and the growth enterprise market, respectively, of the Stock Exchange.

Save as disclosed above, Dr. Putt did not hold any directorship in any listed public company in the past three years and does not hold any other positions with the Group.

There is no service contract entered into between Dr. Putt and the Group. Dr. Putt's directorship in the Company is subject to retirement by rotation and re-election at the AGM of the Company. Dr. Putt does not receive any fee or salary from the Group.

Dr. Putt does not have any relationship with any director, senior management or substantial or controlling shareholder of the Company.

As at the date of this Annual Report, Dr. Putt had interests in 591,500 Shares and 5,000,000 share options of Tradeeasy which are exercisable during the period from 14 August 2006 to 13 August 2011 at a price of HK$0.038 per share of Tradeeasy. Save as disclosed above, as at the date of this Annual Report, Dr. Putt had no other interests (within the meaning of Part XV of the SFO) in any shares, underlying shares or debentures of the Company and/or its associated corporations.

There is no information which should be disclosed under Rule 13.51(2)(h) to (v) of the Listing Rules. Save as disclosed above, there is no information which should be disclosed nor is/was Dr. Putt involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under Rule 13.51(2) of the Listing Rules nor are there other matters that need to be brought to the attention of the Shareholders.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Samuel OLENICK, aged 79, has served as an INED of the Company since November 1997. Mr. Olenick is a member of the Audit Committee and the Remuneration Committee. He is a certified public accountant in the US, and has many years of experience in the US telecommunications field.

Mr. TAM King Ching, Kenny, aged 58, has served as an INED of the Company since December 1999. Mr. Tam is a member of the Audit Committee and the Remuneration Committee. Mr. Tam is a practising Certified Public Accountant in Hong Kong. He holds a Bachelor's Degree in Commerce and is a fellow of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Tam is serving as a member of the Ethics Committee, Practice Review Committee, Small and Medium Practitioners Committee and Insolvency Practitioners Committee in the Hong Kong Institute of Certified Public Accountants. He is also a Past President of The Society of Chinese Accountants and Auditors. Mr. Tam also serves as an INED of five other listed companies on the main board of the Stock Exchange, namely, Kingmaker Footwear Holdings Limited, Shougang Concord Grand (Group) Limited, Starlite Holdings Limited, Swank International Manufacturing Company Limited and Van Shung Chong Holdings Limited, and a listed company on the growth enterprise market of the Stock Exchange, namely, North Asia Strategic Holdings Limited.

Mr. LAU Ho Man, Edward, aged 52, has served as an INED of the Company since February 2000. Mr. Lau is a member of the Audit Committee and the Remuneration Committee. Mr. Lau has more than 30 years of experience in finance, accounting management and administration, and also has extensive experience in taxation and corporate finance matters. He is a Certified Public Accountant (Practising), a fellow of the Hong Kong Institute of Certified Public Accountants and an associate of the Institute of Chartered Accountants in England and Wales and the Amercian Institute of Certified Public Accountants. Mr. Lau was also an INED of Tradeeasy, a company listed on the growth enterprise market of the Stock Exchange, until his resignation on 25 April 2006.

** *Being the Directors proposed to be rotated and re-elected by the Shareholders at the forthcoming AGM of the Company.*

SENIOR MANAGEMENT

Mr. LI Man To, Feynman, aged 36, joined the Group in September 1999 and is currently an executive director of CCT Tech. Mr. Li also serves as the Managing Director of the principal subsidiaries of CCT Tech and is a key management executive for the telecom and electronic product business of the Group. Mr. Li is primarily responsible for the day-to-day management of the telecom and electronic product business of CCT Tech including R&D, sales and marketing, customer service and logistics activities of advance products. Mr. Li also oversees the operations of the R&D office in Singapore. Mr. Li graduated from The Chinese University of Hong Kong in Electronics Engineering Department in 1995. He has been in R&D of telecommunication field for more than 12 years with extensive engineering management experience. He is serving as a member of the Advisory Committee on Electronics Engineering of The Chinese University of Hong Kong.

Mr. MAN Chin Keung, Daniel, aged 43, joined the Group in November 2002. Mr. Man currently holds the position of Deputy Managing Director in a principal subsidiary of the Company engaged in manufacturing and sale of plastic components and products. He has a Bachelor's Degree in Mechanical Engineering and a Master's Degree in Business Administration. He has more than 15 years of experience in the plastic injection industry.

SENIOR MANAGEMENT *(Continued)*

Mr. TUNG Shuk Lun, Maximilian, aged 38, has been the General Counsel of the Company since December 1999 and is responsible for advising on all legal matters of the Group. Mr. Tung graduated from the University of London with an LL.B. Degree and is a practising solicitor qualified to practise in Hong Kong and the United Kingdom.

Mr. LAW Hing Lam, Andy, aged 43, currently holds the position of Financial Controller in the principal subsidiaries of the industrial group of the Company and is responsible for the finance and accounting functions of the plastic and electronic component division and the baby product division of the Group. Mr. Law has extensive accounting and auditing experience and has worked for various renowned companies prior to joining the Company. He graduated with an Honours Degree in Accountancy and Economics from the City University of London, England in July 1992. He is an associate member of both the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. CHEUNG Chi Wah, Patrick, aged 36, joined the Company in October 1999. He currently holds the position of Group Financial Controller and is responsible for finance and accounting management of the Group. Mr. Cheung graduated from the Hong Kong Polytechnic University with an Honours Degree in Accountancy. He holds a Master's Degree in Information Technology Management from the Chinese University of Hong Kong. He is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

Ms. LOW Pui Man, Jaime, aged 38, joined the Company in August 1999. Ms. Low currently holds the position of the Company Secretary of the Company. She has extensive experience in company secretarial practice. She is a fellow of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

financial review

FINANCIAL RESULTS

HIGHLIGHTS ON FINANCIAL RESULTS

HK$ million	2006	2005	% increase/ (decrease)
Turnover	**4,199**	3,980	5.5%
Gross profit	**410**	454	(9.7%)
Other income and gains	**444**	175	153.7%
Profit for the year	**366**	253	44.7%
Attributable to:			
— Equity holders of parent	**358**	225	59.1%
— Minority interests	**8**	28	(71.4%)

DISCUSSION ON FINANCIAL RESULTS

The Group reported a record turnover of HK$4,199 million during the year, which represents a slightly increase of 5.5% over last year. The increase in turnover is attributable to contribution from our securities investment business and the growth of our manufacturing businesses.

Gross profit dropped by 9.7% from HK$454 million in 2005 to HK$410 million in 2006. The drop in gross profit is mainly due to the reduction in selling price of some product models due to competition and rise in production costs

Other income and gains amounted to HK$444 million in 2006, up 153.7% from 2005. The significant increase in other income and gains was attributable to (i) the realized gain of approximately HK$316 million from the disposal of our interest in Haier Electronics, (ii) the gain and interest income of HK$48 million derived from the securities investment business and (iii) the unrealized revaluation gain on our investment properties portfolio of HK$39 million recorded in the year 2006.

Profit attributable to equity shareholders of the Company amounted to HK$358 million, up 59.1% from previous reporting year, helped mainly by the rise in other income and gains.

Profit shared by minority interest decreased significantly by 71.4% due to the dilution of the minority interests in CCT Tech in May 2006 upon the full conversion of the convertible notes by the Company into shares in CCT Tech.

ANALYSIS BY BUSINESS SEGMENT

	Turnover				
	2006		2005		
HK$ million	Amount	Relative %	Amount	Relative %	% increase/ (decrease)
Telecom and electronic products	**3,882**	**92.5%**	3,846	96.6%	0.9%
Baby products	**112**	**2.7%**	124	3.1%	(9.7%)
Securities investment	**149**	**3.5%**	—	—	N/A
Property investment and development	**3**	**—**	2	—	50%
Corporate and others	**53**	**1.3%**	8	0.3%	562.5%
Total	**4,199**	**100.0%**	3,980	100.0%	

	Operating profit		
HK$ million	2006	2005	% increase/ (decrease)
Telecom and electronic products	**109**	189	(42.3%)
Baby products	**8**	6	33.3%
Securities investment	**364**	100	264.0%
Property investment and development	**39**	67	(41.8%)
Corporate and others	**(112)**	(76)	47.4%
Total	**408**	286	

During the year, telecom and electronic product business continued to be the principal business of the Group accounting for approximately 92.5% (2005: 96.6%) of the Group's total turnover. The remaining turnover was mainly contributed by the baby product business and securities investment business which accounted for approximately 2.7% (2005: 3.1%) and 3.5% (2005: Nil), respectively, of the Group's turnover.

The telecom and electronic product business contributed HK$109 million in operating profit in the year 2006, representing a decrease of approximately 42.3% as compared to that in 2005. The decrease was due to the reduction in selling prices of certain product models due to price competition and substantial increase in operating costs in 2006. The baby product business reported operating profit of HK$8 million in 2006 despite a difficult operating environment due to successful efforts of the management to improve efficiency and control costs. The operating profit of the securities business segment recorded a significant increase from HK$100 million in 2005 to HK$364 million in 2006, representing an increase of 264.0%. The increase was mainly attributable to the realized gain of HK$316 million from disposal of Haier Electronics shares and the gain and interest income totaling HK$48 million from the trading of listed securities and interest from equity-linked deposits. Corporate and others included the results of the e-commerce business and head office income and administrative expenses.

ANALYSIS BY GEOGRAPHICAL SEGMENT

	Turnover (including bank interest income)				
	2006		2005		
HK$ million	Amount	Relative %	Amount	Relative %	% increase/ (decrease)
US	2,142	51.0%	2,360	59.3%	(9.2%)
Asia Pacific Region	1,424	33.9%	1,160	29.1%	22.8%
Europe	633	15.1%	460	11.6%	37.6%
Total	4,199	100.0%	3,980	100.0%	

The US remained the major market of the Group accounting for approximately 51.0% (2005: 59.3%) of the total turnover for the year. The Asia Pacific Region and the European markets accounted for approximately 33.9% (2005: 29.1%) and approximately 15.1% (2005: 11.6%) of the Group's total turnover for the year, respectively. The drop in sales in the US market was mainly attributable to the slow down of the US economy and the delay in shipments caused by shortage in labor of the PRC factories. Our success in the Asia Pacific and European markets, on the other hand, were largely attributable to our aggressive marketing strategy of targeting new customer profiles and successful product diversification.

FINANCIAL POSITION

Highlights on Financial Position and Major Balance Sheet Items

HK$ million	31 December 2006	31 December 2005	% increase/ (decrease)
NON-CURRENT ASSETS			
Property, plant and equipment	1,222	1,253	(2.5%)
Investment properties	490	257	90.7%
Long term receivable	312	—	N/A
Available-for-sale financial assets	11	18	(38.9%)
CURRENT ASSETS			
Financial assets at fair value through profit or loss	226	24	841.7%
Available-for-sale financial assets	—	551	N/A
Cash and cash equivalents	865	528	63.8%
EQUITY AND NON-CURRENT LIABILITIES			
Long term payable	256	—	N/A
Derivative financial instrument	71	—	N/A
Other non-current liabilities	299	296	1.0%
Minority interests	57	68	(16.2%)
Equity attributable to shareholders' of the Company	2,752	2,642	4.2%

FINANCIAL POSITION *(Continued)*

Discussion on Financial Position and Major Balance Sheet Items

The property, plant and equipment represent fixed assets held by the Group for its own use and stated at cost less accumulated depreciation and impairment losses. The decrease in their net book value in the year 2006 was mainly attributable to the combined effect of (i) additions to fixed assets to cope with the needs of production; (ii) reclassification of a property to investment property; and (iii) depreciation provided for the year 2006.

Investment properties in the amount of HK$490 million (31 December 2005: HK$257 million) represents the fair value of properties and their related land lease payment held by the Group for rental and investment purposes. The increase in the balance of investment properties during 2006 was caused by (i) the reclassification of an office premises previously held for own-use to property held for lease; and (ii) acquisitions of two luxury residential properties held for rental.

Long term receivable represents the initial exchange amount which serves as an effective collateral to secure the obligations of the Company under the Put Agreement entered into between CCT Telecom and Deutsche Bank in respect of the put options granted by the Company to Deutsche Bank in relation to the 13.8 billion shares in CCT Tech under the terms of the Put Agreement. The attributable portion of the long term receivable will be refunded to the Company if the shares in CCT Tech are disposed of by Deutsche Bank and the investors to third parties or otherwise will be used to offset the long term payable upon exercise of the put options.

Decrease in non-current available-for-sale financial assets was due to the disposal of one club membership during the year. A gain on disposal of the non-current available-for-sale financial assets amounted to approximately HK$2 million.

Financial assets at fair value through profit or loss (under current assets) as at 31 December 2006 represent our investment in listed securities and equity-linked deposits. To capture the benefit of the blooming Hong Kong Stock Market, the Group has allocated additional funds in the securities investments business in order to generate gains and income for the future.

The available-for-sale financial assets under current asset as at 31 December 2005 in the amount of HK$551 million represent the fair value of the Group's interest in Haier Electronics shares. Following our disposal of all interests in Haier Electronics shares in January 2006, there were no more available-for-sale financial assets (under current assets) recorded as at 31 December 2006.

Cash and cash equivalents increased by 63.8% from HK$528 million as at 31 December 2005 to HK$865 million as at 31 December 2006, mainly due to the receipts of the sales proceeds of approximately HK$551 million from the disposal of Haier Electronics shares and funds from operations minus the funds for capital expenditure for fixed assets, investment properties and funds utilized for the securities investment business.

Long term payable represents the liability of the Company in respect of the repurchase obligations of the CCT Tech Sale Shares under the Put Agreement. If Deutsche Bank or any of the three investors dispose of all or part of the CCT Tech Sale Shares to third parties, the related put options will be recognized in the consolidated income statement and the related long term payable will be included in the calculation of the gain or loss on disposal of the relevant CCT Tech Sale Shares.

FINANCIAL POSITION *(Continued)*

Discussion on Financial Position and Major Balance Sheet Items *(Continued)*

Derivative financial instrument represents the value of put options under the Put Agreement. The derivative financial instrument was initially recognized at fair value at HK$50 million on the date on which the put options were granted and was subsequently re-measured at fair value at the balance sheet date. The fair value of the derivative financial instrument as at 31 December 2006 amounted to HK$71 million. The loss on change in fair value on derivative financial instrument for the year ended 31 December 2006 of HK$21 million was taken directly to the income statement. The put options if not exercised or unwound will expire on 9 May 2008. The long term payable and the derivative financial instrument in relation to the Put Agreement will offset against the long term receivable upon the exercise of the put options and the consequent buy back of CCT Tech Sale Shares from Deutsche Bank. If the CCT Tech Shares are sold by Deutsche Bank and/or the three investors to third parties, the related put options will be unwound and the Company will not need to pay to Deutsche Bank.

Decrease in minority interests was mainly due to the dilution of minority interests arising from the full conversion of convertible notes due to Company by CCT Tech during the year.

The increase in shareholders' funds of approximately 4.2% was mainly due to the carried forward of the retained profits for the year and issue of the new shares from the conversion of convertible bonds during the year 2006.

