



中建電訊集團有限公司

CEC TELECOM

2007 interim report

Stock Code : 138





  TECHNOLOGY

chairman's letter

FINANCIAL HIGHLIGHTS

HK\$ million	Six months ended 30 June		% increase/ (decrease)
	2007 (Unaudited)	2006 (Unaudited)	
Key Financial Results Highlights			
Turnover	1,828	1,982	(7.8%)
Profit/(loss) attributable to:			
Equity holders of the Company	498	332	50.0%
Minority Interests	(14)	6	N/A
	484	338	43.2%
Earnings per share	HK\$0.626	HK\$0.484	29.3%
Dividends per share	HK\$0.025	HK\$0.02	25.0%

I am pleased to announce the interim results of CCT Telecom Holdings Limited and its subsidiaries for the six months ended 30 June 2007.

During the first half of the year, the turnover of the Group decreased by approximately 7.8% to HK\$1,828 million. Profit attributable to equity holders of the Company, however, set another new record of HK\$498 million, representing a sharp increase of approximately 50.0%.

During the first half of the year, the telecom product manufacturing business group operated in one of the most challenging and difficult business environments we have ever encountered. Market competition, high material prices, shortage of labour and electricity together with rising labour costs and overheads in China seriously affected the performance of our manufacturing business, resulting in an operating loss of the manufacturing business in the first half of the year.

Despite the tough business environment, we remain the largest ODM manufacturer of cordless phones in the world in terms of volume. As the first manufacturer to launch DECT 6.0 models in the US market, we are satisfied with the pick up in sales of these products in the first half of the year. Our market strategy has also proven to be successful. We have strengthened our relationship with our existing customers and have expanded to reach new customers and new and emerging markets.

During the period under review, benefiting from the buoyant Hong Kong stock market, our securities investment business group performed very well and contributed an impressive gain of approximately HK\$514 million. The gain arose from our disposal of a portion of our shareholding in CCT Tech on the stock market and from investment of H-shares and other listed shares and investment in high yield equity-linked notes.

As for the newly established property development business group, we have worked hard to explore and seek business opportunities in mainland China during the period under review. In June and July 2007, the Group successfully bid for two pieces of land located in the Chaoyang City and the Anshan City respectively, in the Liaoning Province, with an aggregated total areas of approximately 335,000 square metres approved for both residential and commercial development purposes. We believe the property development business group will become one of the key drivers for the future growth of the Group in the years to come.

INTERIM DIVIDEND

The board of directors has declared an interim dividend of HK\$0.025 per share for 2007 (30 June 2006: HK\$0.02) to be payable from the Company's retained profits. The interim dividend of HK\$0.025 per share will be payable on or around Wednesday, 31 October 2007 to the shareholders whose names appear on the register of members of the Company on Friday, 12 October 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 10 October 2007 to Friday, 12 October 2007 (both date inclusive), during which period no transfer of shares will be effected. In order to qualify for the interim dividend of HK\$0.025 per share, all transfer of shares, 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, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00p.m. on Tuesday, 9 October 2007.

REVIEW OF OPERATIONS

The principal businesses of the Group are (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) securities investment business; and (vi) property investment and development.

TELECOM AND ELECTRONIC PRODUCTS BUSINESS

The telecom and electronic products business is carried out by our listed subsidiary, CCT Tech and its subsidiaries. During the period under review, the business environment worsened considerably which had an adverse impact on our performance. The downturn of the US property market served to dampen the US economy and consumer spending. In Europe, the market suffered from excess inventory. The combined impact of such factors meant that in the first half of the year, orders from these two key markets slowed down. Market competition remained keen, hence, driving down the average selling prices of our products in the first half of the year. On the other hand, the acute shortage of labour and electricity in the Guangdong Province became even more severe and adversely affected production of our Guangdong factories. As a result of these adverse factors, turnover of the telecom and electronic products business group decreased by 16.5% from HK\$1,896 million for the six months ended 30 June 2006 to HK\$1,584 million for the six months ended 30 June 2007.

Despite the adverse business environment, the Group continued to maintain its leading position as the world's largest ODM manufacturer of cordless phones in terms of volume. The Group has continued to extend its reach to new customers and expand its geographical footprint to emerging markets. We have further strengthened our relationship with all existing customers. Our close alliance with global renowned brand-name companies provides a solid foundation for future growth.

In the first half of the year, our key products of 2.4GHz and 5.8GHz cordless phones and DECT cordless phones continued to sell well. As we mentioned in our 2006 annual report, the Group is the first manufacturer to launch DECT 6.0 models in the US market. In the first half of the year, the sales of DECT 6.0 models witnessed further growth and we believe that these products will become the mainstay telecommunication products in the US market.