CAPITAL STRUCTURE AND GEARING RATIO

	31 December 2006		31 December 2005	
HK$ million	Amount	Relative %	Amount	Relative %
Bank loans	450	13.8%	364	11.8%
Convertible notes	49	1.5%	77	2.5%
Finance lease payables	4	0.2%	10	0.3%
Total borrowings	503	15.5%	451	14.6%
Equity	2,752	84.5%	2,642	85.4%
Total capital employed	3,255	100.0%	3,093	100.0%

The Group's gearing ratio was approximately 15.5% as at 31 December 2006 as compared with that of 14.6% as at 31 December 2005. The increase in gearing ratio was mainly due to the aggregate effect of (i) the borrowing of new mortgage loans for the financing of the newly acquired luxury properties; (ii) issue of the 2009 Convertible Bonds; (iii) conversion of part of the 2010 Convertible Bonds; and (iv) the net repayment of the bank borrowings. After taking into account the cash on hand, the Group did not have any net borrowings but was in a net cash position.

Outstanding bank borrowings amounted to HK$450 million at 31 December 2006 (31 December 2005: HK$364 million). Approximately 45.1% of these bank borrowings was arranged on a short-term basis for the ordinary business of the Group and was repayable within one year. The remaining 54.9% of the bank borrowings was of long-term nature, principally comprising mortgage loans on properties held by the Group.

CAPITAL STRUCTURE AND GEARING RATIO *(Continued)*

During the year, the 2009 Convertible Bonds with a nominal value of HK$30 million were issued by the Company to a company controlled by Mr. Mak as part of the consideration to acquire a property by the Company from Mr. Mak in April 2006. In addition, part of the 2010 Convertible Bonds with a nominal value of HK$75 million was converted into approximately 124 million shares of the Company during the year.

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$4 million (31 December 2005: HK$10 million).

As at 31 December 2006, the maturity profile of the bank and other borrowings and convertible notes of the Group falling due within one year, in the second to the fifth year and in the sixth to the tenth year amounted to HK$207 million, HK$208 million and HK$88 million, respectively (31 December 2005: HK$158 million, HK$240 million and HK$53 million, respectively). There was 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	2,293	2,357
Current liabilities	1,295	1,312
Current ratio	177%	180%

Current ratio as at 31 December 2006 was 177% (31 December 2005: 180%). The strong liquid position was attributable to strong cash flow from the operations and the effective financial management of the Group.

As at 31 December 2006, the Group maintained a total cash balance of HK$953 million (31 December 2005: HK$599 million), of which HK$88 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 cash 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 EXPENDITURE AND COMMITMENTS

During the year, the Group incurred capital expenditure amounted to approximately HK$369 million, which was mainly related to the core manufacturing businesses of the Group.

The Group had authorised and contracted capital commitments of approximately HK$69 million (31 December 2005: HK$7 million) as at 31 December 2006, which was mainly related to capital expenditure for the expansion of the manufacturing business of the Group. The outstanding capital commitments will be financed partly by internal resources and partly by bank borrowings.

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 and medium-term deposits denominated in Hong Kong dollars and US dollars and some in European currencies. As at 31 December 2006, the Group's borrowings were mainly denominated in Hong Kong dollars and US dollars. As at 31 December 2006, other than the convertible bonds in an aggregate principal amount of approximately HK$59 million which is interest-free, 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. Above all, 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 net 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. Our exposure to any Renminbi fluctuation has, therefore, been partly hedged against such risks for the period up to mid 2006 although the appreciation of the Renminbi has increased forward rates which has made hedging more costly. Our future production costs will no doubt be increased by the Renminbi appreciation. Any further appreciation of Renminbi in the future will be of concern to all businesses with manufacturing facilities in China, and to their respective customers. We have invested some of our surplus funds on investments that we believe will benefit from appreciation of the Renminbi. We hope that the returns and gains that we are hoping to derive from these investments will hedge partly against the potential appreciation of the Renminbi.

ACQUISITION AND DISPOSAL OF MATERIAL SUBSIDIARIES AND ASSOCIATES

During the year 2006, we sold 13.8 billion ordinary shares in CCT Tech to Deutsche Bank and three other independent investors for a total consideration of approximately HK$303.6 million. Put options have been granted to Deutsche Bank which give Deutsche Bank the right to sell back the shares to us on the expiration date of the put options or upon occurrence of certain events. The proceeds for the sale of CCT Tech shares were paid to Deutsche Bank to effectively secure the put options. After the disposal, the Group's shareholding interests in CCT Tech are approximately 74.63%. Deutsche Bank and the three other independent investors together held in total approximately 21.44% of the total issued share capital of CCT Tech.

In April 2006, the Group subscribed a total of 550,000,000 shares in Tradeeasy for a total consideration of HK$22 million. Upon completion of the subscription, the Group's shareholding in Tradeeasy has increased from 22.18% to 66.26%. Tradeeasy has become a non-wholly owned subsidiary of the Company since then. Tradeeasy is engaged in provision of e-commerce services.

SIGNIFICANT INVESTMENT

During the year 2006, the Group has further increased its property investment by acquiring two luxury residential properties for a total consideration of HK$177 million. Besides, the Group has invested in aggregate HK$178 million in shares listed on the Stock Exchange. Save as disclosed, there was no significant investment unrelated to the core manufacturing businesses of the Group.

PLEDGE OF ASSETS

As at 31 December 2006, certain of the Group's assets with a net book value of HK$1,004 million (31 December 2005: HK$821 million) and time deposits of HK$88 million (31 December 2005: HK$71 million) were pledged to secure the general banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 2006, 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$247 million (31 December 2005: HK$154 million).

As at 31 December 2006, the Group had 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$1 million (31 December 2005: HK$1 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 17,820 (31 December 2005: 17,697). 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 2006, there were no outstanding share options issued by the Company.

corporate information

COMPANY NAME

CCT Telecom Holdings Limited

BOARD OF DIRECTORS

Executive Directors

Mak Shiu Tong, Clement *(Chairman and CEO)*

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

COMPANY SECRETARY

Low Pui Man, Jaime

QUALIFIED ACCOUNTANT

Cheung Chi Wah, Patrick

PRINCIPAL BANKERS

Nanyang Commercial Bank, Ltd

Deutsche Bank AG, Hong Kong Branch

Natexis Banques Populaires

SOLICITORS

Sidley Austin

AUDITORS

Ernst & Young, Certified Public Accountants

FINANCIAL YEAR END

31 December

REGISTERED OFFICE

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22 Victoria Street

Hamilton HM12

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Central

Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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28 Queen's Road East

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COMPANY WEBSITE

www.cct.com.hk

STOCK CODE

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corporate governance report

CORPORATE GOVERNANCE PRACTICES

The Company has always recognised the importance of the Shareholders' transparency and accountability. It is the belief of the Board that the Shareholders can maximise their benefits from good corporate governance. The Company is committed to maintaining and ensuring high standards of corporate governance in the interests of the Shareholders.

Throughout the financial year ended 31 December 2006, the Board has reviewed the Group's corporate governance practices and is satisfied that the Company has complied with the code provisions under the Code set out in Appendix 14 to the Listing Rules, except for the following deviations from the code provisions of the Code:

Code Provision A.2.1

There is no separation of the roles of chairman and chief executive officer as set out in the code provision A.2.1.

Mr. Mak Shiu Tong, Clement currently assumes the roles of both the Chairman and the CEO. Mr. Mak has substantial experience and a firmly established reputation in the telecom industry that is essential to fulfilling the role of the Chairman. At the same time, Mr. Mak has the appropriate management skills and business acumen that are the pre-requisites for assuming the role of the CEO in the day-to-day management of the Group. The Board is composed of four executive directors (including the Chairman) and three INEDs with a balance of skills and experience appropriate for the requirements of the Group. Furthermore, the roles of the managing director and the general managers of the Company's major operating subsidiaries are performed by other individuals. The Board believes that there is no need to segregate the roles of the Chairman and the CEO as the balance of power and authority is already ensured by the current structure. The Board does not believe that the separation of the roles of the Chairman and the CEO will improve the corporate performance.

Code Provision A.4.1

The code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election.

None of the existing INEDs of the Company is appointed for a specific term. However, all INEDs of the Company are subject to retirement by rotation and re-election at every AGM of the Company in accordance with the bye-laws of the Company.

Code Provision A.4.2

The code provision A.4.2 provides that all directors appointed to fill a casual vacancy should be subject to election by the shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the bye-laws of the Company, any Director appointed to fill a casual vacancy shall hold office only until the next following AGM of the Company and shall then be eligible for re-election. The Board considers that such a deviation is not material as casual vacancy seldom happens and duration between appointment to fill casual vacancy and the immediate following AGM of the Company is less than one year and is considered to be short.

CORPORATE GOVERNANCE PRACTICES (Continued)

Code Provision A.4.2 *(Continued)*

Pursuant to the bye-laws of the Company, the Chairman and the managing Director shall not be subject to retirement by rotation or also not be taken into account in determining the number of Directors to retire in each year. The Board considers that the continuity of the Chairman and his leadership will be essential for the stability of the key management of the Board. On the other hand, the Board will ensure that the Directors other than the Chairman will rotate at least once every three years in order to comply with the code provision A.4.2.

Code Provision E.1.2

Under the second part of the code provision E.1.2, the chairman of the independent board committee (if any) should be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

The members of the independent board committee had not attended the Company's special general meeting held on 5 June 2006 as all members of the independent board committee had other business engagements on that date. However, the representative of the independent financial adviser attended such general meeting and was available to answer the Shareholders' questions. No questions was raised by the independent Shareholders during such general meeting. The general meeting was convened to approve the acquisition of a property from the Chairman, which amounts to HK$80 million, representing only approximately 3% of the net assets value of the Group as at 31 December 2005. The Company considers that the representative of the independent financial adviser who attended such general meeting was already of sufficient calibre for answering questions at such general meeting. The Company will endeavour the chairman or the member(s) of the independent board committee (if any) to attend future general meetings as required under the Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its code of conduct regarding the securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code adopted by the Company throughout the financial year ended 31 December 2006.

THE BOARD

The Board is charged with the responsibility for the promotion of the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith and in the best interests of the Company.

Matters reserved for the Board's decision include those relating to:

— the strategic direction of the Group;

— the objectives of the Group;

THE BOARD (Continued)

— monitoring the performance of the management of the Group;

— ensuring prudent and effective control measures are in place;

— material bank facilities arrangements;

— material acquisitions and disposals of assets and significant investments;

— material transactions with connected persons;

— material corporate finance transactions including placing or sale of shares or convertible bonds, corporate restructuring, take-over, including approval of the announcements and the circulars;

— reviewing and approving interim and annual financial statements, declaration of dividends;

— appointment, re-appointment of auditors and determination of their remuneration; and

— reviewing and determination of the terms and remuneration of the Directors.

The management of the Group was delegated the authority and responsibility by the Board for managing the businesses of the Group, with division heads responsible for different aspects of the business. The Board meets at least four times each year and meets as and when required. Appropriate and sufficient information including notices were provided to the Board's members in a timely manner. During the financial year ended 31 December 2006, the Board held fifty-one meetings. The attendance of the Directors at the Board's meetings (either in person or by phone) is set out as follows:

Name of the Director	Number of attendance
Mak Shiu Tong, Clement	50/51
Tam Ngai Hung, Terry	51/51
Cheng Yuk Ching, Flora	48/51
William Donald Putt	30/51
Samuel Olenick	33/51
Tam King Ching, Kenny	33/51
Lau Ho Man, Edward	33/51

The company secretary of the Company is responsible for taking minutes of the Board's meetings and all Board's minutes are open for inspection by the Directors upon reasonable notice.

THE BOARD (Continued)

The Directors enable, upon the reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

Appropriate insurance cover has been arranged in respect of the legal action against the Directors and the management of the Group. The Board considers that the Group has sufficient and appropriate liability insurance to cover the Directors and the management of the Group against any legal liability arising from their performance of duties.

BOARD'S COMPOSITION

As at the date of this Annual Report, the Board comprises four executive directors, namely Mr. Mak Shiu Tong, Clement (also acting as the Chairman and the CEO), Mr. Tam Ngai Hung, Terry (also acting as the Deputy Chairman), Ms. Cheng Yuk Ching, Flora and Dr. William Donald Putt and three INEDs, namely Mr. Samuel Olenick, Mr. Tam King Ching, Kenny and Mr. Lau Ho Man, Edward. The Board has maintained a balance of skills and experience appropriate of the requirements, promotion and development of the businesses of the Group. Its composition represents a mixture of management, technical, marketing, procurement, accounting and finance with substantial experience in the businesses in which the Group is engaged.

The Company has received annual confirmation of independence from the three INEDs of the Company in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all INEDs of the Company are independent within the definition of the Listing Rules.

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of a sufficient number of the INEDs and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise throughout the financial year ended 31 December 2006. The Board comprises three INEDs, all of whom have accounting and financial expertise and bring strong independent judgement, knowledge and experience to the Board.

The Board's members have no financial, business, family or other material/relevant relationships with each other. Such balanced Board's composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the Code for the Board to have at least one-third in number of its members comprising the INEDs. The biographies of the Directors are set out in the section headed "Directors and Senior Management" in this Annual Report, which demonstrate a diversity of skills, expertise, experience and qualifications.

THE CHAIRMAN AND THE CEO

Mr. Mak Shiu Tong, Clement currently assumes the roles of both the Chairman and the CEO. The considered reasons for such deviation from the code provision under the Code are set out in the section headed "Corporate Governance Practices" above. Mr. Mak is responsible for the corporate planning, overall strategic direction of the Group and takes a leading role in managing the businesses of the Group.

RE-ELECTION AND RETIREMENT OF THE DIRECTORS

The bye-laws of the Company provide that (i) each Director (except the Chairman and the managing Director) is required to retire by rotation at least once every three years and that one-third (or the number nearest to but not less than one-third) of the Directors shall retire from office by rotation and be eligible for re-election at each AGM of the Company; and (ii) any Director appointed by the Board, either to fill a casual vacancy on or as an addition to the existing Board, shall hold office only until the next following AGM of the Company and shall then be eligible for re-election at that meeting.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the INEDs of the Company has filed a written confirmation to the Company confirming their independence and has undertaken to inform the Stock Exchange and the Company as soon as practicable if there is any subsequent change in circumstances which may affect their independence. The INEDs of the Company are not appointed for any specific terms, but they are subject to retirement by rotation and re-election at each AGM of the Company in accordance with the bye-laws of the Company.

BOARD COMMITTEES

The Board has established two committees, namely the Remuneration Committee and the Audit Committee, with clearly defined written terms of reference. The main roles and responsibilities of these two committees, including all authorities delegated to them by the Board, as set out in the terms of reference, are published on the Company's website at www.cct.com.hk. The different committees' independent views and recommendations not only ensure proper control of the Group but also the continual achievement of the high corporate governance standards expected of a listed company. The chairman of each committee reports the outcome of the committee's meetings to the Board for further discussion and approval.

Remuneration of the Directors

Pursuant to the requirements of the Listing Rules, the Company has established the Remuneration Committee with specific written terms of reference in line with the code provisions under the Code in 2005. The Remuneration Committee is mainly responsible for (i) making recommendations to the Board on the policy and structure for the remuneration of the Directors and the senior management of the Group; (ii) reviewing the remuneration package including the performance-based bonus and incentive rewards for the executive Directors and the senior management of the Group; and (iii) reviewing and recommending to the Board the fees payable to the INEDs of the Company.

The Remuneration Committee consists of five members comprising three INEDs, namely Mr. Tam King Ching, Kenny, Mr. Lau Ho Man, Edward and Mr. Samuel Olenick, and two executive directors, namely Mr. Mak Shiu Tong, Clement and Mr. Tam Ngai Hung, Terry. The Remuneration Committee is chaired by one of the members who must be an INED. Mr. Lau Ho Man, Edward acted as the chairman of the Remuneration Committee for the year 2006. The chairman of the Remuneration Committee is subject to rotation each year, provided that he/she must be an INED.

BOARD COMMITTEES (Continued)

Remuneration of the Directors *(Continued)*

During the financial year ended 31 December 2006, the Remuneration Committee held two meetings. The attendance of the members of the Remuneration Committee at the Remuneration Committee's meetings (either in person or by phone) is set out as follows:

Name of the members of the Remuneration Committee	Number of attendance
Lau Ho Man, Edward	2/2
Tam King Ching, Kenny	2/2
Samuel Olenick	2/2
Mak Shiu Tong, Clement	2/2
Tam Ngai Hung, Terry	2/2

For the financial year ended 31 December 2006, the Remuneration Committee met on two occasions and reviewed the current framework, policies and structure for the remuneration of the Directors and the senior management of the Group and reported to the Board of their reviews with recommendations. The Remuneration Committee also reviewed specific remuneration package including the terms of employment, incentive rewards and performance-based bonus of the executive Directors and the senior management of the Group and the fees payable to the INEDs of the Company.

The primary objective of the Group's remuneration policy is to retain and motivate the executive Directors and the senior management of the Group by linking their rewards to the corporate and individual performance, job complexity and responsibilities, so that the interests of the executive Directors are aligned with those of the Shareholders. No Director can, however, approve his/her own remuneration.

In order to attract, retain, and motivate the executives and the employees serving for the Group, the Company has adopted the Share Option Scheme in 2002. The Share Option Scheme enables the eligible participants to obtain an ownership interest in the Company by payment of the exercise price with reference to the market price of the Share at the time of grant and thus to reward to the participants who contribute to the success of the Group's operations.

Details of the amount of the Directors' emoluments are set out in note 8 to the financial statements in this Annual Report and details of the Share Option Scheme are set out in the section headed "Report of the Directors" in this Annual Report.

BOARD COMMITTEES (Continued)

Audit Committee

The Company has established the Audit Committee in 2000 with specific written terms of reference formulated in accordance with the requirements of the Listing Rules. The primary duties of the Audit Committee are to ensure the objectivity and credibility of the Company's financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company.

The Audit Committee is mainly responsible for (i) reviewing the Company's interim and annual financial statements and making recommendations as to the approval of the Company's interim and annual financial statements by the Board; (ii) reviewing and making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and the terms of engagement including the remuneration of the external auditors; (iii) discussing with the external auditors the nature and scope of the audit; (iv) monitoring and assessing the independence and objectivity of the external auditors and the effectiveness of the audit process in accordance with the applicable standards; (v) reviewing and monitoring the financial reporting and the reporting judgement contained in them; and (vi) reviewing the financial and internal control, accounting policies and practices with the management of the Group, internal and external auditors of the Company.

The Audit Committee consists of three members comprising three INEDs, namely Mr. Lau Ho Man, Edward, Mr. Tam King Ching, Kenny and Mr. Samuel Olenick. The Audit Committee was chaired by an INED, Mr. Lau Ho Man, Edward, for the year 2006, who possesses extensive experience in, and knowledge of, finance and accounting. The chairman of the Audit Committee is subject to rotation each year. All members of the Audit Committee hold the relevant industry and accounting and financial experience necessary to advise on the Board's strategies and other related matters. All members of the Audit Committee have complete and unrestricted access to the external auditors and all employees of the Company.

During the financial year ended 31 December 2006, the Audit Committee held three meetings. The attendance of the members of the Audit Committee at the Audit Committee's meetings (either in person or by phone) is set out as follows:

Name of the members of the Audit Committee	Number of attendance
Lau Ho Man, Edward	3/3
Tam King Ching, Kenny	3/3
Samuel Olenick	3/3

In 2006, the members of the Audit Committee met with the Group's external auditors to discuss the annual audit plan. The meeting of the Audit Committee was attended by the members of the Audit Committee and the external auditors of the Company. The external auditors also made presentations to the Audit Committee on the findings on key issues addressed in the annual audit.

BOARD COMMITTEES (Continued)

Audit Committee *(Continued)*

For the financial year ended 31 December 2006, the Audit Committee reviewed the accounting principles and practices adopted by the Company and discussed with the management of the Group the financial reporting matters. The Audit Committee also reviewed the internal control and risk management system of the Group with the internal auditors of the Company. The Audit Committee also reviewed both the interim results for the period ended 30 June 2006 and the annual results for the year ended 31 December 2006 of the Company before announcement of both results.

NOMINATION OF THE DIRECTORS

The Company has not set up the nomination committee, the establishment of which is only a recommended best practice by the Stock Exchange.

The Board is empowered under the bye-laws of the Company to appoint any person as a Director either to fill a casual vacancy on or as an additional member to the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience relevant to the Company's businesses. It is believed that the members of the Board would collectively have the required professional knowledge and skills in discharging the Board's responsibility in identifying, recruiting and evaluating new nominees to the Board and the assessment of qualifications of nominated candidates for directorship. During the financial year under review, no new director was appointed to the Board.

AUDITORS' REMUNERATION

During the financial year ended 31 December 2006, the remuneration paid to the external auditors of the Company, Messrs. Ernst & Young, is set out as follows:

Services rendered	Fees paid/payable HK$'000
Audit services	6,450
Non-audit services:	
Tax compliance services	475
Other services	400
Total	7,325

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company and ensure that they are prepared in accordance with the statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such financial statements. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects.

The statement of the external auditors of the Company, Messrs. Ernst & Young, with regard to their reporting responsibilities on the Company's financial statements is set out in the section headed "Independent Auditors' Report" in this Annual Report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to the events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Board therefore continues to adopt the going concern approach in preparing the accounts.

INTERNAL CONTROL AND INTERNAL AUDIT

The Board is entrusted with the overall responsibility for establishing and maintaining the Group's internal control system and reviewing their effectiveness. The Group's internal control system has been designed for safeguarding assets, maintaining proper accounting records and ensuring reliability of the financial information. Through the Company's internal audit department, the Board has conducted a review of the effectiveness of the internal control system of the Group which covers all material controls, including operational, financial and compliance controls and risk management functions. The internal audit team of the Company reviews the major operational, financial and compliance controls and risk management functions of the Group on a continuing basis and aims to cover all major operations of the Group on a rotational basis. The internal audit team of the Company presents their internal audit plan annually to the CEO for approval and they also discuss and agree their audit plan with the Audit Committee at the Audit Committee's meeting. The reports and findings prepared by the internal audit team of the Company have been circulated to the CEO, the Group Finance Director and the Audit Committee for review.

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 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, the manufacture of plastic and power supply components, the manufacture and sale of baby products, provision of e-commerce services, investment in securities and property investment and development. 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 122.

An interim dividend of HK$0.02 per ordinary share was paid on 27 October 2006.

The directors recommend the payment of a final dividend of HK$0.025 (2005: HK$0.020) per ordinary share in respect of the year to shareholders on the register of members of the Company on 23 May 2007 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 retained profits within the equity 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 restated/reclassified as appropriate, is set out on page 123. 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 Company and the Group during the year are set out in notes 14 and 15 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

There were no movements in the Company's authorised share capital and share options during the year. Details of movements in the Company's issued share capital and convertible bonds during the year are set out in notes 35 and 32 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 37 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As 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$2,552 million, of which HK$20 million has been proposed as a final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$10 million (2005: HK$9 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**	
	2006	2005	**2006**	2005
Largest customer	**44%**	45%		
Five largest customers in aggregate	**75%**	70%		
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 during the year and up to the date of this Annual 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 bye-laws of the Company, Messrs. Tam Ngai Hung, Terry and William Donald Putt 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 with one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACT

Save as disclosed in note 45 to the financial statements, 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 Share Option Scheme was adopted by the Company on 28 February 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 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 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 on 19 May 2003. As at the date of this Annual Report, the total number of Shares available for issue in respect thereof is 42,221,046, which represents approximately 5.3% 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 the Shareholders' approval 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, excluding the INED(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 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 the Shareholders' approval in advance at a general meeting.

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 of the convertible bonds of the Company as at 31 December 2006

(i) Long positions in the Shares:

	Number of the Shares beneficially held and nature of interest				Approximate percentage of the total issued share capital
Name of the Director	Personal	Family	Corporate	Total	(%)
Mak Shiu Tong, Clement	715,652	—	221,040,977	221,756,629	28.44
Tam Ngai Hung, Terry	500,000	—	—	500,000	0.06
Cheng Yuk Ching, Flora (Note)	14,076,713	120,000	—	14,196,713	1.82
William Donald Putt	591,500	—	—	591,500	0.08
Samuel Olenick	—	—	545,000	545,000	0.07

Note: Included in the shareholdings in which Ms. Cheng Yuk Ching, Flora was interested, 120,000 Shares 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.

(ii) Long positions in the underlying Shares of the convertible bonds of the Company:

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 the Company 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 at the conversion price of HK$0.604 per Share (subject to adjustments according to the terms of the convertible bonds). The interest of Mr. Mak Shiu Tong, Clement in these underlying Shares has also been disclosed under the section headed "Substantial Shareholders' Interests" below.

DIRECTORS' INTERESTS (Continued)

(a) Interests and short positions in the Shares and the underlying Shares of the convertible bonds of the Company as at 31 December 2006 *(Continued)*

(ii) Long positions in the underlying Shares of the convertible bonds of the Company: *(Continued)*

Notes: *(Continued)*

(2) The convertible bonds with an outstanding principal amount of HK$30,000,000 as at 31 December 2006, were issued by the Company 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 at the conversion price of HK$1.13 per Share (subject to adjustments according to the terms of the convertible bonds).

(b) Interests and short positions in the shares and the underlying shares of an associated corporation — CCT Tech 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 CCT Tech as at 31 December 2006.

(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
Tam Ngai Hung, Terry	14/8/2006	14/8/2006 – 13/8/2011	0.038	28,000,000	28,000,000	2.88
Cheng Yuk Ching, Flora	14/8/2006	14/8/2006 – 13/8/2011	0.038	5,000,000	5,000,000	0.51
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 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 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	Number of the Shares held	Approximate percentage of the total issued share capital (%)
Capital Force International Limited (Note)	96,868,792	12.42
New Capital Industrial Limited (Note)	124,172,185	15.92
	221,040,977	28.34

Note: Capital Force International Limited and New Capital Industrial Limited are corporations controlled by Mr. Mak Shiu Tong, Clement, whose interest in such Shares has also been disclosed under the section headed "Directors' Interests" above.

(ii) Long positions in the underlying Shares of the 2010 convertible bonds of the Company as at 31 December 2006:

Name of the holder of the 2010 convertible bonds	Amount of the 2010 convertible bonds HK$	Number of the total underlying Shares	Approximate percentage of the total issued share capital (%)
New Capital Industrial Limited (Note)	28,500,000	47,185,430	6.05

Note: The details of the interest of Mr. Mak Shiu Tong, Clement in these underlying Shares has also been disclosed under the section headed "Directors' Interests" above.

Save as disclosed above, as at 31 December 2006, there were no other persons 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.

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, A.4.2 and E.1.2. 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

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 throughout the financial year under review and up to the date of this Annual Report.

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

independent auditors' report

ERNST & YOUNG
安永會計師事務所

To the shareholders of CCT Telecom Holdings Limited

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

We have audited the financial statements of CCT Telecom Holdings Limited set out on pages 51 to 122, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong
18 April 2007

consolidated income statement

Year ended 31 December 2006

HK$ million	Notes	2006	2005
REVENUE	5	**4,199**	3,980
Cost of sales		**(3,789)**	(3,526)
Gross profit		**410**	454
Other income and gains		**444**	175
Selling and distribution costs		**(63)**	(59)
Administrative expenses		**(284)**	(257)
Other expenses		**(80)**	(19)
Finance costs	7	**(40)**	(23)
PROFIT BEFORE TAX	6	**387**	271
Tax	10	**(21)**	(18)
PROFIT FOR THE YEAR		**366**	253
Attributable to:			
Equity holders of the parent	11	**358**	225
Minority interests		**8**	28
		366	253
DIVIDENDS	12		
Paid special interim		**—**	319
Paid interim		**16**	—
Proposed final		**20**	13
		36	13
Total		**36**	332
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**HK$0.49**	HK$0.44
Diluted		**HK$0.43**	HK$0.37

consolidated balance sheet

31 December 2006

HK$ million	Notes	2006	2005
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,222**	1,253
Investment properties	15	**490**	257
Prepaid land lease payments	16	**225**	220
Other intangible assets	17	**45**	45
Goodwill	18	**128**	110
Long term receivable	33	**312**	—
Available-for-sale financial assets	20	**11**	18
Held-to-maturity financial assets	21	**—**	18
Financial assets at fair value through profit or loss	25	**—**	37
Deferred tax assets	34	**4**	3
Total non-current assets		**2,437**	1,961
CURRENT ASSETS			
Inventories	22	**233**	294
Trade and bills receivables	23	**837**	838
Prepayments, deposits and other receivables	24	**42**	50
Available-for-sale financial assets	20	**—**	551
Financial assets at fair value through profit or loss	25	**226**	24
Held-to-maturity financial assets	21	**2**	—
Forward currency contracts	29	**—**	1
Pledged time deposits	26	**88**	71
Cash and cash equivalents	26	**865**	528
Total current assets		**2,293**	2,357
CURRENT LIABILITIES			
Trade and bills payables	27	**886**	988
Tax payable		**25**	26
Other payables and accruals	28	**177**	139
Forward currency contracts	29	**—**	1
Interest-bearing bank and other borrowings	30	**207**	158
Total current liabilities		**1,295**	1,312
NET CURRENT ASSETS		**998**	1,045
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,435**	3,006

HK$ million	Notes	2006	2005
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	30	**247**	216
Convertible bonds	30	**49**	77
Long term payable	33	**256**	—
Derivative financial instrument	33	**71**	—
Deferred tax liabilities	34	**3**	3
Total non-current liabilities		**626**	296
Net assets		**2,809**	2,710
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	35	**78**	65
Reserves	37(a)	**2,654**	2,564
Proposed final dividend	12	**20**	13
		2,752	2,642
Minority interests		**57**	68
Total equity		**2,809**	2,710