The Group has always ranked innovation as a core element of its overall business strategy. Many innovative hi-tech products including VoIP cordless phones, WiFi phones, cordless phones with Skype feature and broadband cordless phones have been developed by our R&D teams and will be rolled out in the next few months and in 2008. Other than the consumer telecom products market, we have been actively pursuing business opportunities in the commercial communications market. Our innovative SOHO products, multi-line cordless phones and cordless conference box system will be launched in the near future. We believe that the in roads made into the commercial market will open up many business opportunities for future growth and increased profitability.

The telecom and electronic product business group recorded an operating loss of HK\$48 million in the first half of the year due to a number of adverse factors. Firstly, fierce competition in the consumer telecom products market has led to our customers demanding ever more competitive prices for our products making it increasingly difficult for us to maintain the margin levels we enjoyed in previous years. The Group's strategy of developing high margin hi-tech products has, however, helped to mitigate some of the pressure in this regard. Secondly, prices of materials and components rose sharply due to a buoyant Chinese economy and high oil prices (which affects prices of plastic resins). With keen competition, however, we were unable to pass on the increase in material costs to consumers by increasing our selling prices. Thirdly, the continued shortage of labour and electricity in the Guangdong Province further worsened which had a major adverse impact on the production output of our factories in this area. In the first half of the year, we were not able to hire and retain enough workers to operate at an optimum level and labour turnover rate was high. As a result, production efficiency suffered and certain customer's orders were cancelled or delayed. In order to retain and hire additional workers, the Group has significantly increased the wage levels of workers in our Guangdong factories. The increase in the wages of workers has, in turn, raised the production costs of the Group thereby affecting the Group's profitability. The increase of production costs in our Guangdong factories due to the above factors and further fueled by the appreciation of the Renminbi have combined to exert considerable pressure on the Group's profit margins, resulting in an operating loss of the telecom and electronic product business group.

The impact of the production issues mentioned above would have been higher had the Group failed to implement various measures to control costs, improve efficiency and enhance its level of production automation. To resolve the production issues in the long term, the Group has already built new production facilities in Chaoyang City, Liaoning Province. The first phase of the new Chaoyang factory has already opened and commenced trial production in June 2007. We expect the production of the new factory in Chaoyang to ramp up early next year. We expect that our new factory in Chaoyang will contribute towards easing the production issues of our Guangdong factories by delivering significant costs savings to the Group thereby improving the Group's profitability in the coming years.

MANUFACTURING OF PLASTIC AND ELECTRONIC COMPONENTS

We manufacture plastic and electronic components, including plastic casings, power supply and transformers, to provide vertical support to our telecom and electronic product businesses. The production of these plastic and electronic components provides a stable supply of high quality components to the telecom and electronic product business group at competitive prices. Some of the plastic components products were sold to independent third parties. Likewise, due to high material prices, the shortage of labour and the increase in overall production costs of our

Guangdong factories, the performance of the plastic and electronic components business group was adversely affected. The production costs of our components manufacturing business group are not expected to fall until our new Chaoyang factory commences mass production early next year.

BABY PRODUCTS BUSINESS

In the first half of 2007, despite keen market competition and high production costs in our Guangdong factories, the baby product business group still reported a profit of HK\$6 million. None of the products supplied by our baby products business group were recalled in the US market during the period under review. The management has devoted additional efforts to expand the product range in order to offer customers with more quality products at competitive prices. The Group will continue its efforts in developing new products, exploring new markets and expanding its customer base. As the demand of more quality baby products is still high, we believe the baby products business group will continue to grow at a reasonable pace and expect to contribute a satisfactory return to the Group in the coming years.

PROVISION OF E-COMMERCE SERVICES

The provision of e-commerce service is carried out by Tradeeasy Holdings Limited (“Tradeeasy”), a company listed on the GEM of the Stock Exchange. During the period under review, our e-commerce services business group contributed a turnover of HK\$23 million to the Group. In the first half of the year, we have been devoted more resources for the expansion of channel sales in Mainland China and the result is satisfactory. We are optimistic over the potential of the e-commerce service business group and believe it will generate additional revenue to the Group in the future.

SECURITIES INVESTMENT BUSINESS

During the period under review, the securities investment business group performed extremely well. The Company was able to capitalize on the increase in the share price of CCT Tech in May 2007 by disposing 15,009,360,000 shares (the “Share Sale”) in CCT Tech on the stock market. The Share Sale enabled the Group to receive cash proceeds of HK\$750 million and benefit from an unaudited realized gain of approximately HK\$458 million for the Group. Other than the Share Sale, the booming Hong Kong Stock Market in the first half of the year also enabled the Group to make substantial gains from the investment of listed shares and investment in high yield equity-linked deposits that combined to contribute a gain of approximately HK\$56 million for the six months ended 30 June 2007.