Mak Shiu Tong, Clement
Chairman

Tam Ngai Hung, Terry
Director

consolidated statement of changes in equity

Year ended 31 December 2006

HK$ million	Notes	Attributable to equity holders of the parent												
		Issued capital	Share premium account	Capital reserve (Note 37(a))	Distributable reserve	Investment revaluation reserve	Equity component of convertible bonds	Share option reserve	Exchange fluctuation reserve	Retained profits/ (accumulated) losses)	Proposed final dividend	Total	Minority interests	Total equity
At 1 January 2005		42	1,250	1,060	—	—	—	—	—	(158)	8	2,202	205	2,407
Change in fair value of available-for-sale financial assets		—	—	—	—	320	—	—	—	—	—	320	—	320
Exchange realignment		—	—	—	—	—	—	—	1	—	—	1	—	1
Total income and expense recognised directly in equity		—	—	—	—	320	—	—	1	—	—	321	—	321
Profit for the year		—	—	—	—	—	—	—	—	225	—	225	28	253
Total income and expense for the year		—	—	—	—	320	—	—	1	225	—	546	28	574
Acquisition of minority interests		—	—	—	—	—	—	—	—	—	—	—	(165)	(165)
Exercise of share options	35	4	27	—	—	—	—	—	—	—	—	31	—	31
Issue of convertible bonds		—	—	—	—	—	46	—	—	—	—	46	—	46
Issue of new shares upon conversion of convertible bonds	35	8	44	—	—	—	(15)	—	—	—	—	37	—	37
2004 final dividend		—	—	—	—	—	—	—	—	—	(8)	(8)	—	(8)
2005 special interim dividend	12	—	—	(319)	—	—	—	—	—	—	—	(319)	—	(319)
Issue of scrip dividend shares	35	11	96	—	—	—	—	—	—	—	—	107	—	107
Cancellation of share premium account	35	—	(1,417)	—	1,417	—	—	—	—	—	—	—	—	—
Proposed 2005 final dividend	12	—	—	—	—	—	—	—	—	(13)	13	—	—	—
At 31 December 2005 and 1 January 2006		65	—	741	1,417	320	31	—	1	54	13	2,642	68	2,710
Change in fair value of available-for-sale financial assets		—	—	—	—	(1)	—	—	—	—	—	(1)	—	(1)
Exchange realignment		—	—	—	—	—	—	—	3	—	—	3	—	3
Total income and expense recognised directly in equity		—	—	—	—	(1)	—	—	3	—	—	2	—	2
Profit for the year		—	—	—	—	—	—	—	—	358	—	358	8	366
Total income and expense for the year		—	—	—	—	(1)	—	—	3	358	—	360	8	368
Realisation of revaluation reserve upon disposal of investment		—	—	—	—	(318)	—	—	—	—	—	(318)	—	(318)
Equity-settled share option arrangements		—	—	—	—	—	—	2	—	—	—	2	—	2
Restatement of fair value losses on financial assets at fair value through profit or loss upon business combination	38	—	—	—	—	—	—	—	—	35	—	35	—	35
Acquisition of subsidiaries	38	—	—	—	—	—	—	—	—	—	—	—	11	11
Deemed acquisition of minority interests upon conversion of convertible notes		—	—	—	—	—	—	—	—	—	—	—	(30)	(30)
Issue of convertible bonds	32	—	—	—	—	—	5	—	—	—	—	5	—	5
Issue of new shares upon conversion of convertible bonds	35	13	67	—	—	—	(23)	—	—	—	—	57	—	57
2005 final dividend declared		—	—	—	—	—	—	—	—	(2)	(13)	(15)	—	(15)
2006 interim dividend	12	—	—	—	—	—	—	—	—	(16)	—	(16)	—	(16)
Proposed 2006 final dividend	12	—	—	—	—	—	—	—	—	(20)	20	—	—	—
At 31 December 2006		78	67*	741*	1,417*	1*	13*	2*	4*	409*	20	2,752	57	2,809

* These reserve accounts comprise the consolidated reserves of HK$2,654 million (2005: HK$2,564 million) in the consolidated balance sheet.

consolidated cash flow statement

Year ended 31 December 2006

HK$ million	Notes	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		387	271
Adjustments for:			
Finance costs	7	40	23
Interest income	5, 6	(39)	(8)
Depreciation	6	128	122
Equity-settled share option expense	8	2	—
Amortisation of prepaid land lease payments	6	5	5
Goodwill impairment	6	21	7
Amortisation of deferred expenditure	6	47	30
Impairment of trade receivables	6	8	15
Write off of deferred development costs	6	15	8
Fair value gain on investment properties	6	(39)	—
Write off of items of property, plant and equipment	6	11	1
(Gain)/loss on disposal of items of property, plant and equipment, net	6	(1)	1
Impairment loss on items of property, plant and equipment	6	—	1
Reversal of impairment losses on properties	6	—	(66)
Write-down of inventories to net realisable value	6	46	8
Fair value (gain)/loss on financial assets at fair value through profit or loss	6	(13)	2
Gain on disposal of available-for-sale financial assets	6	(318)	—
Impairment loss on available-for-sale financial assets	6	—	2
Loss on disposal of held-to-maturity financial assets	6	1	—
Gain on deemed acquisition of minority interests upon conversion of convertible notes	6	(30)	—
Gain on disposal and deemed disposal of interest in an associate	6	—	(109)
Net gain on disposal of subsidiaries	6	—	(42)
Fair value loss on derivative financial instrument	6	21	—
		292	271
Decrease/(increase) in inventories		15	(87)
Increase in trade and bills receivables		(5)	(59)
Decrease/(increase) in prepayments, deposits and other receivables		10	(19)
(Decrease)/increase in trade and bills payables and other payables and accruals		(71)	94
Cash generated from operations		241	200
Interest received		31	8
Interest paid		(34)	(18)
Hong Kong profits tax paid		(23)	(16)
Net cash inflow from operating activities		215	174

HK$ million	Notes	2006	2005
Net cash inflow from operating activities		215	174
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(126)	(197)
Proceeds from disposal of items of property, plant and equipment		7	4
Purchases of investment properties		(147)	—
Proceeds from disposal of investment properties		—	3
Additions to prepaid land lease payments		(10)	—
Additions to intangible assets		(53)	(55)
Acquisition of subsidiaries	38	4	—
Disposal of interest in an associate		—	96
Acquisition of minority interests		—	(144)
Proceeds from disposal of held-to-maturity financial assets		15	—
Purchases of financial assets at fair value through profit or loss		(156)	(16)
Proceeds from disposal of available-for-sale financial assets		557	—
(Increase)/decrease in pledged time deposits		(17)	46
Net cash inflow/(outflow) from investing activities		74	(263)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		—	31
New bank loans		236	117
Net repayment of trust receipts loans		(40)	(2)
Repayment of bank loans		(110)	(72)
Capital element of finance lease rental payments		(7)	(7)
Dividends paid		(31)	(220)
Net cash inflow/(outflow) from financing activities		48	(153)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		337	(242)
Cash and cash equivalents at beginning of year		528	832
Effect of initial adoption of HKAS 39		—	(62)
CASH AND CASH EQUIVALENTS AT END OF YEAR		865	528
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	419	411
Non-pledged time deposits with original maturity of less than three months when acquired	26	446	117
		865	528

balance sheet

31 December 2006

HK$ million	Notes	2006	2005
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2**	3
Interests in subsidiaries	19	**2,140**	2,496
Long term receivable	33	**312**	—
Held-to-maturity financial assets	21	**—**	18
Financial assets at fair value through profit or loss	25	**—**	37
Total non-current assets		**2,454**	2,554
CURRENT ASSETS			
Prepayments, deposits and other receivables	24	**1**	2
Financial assets at fair value through profit or loss	25	**226**	20
Held-to-maturity financial assets	21	**2**	—
Pledged time deposits	26	**5**	—
Cash and cash equivalents	26	**346**	86
Total current assets		**580**	108
CURRENT LIABILITIES			
Other payables and accruals	28	**15**	5
Total current liabilities		**15**	5
NET CURRENT ASSETS		**565**	103
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,019**	2,657
NON-CURRENT LIABILITIES			
Convertible bonds	30	**49**	77
Long term payable	33	**256**	—
Derivative financial instrument	33	**71**	—
Total non-current liabilities		**376**	77
Net assets		**2,643**	2,580
EQUITY			
Issued capital	35	**78**	65
Reserves	37(b)	**2,545**	2,502
Proposed final dividend	12	**20**	13
Total equity		**2,643**	2,580

Mak Shiu Tong, Clement
Chairman

Tam Ngai Hung, Terry
Director

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands with limited liability and continued as an exempted company under the laws of Bermuda after the change of domicile from the Cayman Islands to Bermuda effective on 9 December 2005.

During the year, the Group was involved in the following principal activities:

- the manufacture and sale of telecom and electronic products, accessories and components;
- the manufacture and sale of baby products;
- the provision of e-commerce service;
- investment in securities; and
- investment and development of property.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Statements ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain derivative financial instruments and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest million (HK$ million) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 *IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS*

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 Financial Instruments: Recognition and Measurement

(i) *Amendment for financial guarantee contracts*

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) *Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

2.2 *IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)*

(b) HKAS 39 Financial Instruments: Recognition and Measurement *(Continued)*

(iii) *Amendment for cash flow hedge accounting of forecast intragroup transactions*

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 *IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS*

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, and HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair values of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Goodwill *(Continued)*

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005 (Continued)

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against consolidated reserves

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business combinations" ("SSAP 30") in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.5%–6%
Plant and machinery	10%–30%
Tools, moulds and equipment	10%–20%
Furniture and office equipment	10%–20%
Motor vehicles	15%–30%

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Property, plant and equipment and depreciation *(Continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased assets is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Deferred development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less accumulated amortisation and any impairment losses, and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity finanical assets or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on these financial assets are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity financial assets are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bonds; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to manage its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Income tax *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vest fully, in accordance with the rules of the MPF Scheme.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Employee benefits *(Continued)*

Pension scheme (Continued)

In addition to the MPF Scheme, the Group operates a separate defined contribution retirement benefits scheme for those employees who are eligible to participate in this scheme. This scheme operates in a similar way to the MPF Scheme, except that when an employee leaves this scheme before his/her interest in the Group's employer contributions vests fully, the ongoing contributions payable by the Group are reduced by the relevant amount of the forfeited employer contributions.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

(c) dealings in securities and sale of investments, on the transaction dates when the relevant contract notes are exchanged, or the settlement dates when the securities are delivered;

(d) from the rendering of services, when the services have been rendered;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits or capital reserve within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

3. *SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)*

Judgements *(Continued)*

Classification between investment properties and owner-occupied properties (Continued)

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

Disposal of interest in a subsidiary subject to put options

As further detailed in note 33 to the financial statements, during the year, in order to restore the public float of CCT Tech International Limited ("CCT Tech"), a subsidiary of the Company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company and Deutsche Bank AG ("Deutsche Bank") entered into a sale and purchase agreement for the sale of 13.8 billion shares in CCT Tech to Deutsche Bank and three other independent third party investors at a price of HK$0.022 per share of CCT Tech with put options granted to Deutsche Bank. The put options are exercisable under the terms of a put agreement which requires the Company to repurchase the shares at a price of HK$0.02413 per share upon maturity of the put options on 9 May 2008 or the occurrence of certain events as set out in the put agreement.

The Group has determined that the financial asset derecognition conditions in relation to the 13.8 billion shares in CCT Tech as stipulated in HKAS 39 have not been fulfilled. Accordingly, the Company continued to consolidate the results of the CCT Tech group for the year ended 31 December 2006 attributable to the 13.8 billion shares in CCT Tech sold under the above arrangement.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK$128 million (2005: HK$110 million). More details are given in note 18.

3. *SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)*

Judgements *(Continued)*

Estimation of fair value of the put options relating to the disposal of interest in a subsidiary

As further detailed in note 33 to the financial statements, the Group has accounted for the put options relating to the sale of the 13.8 billion shares in CCT Tech as a derivative financial instrument, which is stated at fair value. In estimating the fair value of the put options, the Group has engaged an external valuer who has applied the Black-Scholes model to determine the fair value on the date of completion of the relevant transaction and on 31 December 2006. Significant estimation of the parameters for applying the model, including risk-free interest rate, dividend yield and expected volatility, is required to be made.

The fair value of the put options using the Black-Scholes model was approximately HK$50 million on the completion date of the transaction and HK$71 million on 31 December 2006.

4. *SEGMENT INFORMATION*

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the telecom and electronic products segment engages in the manufacture and sale of telecom and electronic products, accessories and components;

(b) the baby products segment engages in the manufacture and sale of baby products;

(c) the securities investment segment engages in trading in securities and the holding of securities and treasury products;

(d) the property investment and development segment engages in property investment and property development; and

(e) the corporate and others segment comprises the provision of e-commerce service and corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

4. *SEGMENT INFORMATION (Continued)*

(a) Business segments

The following tables present revenue and profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Group

	Telecom and electronic products		Baby products		Securities investment		Property investment and development		Corporate and others		Consolidated	
	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million
Segment revenue:												
Sales to external customers	3,882	3,846	112	124	149	—	3	2	34	—	4,180	3,972
Other revenue	34	—	—	—	—	2	—	—	2	23	36	25
Total revenue	3,916	3,846	112	124	149	2	3	2	36	23	4,216	3,997
Segment results	109	189	8	6	364	100	39	67	(112)	(76)	408	286
Interest income											19	8
Finance costs											(40)	(23)
Profit before tax											387	271
Tax											(21)	(18)
Profit for the year											366	253

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments

Group

	Telecom and electronic products		Baby products		Securities investment		Property investment and development		Corporate and others		Consolidated	
	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million
Segment assets	3,186	3,229	68	76	226	461	499	354	747	195	4,726	4,315
Unallocated assets											4	3
Total assets											4,730	4,318
Segment liabilities	997	1,095	19	18	—	—	3	2	371	13	1,390	1,128
Unallocated liabilities											531	480
Total liabilities											1,921	1,608
Other segment information:												
Capital expenditure	172	241	2	1	—	—	177	—	18	14	369	256
Depreciation	112	96	2	3	—	—	—	—	16	23	130	122
Amortisation	51	35	—	—	—	—	—	—	1	—	52	35
Impairment losses recognised directly in the income statement	—	—	—	—	—	—	—	2	21	10	21	12
Fair value loss on derivative financial instrument	—	—	—	—	—	—	—	—	21	—	21	—
Other non-cash expenses	69	33	—	—	—	—	—	—	11	1	80	34
Fair value gain on investment properties	—	—	—	—	—	—	39	—	—	—	39	—
Reversal of impairment losses on properties	—	—	—	—	—	—	—	64	—	2	—	66
Gain on disposal of available-for-sale financial assets	—	—	2	—	316	—	—	—	—	—	318	—
Fair value gain on financial assets at fair value through profit or loss	—	—	—	—	13	—	—	—	—	—	13	—
Gain on disposal and deemed disposal of interest in an associate	—	—	—	—	—	—	—	—	—	109	—	109
Gain on deemed acquisition of minority interests upon conversion of convertible notes	—	—	—	—	—	—	—	—	30	—	30	—

4. *SEGMENT INFORMATION (Continued)*

(b) Geographical segments

The following table presents revenue information for the Group's geographical segments.

Group

	United States of America		Asia Pacific		Europe		Consolidated	
	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million
Segment revenue:								
Sales to external customers	2,142	2,360	1,405	1,152	633	460	4,180	3,972
Other revenue	—	—	36	25	—	—	36	25
Total revenue	2,142	2,360	1,441	1,177	633	460	4,216	3,997

Over 90% of the Group's assets are located in Hong Kong and the Mainland of the People's Republic of China (the "PRC"). Accordingly, no separate analysis of assets by geographical segment is presented.

5. *REVENUE*

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered, gross income from treasury investment which includes interest income on bank deposits and other financial assets, gross income from securities investment (which includes gross proceeds from the sale of investments and dividend income) and rental income from investment properties.

Revenue from the following activities has been included in turnover:

HK$ million	2006	2005
Revenue		
Manufacture and sale of telecom and electronic products	3,882	3,846
Manufacture and sale of baby products	112	124
Gross income from securities investment	137	—
Provision of e-commerce service	34	—
Rental income from investment properties (note 6)	3	2
Interest income from held-to-maturity financial assets and financial assets at fair value through profit or loss	12	—
Bank interest income	19	8
	4,199	3,980

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

HK$ million	Notes	Group 2006	Group 2005
Cost of inventories sold		3,693	3,044
Depreciation	14	130	122
Less: Amount capitalised in deferred development costs		(2)	—
		128	122
Amortisation of prepaid land lease payments	16	5	5
Minimum lease payments under operating leases in respect of land and buildings		6	4
Research and development costs:			
Deferred expenditure amortised*	17	47	30
Current year expenditure		58	54
Goodwill impairment**	18	21	7
Auditors' remuneration		7	6
Employee benefits expense (excluding directors' remuneration — note 8)			
Wages and salaries		419	379
Equity-settled share option expense		—	—
Pension scheme contributions****		4	3
Less: Amount capitalised in deferred development costs		(20)	(30)
		403	352
Impairment of trade receivables**		8	15
Loss/(gain) on disposal of items of property, plant and equipment, net**		(1)	1
Impairment loss on items of property, plant and equipment**	14	—	1
Write off of items of property, plant and equipment**	14	11	1
Write off of deferred development costs**	17	15	8
Write-down of inventories to net realisable value*		46	8
Foreign exchange losses/(gains), net		(7)	13
Compensation for release of guarantee**		—	36
Fair value loss on financial assets at fair value through profit or loss**		—	2
Impairment loss on available-for-sale financial assets**		—	2
Loss on disposal of held-to-maturity financial assets**		1	—
Fair value loss on derivative financial instrument**	33	21	—
and after crediting:			
Fair value gain on investment properties***	15	39	—
Gain on deemed acquisition of minority interests upon conversion of convertible notes***		30	—
Net gain on disposal of subsidiaries***	39	—	42
Gain on disposal of available-for-sale financial assets***		318	—
Gain on disposal and deemed disposal of interest in an associate***		—	109
Fair value gain on financial assets at fair value through profit or loss***		13	—
Gross rental income from investment properties	5	3	2
Interest income on long term receivable***	33	8	—
Reversal of impairment losses on properties**	14	—	66

* Included in "Cost of sales" on the face of the consolidated income statement.

** Included in "Other expenses" on the face of the consolidated income statement.

*** Included in "Other income and gains" on the face of the consolidated income statement.

**** The effect of forfeited contributions on the Group's contributions to the pension schemes for the year, and the amounts of forfeited contributions available to reduce contributions in future years, were not material.

7. *FINANCE COSTS*

HK$ million	Group 2006	Group 2005
Interest on bank loans and overdrafts wholly repayable within five years	12	7
Interest on bank loans wholly repayable after five years	11	6
Interest on convertible bonds	4	5
Interest on other liability	13	5
	40	23

8. *DIRECTORS' REMUNERATION*

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

HK$ million	Group 2006	Group 2005
Fees:		
Executive directors	—	—
Independent non-executive directors	1	1
	1	1
Executive directors' other emoluments:		
Salaries, allowances and benefits in kind	22	20
Performance related bonuses*	25	12
Employee share option benefits	2	—
Pension scheme contributions	1	1
	50	33
	51	34

* Certain executive directors of the Company are entitled to bonus payments which are determined with reference to the performance of the Group's operations.

During the year, certain directors were granted share options, in respect of their services to the Group under the share option scheme of the Company's subsidiary, Tradeeasy Holdings Limited, which is listed on the Growth Enterprise Market of the Stock Exchange. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the year is included in the above directors' remuneration disclosures.

8. *DIRECTORS' REMUNERATION (Continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

HK$'000	2006	2005
Samuel Olenick	240	240
Tam King Ching, Kenny	240	240
Lau Ho Man, Edward	240	240
	720	720

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors

HK$ million	Salaries, allowances and benefits in kind	Performance related bonuses	Employee share option benefits	Pension scheme contributions	Total remuneration
2006					
Mak Shiu Tong, Clement					
("Mr. Mak")	13	13	1	1	28
Tam Ngai Hung, Terry	4	7	1	—	12
Cheng Yuk Ching, Flora	4	6	—	—	10
William Donald Putt	—	—	—	—	—
	21	26	2	1	50

HK$ million	Salaries, allowances and benefits in kind	Performance related bonuses	Employee share option benefits	Pension scheme contributions	Total remuneration
2005					
Mak Shiu Tong, Clement	12	5	—	1	18
Tam Ngai Hung, Terry	4	4	—	—	8
Cheng Yuk Ching, Flora	4	3	—	—	7
William Donald Putt	—	—	—	—	—
	20	12	—	1	33

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2005: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2005: two) non-director, highest paid employees for the year are as follows:

	Group	
HK$ million	2006	2005
Salaries, allowances and benefits in kind	6	5
Performance related bonuses	1	3
Pension scheme contributions	—	—
	7	8

The number of the non-director, highest paid employees fell within the following bands is as follows:

	Number of employees	
	2006	2005
HK$2,000,001–HK$2,500,000	—	1
HK$2,500,001–HK$3,000,000	1	—
HK$4,500,001–HK$5,000,000	1	—
HK$6,000,001–HK$6,500,000	—	1
	2	2

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Certain PRC subsidiaries of the Group, which are categorised as wholly foreign-owned enterprises, are entitled to preferential tax treatments including full exemption from the PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction in the PRC income tax for the next three consecutive years.

10. TAX *(Continued)*

HK$ million	Group 2006	Group 2005
Group:		
Current — Hong Kong:		
Charge for the year	10	12
Overprovision in prior years	—	(1)
Current — Elsewhere		
Charge for the year	12	7
Underprovision in prior years	—	1
Deferred — note 34	(1)	(1)
Total tax charge for the year	21	18

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group — 2006

HK$ million	Hong Kong	%	The PRC, excluding Hong Kong	%	Total	%
Profit before tax	319.3		67.6		386.9	
Tax at the statutory or appropriate tax rate	55.9	17.5	22.3	33.0	78.2	20.2
Lower tax rate for specific provinces or local authority	—	—	(2.9)	(4.3)	(2.9)	(0.7)
Adjustment in respect of current tax of previous periods	0.1	—	(0.1)	(0.1)	—	—
Income not subject to tax	(74.9)	(23.5)	(53.9)	(79.7)	(128.8)	(33.3)
Expenses not deductible for tax	21.1	6.6	73.0	108.0	94.1	24.3
Tax losses utilised from previous periods	(0.2)	(0.1)	—	—	(0.2)	(0.1)
Tax losses not recognised	7.2	2.3	7.2	10.7	14.4	3.7
Tax exemption	—	—	(33.5)	(49.6)	(33.5)	(8.7)
Others	—	—	0.1	0.1	0.1	—
Tax charge at the Group's effective rate	9.2	2.8	12.2	18.1	21.4	5.4

10. *TAX (Continued)*

Group — 2005

HK$ million	Hong Kong	%	The PRC, excluding Hong Kong	%	Total	%
Profit before tax	163.2		107.7		270.9	
Tax at the statutory or appropriate tax rate	28.6	17.5	35.5	33.0	64.1	23.6
Lower tax rate for specific provinces or local authority	—	—	(25.7)	(23.8)	(25.7)	(9.5)
Adjustments in respect of current tax of previous periods	(1.4)	(0.9)	1.4	1.4	—	—
Income not subject to tax	(107.2)	(65.6)	(16.8)	(15.6)	(124.0)	(45.8)
Expenses not deductible for tax	89.9	55.0	31.9	29.6	121.8	45.0
Tax losses utilised from previous periods	(2.4)	(1.4)	—	—	(2.4)	(0.9)
Tax losses not recognised	4.3	2.6	—	—	4.3	1.6
Tax exemption	—	—	(18.7)	(17.4)	(18.7)	(6.9)
Others	(2.3)	(1.4)	0.8	0.7	(1.5)	(0.5)
Tax charge at the Group's effective rate	9.5	5.8	8.4	7.9	17.9	6.6

11. *PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT*

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of HK$32 million (2005: HK$428 million) which has been dealt with in the financial statements of the Company (note 37(b)).

12. *DIVIDENDS*

HK$ million	2006	2005
Paid special interim — Nil (2005: HK$0.68) per ordinary share	—	319
Paid interim — HK$0.02 (2005: Nil) per ordinary share	16	—
Proposed final — HK$0.025 (2005: HK$0.02) per ordinary share	20	13
	36	13
Total	36	332

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on convertible bonds (see below). The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

HK$ million	2006	2005
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	358	225
Interest on convertible bonds (note 7)	4	5
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	362	230

	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	732,918,201	512,524,188
Effect of dilution — weighted average number of ordinary shares:		
Share options	—	8,941,582
Convertible bonds	108,046,640	102,961,814
	840,964,841	624,427,584

14. *PROPERTY, PLANT AND EQUIPMENT*

Group

HK$ million	Leasehold land and buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total
31 December 2006							
At 31 December 2005 and 1 January 2006:							
Cost	1,115	430	167	120	24	1	1,857
Accumulated depreciation and impairment	(191)	(215)	(108)	(77)	(13)	—	(604)
Net carrying amount	924	215	59	43	11	1	1,253
At 1 January 2006, net of accumulated depreciation and impairment	924	215	59	43	11	1	1,253
Acquisition of subsidiaries (note 38)	2	—	—	1	—	—	3
Additions	16	49	27	12	4	19	127
Disposals	(3)	(1)	—	—	(2)	—	(6)
Write off	(10)	—	—	(1)	—	—	(11)
Depreciation provided during the year	(48)	(44)	(23)	(12)	(3)	—	(130)
Transfer to investment properties (note 15)	(17)	—	—	—	—	—	(17)
Exchange realignment	—	3	—	—	—	—	3
At 31 December 2006, net of accumulated depreciation and impairment	864	222	63	43	10	20	1,222
At 31 December 2006:							
Cost	1,086	480	194	149	24	20	1,953
Accumulated depreciation and impairment	(222)	(258)	(131)	(106)	(14)	—	(731)
Net carrying amount	864	222	63	43	10	20	1,222

14. *PROPERTY, PLANT AND EQUIPMENT (Continued)*

Group *(Continued)*

HK$ million	Leasehold land and buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total
31 December 2005							
At 1 January 2005:							
Cost	1,302	387	150	125	22	39	2,025
Accumulated depreciation and impairment	(365)	(204)	(91)	(79)	(13)	—	(752)
Net carrying amount	937	183	59	46	9	39	1,273
At 1 January 2005, net of accumulated depreciation and impairment	937	183	59	46	9	39	1,273
Additions	13	66	23	12	7	80	201
Disposals	(2)	(1)	—	—	(2)	—	(5)
Write off	—	—	—	(1)	—	—	(1)
Depreciation provided during the year	(48)	(36)	(21)	(14)	(3)	—	(122)
Impairment	(1)	—	—	—	—	—	(1)
Reversal of impairment	66	—	—	—	—	—	66
Reclassification	118	2	(2)	—	—	(118)	—
Transfer to investment properties (note 15)	(159)	—	—	—	—	—	(159)
Exchange realignment	—	1	—	—	—	—	1
At 31 December 2005, net of accumulated depreciation and impairment	924	215	59	43	11	1	1,253
At 31 December 2005:							
Cost	1,115	430	167	120	24	1	1,857
Accumulated depreciation and impairment	(191)	(215)	(108)	(77)	(13)	—	(604)
Net carrying amount	924	215	59	43	11	1	1,253

14. *PROPERTY, PLANT AND EQUIPMENT (Continued)*

Company

HK$ million	Furniture and office equipment
31 December 2006	
At 31 December 2005 and 1 January 2006, net of accumulated depreciation	3
Depreciation provided during the year	(1)
At 31 December 2006, net of accumulated depreciation	2
At 31 December 2006:	
Cost	5
Accumulated depreciation	(3)
Net carrying amount	2
31 December 2005	
At 1 January 2005, net of accumulated depreciation	1
Additions	3
Depreciation provided during the year	(1)
At 31 December 2005, net of accumulated depreciation	3
At 31 December 2005:	
Cost	7
Accumulated depreciation	(4)
Net carrying amount	3

The net book value of the fixed assets of the Group held under finance leases included in the total amounts of plant and machinery and motor vehicles as at 31 December 2006, amounted to approximately HK$11 million (2005: HK$12 million) and HK$4 million (2005: HK$6 million), respectively.

The Group's land and buildings included above are held under the following lease terms:

HK$ million	Hong Kong	Elsewhere	Total
Medium term leases	33	831	864

At 31 December 2006, certain of the Group's land and buildings with an aggregate carrying value of approximately HK$517 million (2005: HK$567 million) were pledged to secure general banking facilities granted to the Group (note 30).

15. INVESTMENT PROPERTIES

HK$ million	Group 2006	2005
Carrying amount at 1 January	257	101
Additions	177	—
Disposals	—	(3)
Fair value gain on investment properties	39	—
Transfer from an owner-occupied property (note 14)	17	159
Carrying amount at 31 December	490	257

The Group's investment properties are situated in Hong Kong and held under the following lease terms:

HK$ million	
Long term leases	275
Medium term leases	215
	490

The Group's investment properties were revalued on 31 December 2006 by Grant Sherman Appraisal Limited, independent professionally qualified valuers, on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 43(a) to the financial statements.

At 31 December 2006, the Group's investment properties with a value of HK$487 million (2005: HK$254 million) were pledged to secure general banking facilities granted to the Group (note 30).

15. *INVESTMENT PROPERTIES (Continued)*

Further particulars of the Group's investment properties are as follows:

Location	Use	Tenure	Attributable interest of the Group
House No. 36, Carpark 3 & 4, 56 Repulse Bay Road, Hong Kong	Residential	Long term lease	100%
House No. 37, Carpark 50 & 51, 56 Repulse Bay Road, Hong Kong	Residential	Long term lease	100%
House No. 7, Rosecliff, No. 20 Tai Tam Road, Hong Kong	Residential	Long term lease	100%
32/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong	Office building	Medium term lease	100%
15/F, CCT Telecom Building, No. 11 Wo Shing Street, Shatin, Hong Kong	Office building	Medium term lease	100%
Carpark no. 64 and 66 Basement of Site No. 1, No. 26, 27, 234, 236 and 237 at the Basement of Site No. 3, Whampoa Garden, Hunghom, Kowloon, Hong Kong	Carpark	Long term lease	100%

16. *PREPAID LAND LEASE PAYMENTS*

HK$ million	Group 2006	Group 2005
Carrying amount at 1 January	**225**	230
Additions	**10**	—
Recognised during the year	**(5)**	(5)
Carrying amount at 31 December	**230**	225
Current portion included in prepayments, deposits and other receivables	**(5)**	(5)
Non-current portion	**225**	220

The leasehold land is held under a long term lease and is situated in the PRC.

17. OTHER INTANGIBLE ASSETS

Group

HK$ million	Deferred development costs
31 December 2006	
Cost at 1 January 2006, net of accumulated amortisation	45
Acquisition of subsidiaries (note 38)	7
Additions — internal development	55
Write off	(15)
Amortisation provided during the year	(47)
At 31 December 2006	45
At 31 December 2006:	
Cost	102
Accumulated amortisation	(57)
Net carrying amount	45
31 December 2005	
Cost at 1 January 2005, net of accumulated amortisation	28
Additions — internal development	55
Write off	(8)
Amortisation provided during the year	(30)
At 31 December 2005	45
At 31 December 2005:	
Cost	76
Accumulated amortisation	(31)
Net carrying amount	45

18. GOODWILL

The amounts of the goodwill capitalised as an asset and recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

Group

HK$ million	
31 December 2006	
At 1 January 2006:	
Cost	117
Accumulated impairment	(7)
Net carrying amount	110
Cost at 1 January 2006, net of accumulated impairment	110
Acquisition of interests in a subsidiary (note 38)	39
Impairment during the year	(21)
Net carrying amount at 31 December 2006	128
At 31 December 2006:	
Cost	156
Accumulated impairment	(28)
Net carrying amount	128

Group

HK$ million	
31 December 2005	
At 1 January 2005:	
Cost	28
Accumulated impairment	—
Net carrying amount	28
Cost at 1 January 2005, net of accumulated impairment	28
Acquisition of minority interests in subsidiaries	89
Impairment during the year	(7)
Net carrying amount at 31 December 2005	110
At 31 December 2005:	
Cost	117
Accumulated impairment	(7)
Net carrying amount	110

18. GOODWILL *(Continued)*

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- Telecom and electronic products cash-generating unit;
- Provision of e-commerce service cash-generating unit; and
- Property holding cash-generating unit.

Telecom and electronic products cash-generating unit

The recoverable amount of the telecom and electronic products cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 18%.

Provision of e-commerce service cash-generating unit

The recoverable amount of the provision of e-commerce service cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15%. An impairment loss of HK$19 million was recognised to reduce the carrying amount of goodwill to HK$20 million.

Property holding cash-generating unit

The recoverable amount of the property holding cash-generating unit is determined based on estimated fair value less costs to sell. An independent valuation is obtained to determine the fair value. An impairment loss of HK$2 million was recognised to reduce the carrying amount of goodwill to HK$5 million.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

HK$ million	2006	2005
Telecom and electronic products	103	103
Provision of e-commerce service	20	—
Property holding	5	7
Carrying amount of goodwill	128	110

18. *GOODWILL (Continued)*

Key assumptions were used in the value in use calculation of the telecom and electronic products cash-generating unit and the provision of e-commerce service cash-generating unit for 31 December 2006. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements, and expected market development.

Discount rate — The discount rate used is before tax and reflect specific risks relating to the relevant unit.

Business environment — There is no major change in the existing political, legal and economic conditions in the countries with which and the country in which the cash-generating units carried on its business.

19. *INTERESTS IN SUBSIDIARIES*

	Company	
HK$ million	**2006**	2005
Unlisted shares, at cost	**45**	45
Due from subsidiaries	**3,131**	3,552
	3,176	3,597
Provision for impairment	**(1,036)**	(1,101)
	2,140	2,496

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Company's directors, these advances are considered quasi-equity loans to the subsidiaries. The carrying amounts of the amounts due from subsidiaries approximate to their fair values.

19. *INTERESTS IN SUBSIDIARIES (Continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Canford Holdings Limited	Hong Kong	HK$2 Ordinary	—	100	Property holding
CCT Marketing Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	96.07	Trading of telecom products
CCT Telecom (HK) Limited	Hong Kong	HK$2,600,000 Ordinary	—	96.07	Sourcing of telecom products, raw material and components
CCT Tech International Limited ("CCT Tech") @	Bermuda/ Hong Kong	HK$643,669,939.90 Ordinary	—	96.07	Investment holding
Electronic Sales Limited	Hong Kong	HK$5,948,000 Ordinary	—	100	Sale of power supply components
Goldbay Investments Limited	Hong Kong	HK$2 Ordinary	—	100	Property holding
Huge Partner Limited	Hong Kong	HK$10,000 Ordinary	—	100	Property holding
Neptune Holding Limited	Hong Kong	HK$10,000,000 Non-voting* class 'A' shares HK$1,000,000 Voting class 'B' shares	—	100	Trading of plastic casings and parts
Rich Full International Industries Limited	Hong Kong	HK$1 Ordinary	—	100	Property holding
Topcon Investments Limited	Hong Kong	HK$1 Ordinary	—	100	Property holding
Wiltec Industries Limited	Hong Kong	HK$100 Ordinary HK$1,000,000 Deferred**	—	100	Sale of baby products

19. *INTERESTS IN SUBSIDIARIES (Continued)*

Particulars of the principal subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Huiyang CCT Telecommunications Products Co., Ltd.	PRC	HK$80,000,000 Registered^	—	96.07	Manufacturing of telecom products
Huiyang CCT Plastic Products Co., Ltd.	PRC	HK$48,600,000 Registered^	—	100	Manufacturing of plastic casings and parts
CCT Telecom (Chaoyang) Property Development Company Limited	PRC	US$5,150,000 Registered^	—	100	Property development
CCT Tech (Chaoyang) Company Limited	PRC	US$6,950,000 Registered^	—	96.07	Manufacturing of telecom and electronic products
CCT (Chaoyang) Plastic Products Company Limited	PRC	US$11,577,000 Registered^	—	100	Manufacturing of plastic casings and parts
Electronic Sales (Chaoyang) Limited	PRC	US$900,000 Registered^	—	100	Manufacturing of power supply components
Tradeeasy Holdings Limited @@	Cayman Islands/ Hong Kong	HK$9,710,000 Ordinary	—	66.26	Provision of e-commerce service

* The non-voting shares carry no rights to dividends and no rights to vote at general meetings.

** The non-voting deferred shares carry no rights to dividends, to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding-up.

@ Listed on the Main Board of the Stock Exchange.

@@ Listed on the Growth Enterprise Market of the Stock Exchange.

^ Registered as wholly-foreign-owned enterprises under the PRC law.

19. *INTERESTS IN SUBSIDIARIES (Continued)*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20. *AVAILALBLE-FOR-SALE FINANCIAL ASSETS*

	Group	
HK$ million	**2006**	2005
Listed equity investment in Hong Kong, at fair value	—	551
Unlisted equity investment, at cost less impairment	2	2
Other assets, at fair value	9	16
	11	569
Less: portion classified as current assets	—	(551)
Non-current assets	11	18

During the prior year, the gross gain of the Group's available-for-sale financial assets recognised directly in equity amounted to HK$320 million.

The above investments consist of investments in equity securities and club debenture which were designated as available-for-sale financial assets on 1 January 2005 and have no fixed maturity date or coupon rate. As the unlisted equity investment has no published quoted prices available or is not able to be benchmarked with similar financial instruments, and the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, the Group has stated the unlisted equity investment at cost less impairment.

21. *HELD-TO-MATURITY FINANCIAL ASSETS*

	Group and Company	
HK$ million	**2006**	2005
Unlisted held-to-maturity financial assets, at amortised cost	2	18
Less: portion classified as current assets	(2)	—
Non-current assets	—	18

The held-to-maturity financial asset at 31 December 2006 has maturity of 1 year and carries effective interest rate of 2.25% per annum. The held-to-maturity financial assets at 31 December 2005 have maturities of 2 to 4 years and carry effective interest rates of 1.7% to 4.0% per annum.

22. INVENTORIES

HK$ million	Group 2006	Group 2005
Raw materials	78	95
Work in progress	57	71
Finished goods	98	128
	233	294

23. TRADE AND BILLS RECEIVABLES

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group			
	2006		2005	
HK$ million	Balance	Percentage	Balance	Percentage
Current to 30 days	294	35	286	34
31 to 60 days	249	30	259	31
61 to 90 days	243	29	239	29
Over 90 days	51	6	54	6
	837	100	838	100

The Group allows an average credit period of 30–90 days to its trade customers.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
HK$ million	2006	2005	2006	2005
Prepayments	10	21	—	—
Deposits and other receivables	32	29	1	2
	42	50	1	2

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
HK$ million	**2006**	2005	**2006**	2005
Listed equity investments in Hong Kong, at market value	**71**	4	**71**	—
Deposits with embedded derivatives, at fair value	**155**	57	**155**	57
	226	61	**226**	57
Less: portion classified as current assets	**(226)**	(24)	**(226)**	(20)
Non-current assets	**—**	37	**—**	37

The above equity investments and deposits with embedded derivatives at 31 December 2006 were classified as held for trading.

As at 31 December 2005, the details of the company held by the Group exceeding 20% of its total issued shares are as follows:

Name	Place of incorporation	Description of shares held	Percentage holding
Tradeeasy Holdings Limited*	Cayman Islands	Ordinary shares	22.2

* Listed on the Growth Enterprise Market of the Stock Exchange and became a subsidiary of the Company during the current year (note 38).

26. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
HK$ million	**2006**	2005	**2006**	2005
Cash and bank balances	**419**	411	**10**	7
Time deposits	**534**	188	**341**	79
	953	599	**351**	86
Less: Time deposits pledged for bank borrowings	**(88)**	(71)	**(5)**	—
Cash and cash equivalents	**865**	528	**346**	86

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$11 million (2005: HK$7 million). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

26. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS *(Continued)*

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

27. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group			
	2006		2005	
HK$ million	Balance	Percentage	Balance	Percentage
Current to 30 days	232	26	290	29
31 to 60 days	233	26	243	25
61 to 90 days	168	19	167	17
Over 90 days	253	29	288	29
	886	100	988	100

The trade payables are non-interest-bearing and are normally settled on 60-90 day terms.

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
HK$ million	2006	2005	2006	2005
Other payables	86	27	10	—
Accruals	91	112	5	5
	177	139	15	5

Other payables are non-interest-bearing and have an average term of three months.

29. FORWARD CURRENCY CONTRACTS

HK$ million	2006 Asset	2006 Liabilities	2005 Asset	2005 Liabilities
Forward currency contracts	—	—	1	1

The carrying amounts of forward currency contracts were the same as their fair values.

The Group had entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting.

30. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2006			2005		
	Effective interest rate (%)	Maturity	HK$ million	Effective interest rate (%)	Maturity	HK$ million
Current						
Finance lease payables (note 31)	2.50–5.75	2007	4	2.50–3.00	2006	6
Bank loans — unsecured	6.01–7.00	2007	26	5.62–6.75	2006	46
Bank loans — secured	4.74–7.25	2007	177	4.25–6.75	2006	106
			207			158
Non-current						
Finance lease payables (note 31)	N/A	N/A	—	2.50–3.00	2007–2008	4
Bank loans — secured	4.74–6.25	2008–2016	247	4.25–6.75	2007–2014	212
			247			216
2010 Convertible Bonds (note 32(a))	7.25	2010	23	7.25	2010	77
2009 Convertible Bonds (note 32(b))	5.68	2009	26	N/A	N/A	—
			296			293
			503			451

30. *INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)*

Company

	2006			2005		
	Effective interest rate (%)	Maturity	HK$ million	Effective interest rate (%)	Maturity	HK$ million
Non-current						
2010 Convertible Bonds (note 32(a))	7.25	2010	23	7.25	2010	77
2009 Convertible Bonds (note 32(b))	5.68	2009	26	N/A	N/A	—
			49			77

HK$ million	Group 2006	Group 2005	Company 2006	Company 2005
Analysed into:				
Bank loans repayable:				
Within one year or on demand	203	152	—	—
In the second year	59	67	—	—
In the third to fifth years, inclusive	100	92	—	—
Beyond five years	88	53	—	—
	450	364	—	—
Other borrowings repayable:				
Within one year or on demand	4	6	—	—
In the second year	—	4	—	—
In the third to fifth years, inclusive	49	77	49	77
	53	87	49	77
	503	451	49	77

(a) Certain of the Group's bank loans are secured by:

(i) mortgage over the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$487 million (2005: HK$254 million);

(ii) mortgage over the Group's land and buildings situated in Hong Kong and the PRC, which had an aggregate carrying value at the balance sheet date of approximately HK$517 million (2005: HK$567 million); and

(iii) the pledge of certain of the Group's time deposits amounting to HK$88 million (2005: HK$71 million).

30. *INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)*

(b) Except for the secured bank loans aggregating HK$177 million which are denominated in RMB and United States dollars, all borrowings are in Hong Kong dollars.

Other interest rate information:

	Group			
	2006		2005	
HK$ million	Fixed rate	Floating rate	Fixed rate	Floating rate
Finance lease payables	2	2	3	7
Bank loans — unsecured	—	26	—	46
Bank loans — secured	—	424	—	318
Convertible bonds	49	—	77	—
	51	452	80	371

	Company			
	2006		2005	
HK$ million	Fixed rate	Floating rate	Fixed rate	Floating rate
Convertible bonds	49	—	77	—

Except for the convertible bonds, the carrying amounts of the Group's and the Company's borrowings approximate to their fair values. The fair value of the Group's and the Company's convertible bonds with carrying amounts of HK$49 million (2005: HK$77 million) and HK$49 million (2005: HK$77 million) are HK$44 million (2005: HK$68 million) and HK$44 million (2005: HK$68 million) at the balance sheet date, respectively.

The fair value of the liability portion of the convertible bonds is estimated using an equivalent market interest rate for a similar bond without a conversion option. The fair value of other borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

31. *FINANCE LEASE PAYABLES*

The Group leases certain of its motor vehicles, machinery and office equipment for business use. These leases are classified as finance leases and have remaining lease term of one year.

At the balance sheet date, the total future minimum lease payments under finance leases and their present value were as follows:

Group

HK$ million	Minimum lease payments 2006	Minimum lease payments 2005	Present value of minimum lease payments 2006	Present value of minimum lease payments 2005
Amounts payable:				
Within one year	4	7	4	6
In the second year	—	4	—	4
Total minimum finance lease payments	4	11	4	10
Future finance charges	—	(1)		
Total net finance lease payables	4	10		
Portion classified as current liabilities — note 30	(4)	(6)		
Non-current portion — note 30	—	4		

32. CONVERTIBLE BONDS

(a) On 25 April 2005, the Company issued convertible bonds with an aggregate nominal value of approximately HK$155 million (the "2010 Convertible Bonds") to those shareholders and noteholders of CCT Tech who accepted the general offers made by a subsidiary of the Company on 31 January 2005 to take over CCT Tech and who opted for the 2010 Convertible Bonds.

The 2010 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company at the conversion price of HK$0.604 per share (subject to adjustment as provided in the terms and conditions of the 2010 Convertible Bonds) at any time during the conversion period starting from the date of issue and ending on the fifth business day before the fifth anniversary of the date of issue. The 2010 Convertible Bonds are unsecured, interest-free and have a maturity date of 25 April 2010. Unless converted into the shares of the Company or early repaid by the Company, the outstanding balance of the 2010 Convertible Bonds shall be redeemed in full on maturity. The Company may at its sole discretion repay, in whole or in part, the outstanding balance of the 2010 Convertible Bonds not yet repaid or converted into the shares of the Company any time before maturity by giving the holders of the convertible bonds a prior written notice of 14 days.

During the prior year, the 2010 Convertible Bonds with a nominal value of approximately HK$52 million were converted into 80,662,359 shares in the Company of HK$0.10 each. During the current year, the 2010 Convertible Bonds with a nominal value of HK$75 million were converted into 124,172,185 shares in the Company of HK$0.10 each.

(b) On 23 June 2006, the Company issued a convertible bond with a nominal value of HK$30 million (the "2009 Convertible Bond") as part of consideration for the acquisition of a property as further detailed in note 45(a) to the financial statements.

The 2009 Convertible Bond is convertible at the option of the bondholder into ordinary shares of the Company at the conversion price of HK$1.13 per share (subject to adjustment as provided in the terms and conditions of the 2009 Convertible Bond) at any time from the date of issue of 2009 Convertible Bond to the fifth business day immediately prior to the maturity thereof. The 2009 Convertible Bond is unsecured, interest-free and has a maturity date of 23 June 2009. Unless converted into the shares of the Company or early repaid by the Company, the outstanding balance of the 2009 Convertible Bond shall be redeemed in full on maturity. The Company may at its sole discretion repay, in whole or in part, the outstanding balance of the 2009 Convertible Bond not yet repaid or converted into the shares of the Company any time before maturity by giving the holders of the convertible bonds a prior written notice of 14 days. There was no conversion of the 2009 Convertible Bond during the current year.

The fair value of the liability component of the convertible bonds was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in the shareholders' equity.

32. *CONVERTIBLE BONDS (Continued)*

The convertible bonds issued during the year have been split as to the liability and equity components, as follows:

HK$ million	Group and Company 2006
Nominal value of convertible bonds issued during the year	30
Equity component	(5)
Liability component at the issuance date	25
Interest expense	1
Liability component at 31 December (note 30)	26

33. *LONG TERM RECEIVABLE/LONG TERM PAYABLE/DERIVATIVE FINANCIAL INSTRUMENT*

		Group and Company	
HK$ million	Notes	2006	2005
Long term receivable	(a)	312	—
Long term payable	(b)	256	—
Derivative financial instrument	(c)	71	—

During the year, in order to restore the public float of CCT Tech on the Stock Exchange, the Company and Deutsche Bank entered into a sale and purchase agreement dated 17 March 2006 (the "S&P Agreement") for the sale of 13.8 billion shares in CCT Tech (the "CCT Tech Sale Shares") (representing approximately 21.4% of the issued share capital of CCT Tech as enlarged by 48,428,571,428 shares in CCT Tech issued upon the conversion of the convertible notes in CCT Tech held by the Company's subsidiaries) owned by a subsidiary of the Company to Deutsche Bank and three other independent third party investors at a price of HK$0.022 per share of CCT Tech with put options (the "Put Options") granted to Deutsche Bank which are exercisable under the terms of the put agreement (the "Put Agreement"). Under the Put Agreement, Deutsche Bank can exercise the Put Options to require the Company to repurchase the CCT Tech Sale Shares at a price of HK$0.02413 per share. The Put Options are not transferable and are only exercisable upon maturity of the Put Options on 9 May 2008 or the occurrence of certain events under the Put Agreement. The consideration for the disposal of the CCT Tech Sale Shares and the grant of the Put Options amounting to approximately HK$304 million (the "Consideration") has been paid to Deutsche Bank as an initial exchange amount (the "Initial Exchange Amount") under the terms of the Put Agreement and serves effectively as collateral to secure the obligations of the Company under the Put Agreement. The Initial Exchange Amount bears interest at a deposit rate of 4.53% per annum.

33. *LONG TERM RECEIVABLE/LONG TERM PAYABLE/DERIVATIVE FINANCIAL INSTRUMENT (Continued)*

The Group has determined that the financial asset derecognition conditions in relation to the CCT Tech Sale Shares as stipulated in HKAS 39 have not been fulfilled. Accordingly, the Company continued to consolidate the results of the CCT Tech group for the year ended 31 December 2006 attributable to the CCT Tech Sale Shares.

(a) Long term receivable

Long term receivable represents the sum of the Initial Exchange Amount of HK$304 million and the accrued interest of HK$8 million on the Initial Exchange Amount receivable by the Company. If any of the CCT Tech Sale Shares are disposed of by Deutsche Bank or any of the three investors, the related Put Options will be unwound and the related long term receivable plus interest up to the date of unwind will be refunded to the Company. The amount of long term receivable not being refunded will be used to offset the long term payable upon the exercise of the Put Options.

(b) Long term payable

Long term payable represents the liability of the Company in respect of the repurchase obligations of the CCT Tech Sale Shares under the Put Agreement. If Deutsche Bank or any of the three investors disposed of all or part of the CCT Tech Sale Shares to third parties, the related Put Options will be unwound and recognised in the consolidated income statement, and the attributable amount of long term payable will be included in the calculation of the gain or loss on disposal of the relevant CCT Tech Sale Shares disposed.

(c) Derivative financial instrument

The derivative financial instrument represents the Put Options which are stated at fair value of HK$71 million at 31 December 2006. The derivative financial instrument was initially recognised at fair value at HK$50 million on the completion date of the S&P Agreement and was subsequently remeasured at fair value at the balance sheet date. The loss of HK$21 million on change in fair value of the Put Options for the year ended 31 December 2006 was taken directly to the income statement. The Put Options if not exercised or unwound will expire on 9 May 2008. The long term payable in relation to the Put Agreement will be used to offset against the long term receivable upon the exercise of the Put Options and the consequent buy back of CCT Tech Sale Shares from Deutsche Bank, and the corresponding amount of the Put Options will be recognised in the consolidated income statement. If the CCT Tech Sale Shares are sold by Deutsche Bank and/or the three investors to third parties, the related Put Options will be unwound.

Further details of the transaction were set out in the Company's circular to shareholders dated 11 April 2006.

34. DEFERRED TAX

The movement in deferred tax liabilities and assets during the year is as follows:

Deferred tax liabilities

Group

HK$ million	2006 Accelerated tax depreciation
Gross deferred tax liabilities at 1 January 2006 and 31 December 2006	3

Deferred tax assets

Group

HK$ million	2006 Losses available for offsetting against future taxable profit
At 1 January 2006	3
Deferred tax credited to the income statement during the year — note 10	1
Gross deferred tax assets at 31 December 2006	4
Net deferred tax assets at 31 December 2006	1

34. DEFERRED TAX *(Continued)*

Deferred tax liabilities

Group

HK$ million	2005 Accelerated tax depreciation
At 1 January 2005	5
Deferred tax credited to the income statement during the year — note 10	(2)
At 31 December 2005	3

Deferred tax assets

Group

HK$ million	2005 Losses available for offsetting against future taxable profit
At 1 January 2005	4
Deferred tax charged to the income statement during the year — note 10	(1)
Gross deferred tax assets at 31 December 2005	3
Net deferred tax liabilities at 31 December 2005	—

The Group has tax losses arising in Hong Kong of HK$245 million (2005: HK$194 million) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

35. *SHARE CAPITAL*

Shares

HK$ million	Company 2006	Company 2005
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200**	200
Issued and fully paid:		
779,865,493 (2005: 655,693,308) ordinary shares of HK$0.10 each	**78**	65

During the year, the 2010 Convertible Bonds with a nominal value of approximately HK$75 million were converted into 124,172,185 shares in the Company of HK$0.10 each at a conversion price of HK$0.604 per share. Further details relating to the 2010 Convertible Bonds were set out in note 32(a) to the financial statements.

A summary of the transactions involving the Company's issued ordinary share capital during the year is as follows:

	Number of ordinary shares of HK$0.10 each in issue	Issued capital HK$ million	Share premium account HK$ million	Total HK$ million
At 1 January 2005	422,525,230	42	1,250	1,292
Exercise of share options	41,780,000	4	27	31
Issue of new shares upon conversion of convertible bonds	80,662,359	8	44	52
Issue of scrip dividend shares	110,725,719	11	96	107
Cancellation of share premium account	—	—	(1,417)	(1,417)
At 31 December 2005 and 1 January 2006	655,693,308	65	—	65
Issue of new shares upon conversion of convertible bonds	124,172,185	13	67	80
At 31 December 2006	779,865,493	78	67	145

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 36 to the financial statements.

36. *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 adoption. As at 31 December 2006, there were no share options outstanding under the Share Option Scheme. No share option has been granted, exercised, cancelled or lapsed 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, business associate who, in 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.

36. *SHARE OPTION SCHEME (Continued)*

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 Company's 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 of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

37. *RESERVES*

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 54 of the financial statements.

The Group's capital reserve was created from the reduction of the Company's share capital on 8 April 2002.

(b) Company

HK$ million	Share premium account	Capital reserve	Distributable reserve	Equity component of convertible bonds	Retained profits/ (accumulated losses)	Total
At 1 January 2005	1,250	1,060	—	—	(102)	2,208
Exercise of share options	27	—	—	—	—	27
Issue of convertible bonds	—	—	—	46	—	46
Issue of shares upon conversion of convertible bonds	44	—	—	(15)	—	29
Issue of scrip dividend shares	96	—	—	—	—	96
Cancellation of share premium account	(1,417)	—	1,417	—	—	—
Profit for the year	—	—	—	—	428	428
2005 special interim dividend	—	(319)	—	—	—	(319)
Proposed 2005 final dividend	—	—	—	—	(13)	(13)
At 31 December 2005 and 1 January 2006	—	741	1,417	31	313	2,502
Issue of convertible bonds	—	—	—	5	—	5
Issue of shares upon conversion of convertible bonds	67	—	—	(23)	—	44
Profit for the year	—	—	—	—	32	32
2005 final dividend	—	—	—	—	(2)	(2)
2006 interim dividend	—	—	—	—	(16)	(16)
Proposed 2006 final dividend	—	—	—	—	(20)	(20)
At 31 December 2006	67	741	1,417	13	307	2,545

37. RESERVES *(Continued)*

(b) Company *(Continued)*

Note: At 31 December 2006, the Company's reserves available for distribution including the share premium, capital reserve, distributable reserve accounts and retained profits of the Company, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK$2,532 million.

The Company's capital reserve was created from the reduction of share capital on 8 April 2002.

38. BUSINESS COMBINATION

On 25 April 2006, the Group subscribed for a total of 550 million shares issued and allotted by Tradeeasy at a cash consideration of HK$22 million. Following the completion of the subscription of new shares, Tradeeasy became a 66.26% owned subsidiary of the Company. Tradeeasy and its subsidiaries (collectively referred as to the "Tradeeasy Group") are engaged in the provision of e-commerce service.

The fair value of the identifiable assets and liabilities of the Tradeeasy Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

HK$ million	Fair value recognised on acquisition	Carrying amount
Property, plant and equipment	3	3
Other intangible assets	7	7
Trade receivables	2	2
Prepayments, deposits and other receivables	2	2
Cash and bank balances	26	26
Other payables and accruals	(7)	(7)
Minority interests	(11)	(11)
	22	22
Goodwill on acquisition	39	
	61	
Satisfied by:		
Cash	22	
Reclassification from financial assets at fair value through profit or loss	4	
Restatement of fair value losses on financial assets at fair value through profit or loss upon the business combination	35	
	61	

38. BUSINESS COMBINATION *(Continued)*

An analysis of net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

HK$ million	2006	2005
Cash consideration	(22)	—
Cash and bank balances acquired	26	—
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	4	—

Since its acquisition, the Tradeeasy Group contributed approximately HK$34 million to the Group's turnover and HK$3 million to the consolidated profit for the year ended 31 December 2006.

39. DISPOSAL OF SUBSIDIARIES

HK$ million	2005
Net assets disposed of:	
Other payables and accruals	(42)
	(42)
Net gain on disposal of subsidiaries (note 6)	42
	—
Satisfied by:	
Cash	—

The disposal of subsidiaries had no significant impact on the cash and cash equivalents of the Group.

40. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

(a) During the year, the Group entered into finance lease arrangements in respect of property, plant and equipments with a total capital value at the inception of the finance leases of HK$1 million (2005: HK$4 million).

(b) As further detailed in note 32(b) to the financial statements, during the year, the Company issued the 2009 Convertible Bond with a nominal value HK$30 million to a company controlled by Mr. Mak as part of the consideration for the acquisition of a property from Mr. Mak.

(c) As further detailed in note 33 to the financial statements, the aggregate consideration for the disposal of the CCT Tech Sale Shares and the grant of the Put Options amounting to approximately HK$304 million was paid to Deutsche Bank as collateral to secure the obligations of the Company under the Put Agreement and was recorded as a long term receivable in the consolidated balance sheet.

41. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Company	
HK$ million	**2006**	2005
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	**301**	**186**

As at 31 December 2006, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$247 million (2005: HK$154 million).

(b) The Group has 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$1 million as at 31 December 2006 (2005: HK$1 million), as further explained under the heading "Employees benefits" in note 2.4 to the financial statements. The contingent liability has arisen as a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

42. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group, are included in note 30 to the financial statements.

43. *OPERATING LEASE ARRANGEMENTS*

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 11 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
HK$ million	2006	2005
Within one year	4	2
In the second to fifth years, inclusive	4	2
After five years	3	—
	11	4

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 2 to 5 years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
HK$ million	2006	2005
Within one year	8	2
In the second to fifth years, inclusive	5	6
After five years	—	1
	13	9

43. *OPERATING LEASE ARRANGEMENTS (Continued)*

(b) As lessee *(Continued)*

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases with initial lease terms ranging from 50 to 51 years in respect of land on which certain of the Group's factories are situated falling due as follows:

	Group	
HK$ million	2006	2005
Within one year	2	2
In the second to fifth years, inclusive	9	9
After five years	117	115
	128	126

44. *COMMITMENTS*

In addition to the operating lease commitments detailed in note 43(b) above, the Group had the following commitments at the balance sheet date:

Capital commitments

	Group	
HK$ million	2006	2005
Contracted, but not provided for		
Construction in progress	64	—
Purchases of plant and machinery and equipment	5	7
	69	7

45. *RELATED PARTY TRANSACTION*

(a) On 27 April 2006, Rich Full International Industries Limited ("Rich Full"), an indirectly wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Fine Bonus Enterprises Limited ("Fine Bonus"), a company controlled by Mr. Mak and his associates, for the purchase of a property by Rich Full from Fine Bonus at a consideration of HK$80 million, of which HK$50 million was paid by cash and HK$30 million was satisfied by the issuance of the 2009 Convertible Bond. This transaction was approved by the independent shareholders of the Company on 5 June 2006 and was completed on 23 June 2006. Further details of the transaction were set out in the circular of the Company dated 19 May 2006.

45. *RELATED PARTY TRANSACTION (Continued)*

(b) Compensation of key management personnel of the Group

HK$ million	2006	2005
Short term employee benefits	64	48
Post-employment benefits		—
Total compensation paid to key management personnel	64	48

Further details of directors' emoluments are included in note 8 to the financial statements.

The related party transaction in (a) above also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

46. *FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES*

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible bonds and finance leases. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also entered into derivative transactions, including principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates. The Group operates at a low gearing ratio and as the interest rates are stable and maintain at relatively low level, the Group's interest rate risk is not high.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales, purchases or expenditure by operating units in currencies other than the units' functional currency. The Group uses forward currency contracts to reduce its foreign currency risk, but the transactions do not qualify for hedge accounting.

46. *FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

There is no significant concentration of credit risk in relation to the Group's financial assets.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, convertible bonds, other interest-bearing loans and finance leases. In addition, banking facilities have been put in place for contingency purposes.

Fair values

Other than the available-for-sale financial assets, financial assets at fair value through profit or loss, forward currency contracts and derivative financial instrument which have been measured at fair value, the financial assets and liabilities which are not carried at fair value in the balance sheets are presented below:

(a) *Bank balances, trade and bills receivables, trade and bills payables, other receivables and payables*

The carrying amounts of these balances approximate to their fair values because of the immediate or short term maturity of these financial instruments.

(b) *Held-to-maturity financial assets*

The carrying amount of the Group's held-to-maturity financial assets approximates to their fair value.

(c) *Bank loans, finance lease payables and convertible bonds*

The carrying amounts of bank loans and finance lease payables approximate to their fair values, based on the prevailing interest rates. The fair value of convertible bonds is disclosed in note 30 to the financial statements.

47. POST BALANCE SHEET EVENTS

(a) On 16 January 2007, the 2010 Convertible Bonds with a nominal value of HK$10 million were converted into 17,242,781 shares in the Company of HK$0.10 each.

(b) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

(c) Up to the date of approval of these financial statements by the Board, an aggregate number of 5,611,840,000 Put Options in relation to the CCT Tech Sale Shares as further detailed in note 33 to the financial statements were were unwound due to the disposal of 5,611,840,000 shares of CCT Tech by Deutsche Bank, and an aggregate amount of net cash proceeds of HK$119 million was received by the Company. As the event occurred near to the date of the approval of these financial statements, the financial impact of the event cannot be reasonably estimated at this stage.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 April 2007.

five year financial information

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

RESULTS

	Year ended 31 December				
HK$ million	**2006**	2005	2004	2003	2002
REVENUE	**4,199**	3,980	4,057	3,441	3,130
PROFIT BEFORE TAX/(LOSS)	**387**	271	205	153	(596)
Tax	**(21)**	(18)	(18)	(13)	(10)
PROFIT FOR THE YEAR/(LOSS)	**366**	253	187	140	(606)
Attributable to:					
Equity holders of the parent	**358**	225	107	94	(603)
Minority interests	**8**	28	80	46	(3)
	366	253	187	140	(606)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
HK$ million	**2006**	2005	2004	2003	2002
TOTAL ASSETS	**4,730**	4,318	3,889	3,602	3,287
TOTAL LIABILITIES	**(1,921)**	(1,608)	(1,482)	(1,344)	(1,181)
	2,809	2,710	2,407	2,258	2,106
EQUITY:					
Equity attributable to equity holders of the parent	**2,752**	2,642	2,210	2,155	2,075
Minority interests	**57**	68	197	103	31
	2,809	2,710	2,407	2,258	2,106

notice of annual general meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the shareholders of CCT TELECOM HOLDINGS LIMITED (the "Company") will be held at 2208, 22/F., St. George's Building, 2 Ice House Street, Central, Hong Kong on Wednesday, 23 May 2007 at 10:30 a.m. for the following purposes:

As Ordinary Business

1. To receive and consider the audited Financial Statements and the Reports of the Directors and Auditors for the year ended 31 December 2006.

2. To declare a final dividend.

3. To re-elect the retiring directors, Mr. Tam Ngai Hung, Terry and Dr. William Donald Putt, as executive directors of the Company, and to authorise the board of directors to fix the remuneration of the directors.

4. To re-appoint auditors and to authorise the board of directors to fix the remuneration of the auditors.

As Special Business

5. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution of the Company:

   "**THAT** subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the shares of HK$0.10 each (the "Shares") in the share capital of the Company to be issued pursuant to the exercise of the share options which may be granted under the New Scheme Limit (as hereinafter defined), the refreshment of the scheme limit of the Company's share option scheme adopted on 28 February 2002 and all other share option scheme(s) of the Company, up to 10 per cent. of the total number of Shares in issue as at the date of passing of this resolution (the "New Scheme Limit") be and is hereby approved and any director of the Company, or any two directors of the Company if affixation of the common seal of the Company is necessary, be and is/are hereby authorised to do such act and execute all such documents to effect the New Scheme Limit and to exercise all powers of the Company to allot, issue and deal with the Shares to be issued pursuant to the exercise of such share options."

6. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution of the Company:

   "**THAT** subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the shares of HK$0.01 each in the share capital of CCT Tech International Limited ("CCT Tech"), a non wholly-owned subsidiary of the Company, to be issued pursuant to the exercise of the share options which may be granted under the CCT Tech New Scheme Limit (as hereinafter defined), the refreshment of the scheme limit of CCT Tech's share option scheme conditionally adopted on 17 September 2002 which became effective on 7 November 2002 and all other share option scheme(s) of CCT Tech, up to 10 per cent. of the total number of shares of CCT Tech in issue as at the date of passing of the resolution in the annual general meeting of CCT Tech (the "CCT Tech New Scheme Limit") be and is hereby generally and unconditionally approved."

7. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution of the Company:

“**THAT**:

(a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase issued shares in the share capital of the Company subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or of any other stock exchange as amended from time to time be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall be in addition to any other authorisation given to the directors of the Company and shall authorise the directors on behalf of the Company during the Relevant Period (as hereinafter defined) to procure the Company to repurchase its shares at a price determined by the directors of the Company;

(c) the aggregate nominal amount of the shares of the Company be repurchased by the directors of the Company pursuant to the approval in paragraph (a) above during the Relevant Period (as hereinafter defined) shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by applicable laws or the Company’s bye-laws to be held; and

(iii) the date upon which the authority set out in this resolution is revoked or varied by way of an ordinary resolution of the shareholders of the Company in a general meeting.”

8. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution of the Company:

“**THAT**:

(a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional new shares in the share capital of the Company and to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall be in addition to any other authorisation given to the directors of the Company and shall authorise the directors on behalf of the Company during the Relevant Period (as hereinafter defined) to make or grant offers, agreements, options and rights of exchange or conversion which would or might require the exercise of such powers after the end of the Relevant Period (as hereinafter defined);

(c) the aggregate nominal amount of share capital allotted or issued or agreed conditionally or unconditionally to be allotted or issued (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval granted in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the share option scheme of the Company approved by The Stock Exchange of Hong Kong Limited; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on the shares of the Company in accordance with the bye-laws of the Company from time to time, shall not exceed 20 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of this resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this resolution:

"Relevant Period" shall have the same meaning as that ascribed to it under resolution no. 7 as set out in the notice convening the annual general meeting of which this resolution forms part; and

"Rights Issue" means an offer of shares open for a period fixed by the directors of the Company to the holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to the fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange, in any territory outside Hong Kong)."

9. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution of the Company:

"**THAT** conditional upon the passing of the resolutions nos. 7 and 8 as set out in the notice convening the annual general meeting of which this resolution forms part, the general mandate granted to the directors of the Company pursuant to the resolution no. 8 as set out in the notice convening the annual general meeting of which this resolution forms part be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to the resolution no. 7 as set out in the notice convening the annual general meeting of which this resolution forms part, provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of this resolution."

10. To consider and, if thought fit, pass the following resolution as a special resolution of the Company:

“**THAT** the bye-laws of the Company (the “Bye-law(s)”) be and are hereby amended by deleting the word “special” in the second line of Bye-law 86.(4) and substituting therefor with the word “ordinary”;

and **THAT** any director of the Company, or any two directors of the Company if affixation of the common seal of the Company is necessary, be and is/are hereby authorised to take such further action as he/she may, at his/her sole and absolute discretion, think fit for and on behalf of the Company to implement the aforesaid amendment to the existing Bye-laws.”

By Order of the Board of
CCT TELECOM HOLDINGS LIMITED
Mak Shiu Tong, Clement
Chairman

Hong Kong, 27 April 2007

Notes:

(1) The register of members of the Company will be closed from Monday, 21 May 2007 to Wednesday, 23 May 2007 (both days inclusive) during which period no transfer of share(s) will be effected. In order to qualify for the proposed final dividend and to determine the entitlement to attend and vote at the annual general meeting of the Company, all transfer of share(s), accompanied by the relevant share certificate(s) with the properly completed transfer form(s) either overleaf or separately, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tengis Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 18 May 2007.

(2) Any shareholder entitled to attend and vote at the annual general meeting is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A shareholder who is the holder of two or more shares may appoint not more than two proxies (who must be an individual or individuals) to attend and vote instead of him/her on the same occasion. A proxy need not be a shareholder of the Company but must attend the annual general meeting in person to represent him/her.

(3) In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tengis Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not later than 48 hours before the time fixed for holding the annual general meeting. Such prescribed form of proxy for use at the annual general meeting is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk.

(4) Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the annual general meeting should they so wish, and in such event, the form of proxy shall be deemed to be revoked.

(5) Where there are joint registered holders of any share(s), any one of such joint holders may attend and vote at the annual general meeting, either in person or by proxy, in respect of such share(s) as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the annual general meeting, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

(6) With respect to the resolution set out in resolution no. 3 of this notice, Mr. Tam Ngai Hung, Terry and Dr. William Donald Putt will retire by rotation and, being eligible, offer themselves for re-election at the annual general meeting. Biographical details of the above directors are set out in the 2006 annual report of the Company.

(7) With respect to the resolution set out in resolution no. 5 of this notice, approval is being sought from the shareholders for the refreshment of the 10% general limit on grant of the share options under the Company's share option scheme adopted on 28 February 2002 and all other share option scheme(s) of the Company.

(8) With respect to the resolution set out in resolution no. 6 of this notice, approval is being sought from the shareholders for the refreshment of the 10% general limit on grant of the share options under the share option scheme of CCT Tech International Limited adopted on 17 September 2002 which became effective on 7 November 2002 and all other share option scheme(s) of CCT Tech International Limited.

(9) With respect to the resolution set out in resolution no. 7 of this notice, approval is being sought from the shareholders for the general mandate to be given to the directors to repurchase the shares of the Company. An explanatory statement containing further information with respect to such resolution will be sent to the shareholders together with the 2006 annual report of the Company.

(10) With respect to the resolutions set out in resolutions nos. 8 and 9 of this notice, approval is being sought from the shareholders for the general mandates to be given to the directors to allot, issue and deal with new shares of the Company in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(11) With respect to the resolution set out in resolution no. 10 of this notice, approval is being sought from the shareholders for the amendment to the bye-laws of the Company.

glossary of terms

GENERAL TERMS

2009 Convertible Bonds	The convertible bonds issued by the Company to Capital Winner on 23 June 2006, with an outstanding principal amount of HK$30,000,000 as at 31 December 2006. The convertible bonds, due on 23 June 2009, are interest free, convertible into the Shares at the conversion price of HK$1.13 per Share (subject to adjustments according to the terms of the convertible bonds)
2010 Convertible Bonds	The convertible bonds issued by the Company on 25 April 2005, with an outstanding principal amount of HK$28,512,880 as at 31 December 2006. The convertible bonds, due on 25 April 2010, are interest free, convertible into the Shares at the conversion price of HK$0.604 per Share (subject to adjustments according to the terms of the convertible bonds)
AGM	Annual general meeting
Audit Committee	The audit committee of the Company
Board	The board of Directors
BVI	British Virgin Islands
Capital Winner	Capital Winner Investments Limited, a company controlled by Mr. Mak Shiu Tong, Clement
CCT Tech	CCT Tech International Limited, a company listed on the Main Board of the Stock Exchange and a non wholly-owned subsidiary of the Company
CEO	The chief executive officer of the Company
Chairman	The chairman of the Company
Code	The Code on Corporate Governance Practices under the Listing Rules
Company	CCT Telecom Holdings Limited
DECT	Digital enhanced cordless telephone
Director(s)	The director(s) of the Company
Group	The Company and its subsidiaries
Haier Electronics	Haier Electronics Group Co., Ltd., a company listed on the Main Board of the Stock Exchange
HK or Hong Kong	The Hong Kong Special Administrative Region of PRC
HK$	Hong Kong dollar(s), the lawful currency of Hong Kong
INED(s)	Independent non-executive director(s)
Jade Assets	Jade Assets Company Limited, a wholly-owned subsidiary of the Company
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
Model Code	The Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules
New Capital	New Capital Industrial Limited, a company controlled by Mr. Mak Shiu Tong, Clement
N/A	Not applicable
ODM	Original design manufacturing
Percentage Ratios	The assets ratio, the profits ratio, the revenue ratio, the consideration ratio and the equity capital ratio as defined under Rule 14.07 of the Listing Rules

PRC	The People's Republic of China
Remuneration Committee	The remuneration committee of the Company
RMB	Renminbi, the lawful currency of PRC
R&D	Research and development
SFO	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share(s)	The ordinary share(s) of HK$0.10 each in the share capital of the Company
Shareholder(s)	Holder(s) of the Share(s)
Share Option Scheme	A share option scheme adopted by the Company on 28 February 2002
SOHO	Small office and home office
Stock Exchange	The Stock Exchange of Hong Kong Limited
Tradeeasy	Tradeeasy Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange and a non wholly-owned subsidiary of the Company
US	The United States of America
US$	United States dollar(s), the lawful currency of US
VoIP	Voice over Internet Protocol
WiFi	Wireless Fidelity, a technology of wireless local area networks (WLAN) based on the IEEE802.11 specifications
%	Per cent.

FINANCIAL TERMS

Gearing Ratio	Total borrowings (representing bank & other borrowings, convertible bonds and finance lease payable) divided by total capital employed (i.e. total Shareholders' fund plus total borrowings)
Earnings Per Share or EPS	Profit attributable to the Shareholders divided by weighted average number of Shares in issue during the year
Current Ratio	Current assets divided by current liabilities