PROPERTIES INVESTMENT AND DEVELOPMENT

We are optimistic about the property markets in Hong Kong and China due to the strong economic growth and the strong demand for housing in the region. We have worked hard to expand our land portfolio in Mainland China. In June and July 2007, the Group successfully bid for two pieces of land located in the Chaoyang City and the Anshan City respectively, in the Liaoning Province, with an aggregate total area of approximately 335,000 square metres approved for both residential and commercial development purposes. We believe that these two property development projects will yield satisfactory returns to the Group in the coming years. We will continue to seek and explore other property development opportunities in Mainland China as we believe this business will have huge potential and will become a key driver for the future revenue and profit growth of the Group.

FURTHER DEVELOPMENT FOR THE SALE OF 13.8 BILLION CCT TECH SHARES IN 2006

During the year 2006, an indirect wholly-owned subsidiary of the Company, sold 13.8 billion shares in CCT Tech (the "CCT Tech Sale Shares") to Deutsche Bank and three other independent investors at a price of HK\$0.022 per share of CCT Tech in order to restore public float of CCT Tech Put Options (the "Put Options") were granted to Deutsche Bank which are exercisable under the terms of the put agreement (the "Put Agreement") entered into between CCT Telecom and Deutsche Bank. The Put Options are only exercisable upon maturity of the Put Options on 9 May 2008 or the occurrence of certain events. The consideration for the disposal of the CCT Tech Sale Shares amounted to approximately HK\$304 million (the "Consideration") was 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.

During the period under review, Deutsche Bank and the three other independent third party investors disposed of in total 13,426,000,000 shares in CCT Tech to other public shareholders on the stock market. The related Put Options were then unwound and cancelled and the option unwind amount representing the portion of the Initial Exchange Amount attributable to the shares sold, including interest up to the date of unwind, amount to approximately HK\$308 million were then refunded to the Company pursuant to the terms of the Put Agreement. As at 30 June 2007, there were still 374 million Put Options outstanding. The receipts of the substantial option unwind amount has further strengthened the financial position of the Group as a whole.

OUTLOOK

The outlook of the US economy is uncertain. It is believed that the worst of the US property market has yet to come and there appears to be no immediate signs of recovery. The subprime loan crisis has resulted in world-wide credit jitters which has hit global financial markets. As a result, the US economy has slowed down and consumer spending has dampened. We anticipate that the business environment for our manufacturing business in the second half of the year will remain difficult with no immediate signs of improvement. We also anticipate that the continued production issues and rise in costs and the probable further appreciation of Renminbi will remain our key challenges and affect the profitability of the Group. However, the Group will continue to strengthen R&D capabilities to develop and roll out high margin hi-tech advance products to remain competitive. Our strong association with major brand-name companies and our successful expansion into the commercial communication market and new and emerging markets will provide us with a solid platform for growth in revenue and profitability. We expect that the new Chaoyang factory will ease labour constraints of our Guangdong factories and will deliver significant cost savings. We are confident that the Group will weather-out the current difficult business environment for our manufacturing business.

Due to the increasing disposable income of citizens in China, high confidence of domestic and overseas investors and the ongoing inflow of capital into China, we expect that the property market in China will give rise to many promising business opportunities. Though the PRC government has introduced many macro-economic measures during 2006 and in the first half of 2007 to stabilize the property market in China, these measures were only aimed at regulating the growth of the property market in China in a more stabilized and healthier way. We believe the implementation of these measures will not have a significant adverse impact on the property market in China in the long run. Besides the newly acquired land bank in the Chaoyang City and the Anshan City in the Liaoning province, we will continue to explore and seek opportunities for other property development projects and we believe that the property investment and development will provide potential growth to the Group in the years to come.

Fueled by the continuing inflow of capital from overseas investors and the recent announcement of the PRC government's policy to deregulate the flow of capital from Chinese investors into the Hong Kong stock market, we believe the local stock market will continue to gain momentum. To capture the movement of the investment market, we will continue to invest some of our ample cash reserve in listed shares and equity-linked deposits that will generate satisfactory returns and gains to the Group.

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 customers and suppliers, business partners, bankers and associates for their continued support and confidence in the Group. We are confident to the continuous growth in the years ahead and look forwards to creating greater opportunities and delivering increased returns to our shareholders in the foreseeable future.

Mak Shiu Tong, Clement

Chairman

Hong Kong, 19 September 2007

financial review

HIGHLIGHTS ON FINANCIAL RESULTS

HK\$ million	Six months ended 30 June		% increase/ (decrease)
	2007 (Unaudited)	2006 (Unaudited)	
Turnover	1,828	1,982	(7.8%)
Profit/(loss) attributable to:			
Equity holders of the Company	498	332	50.0%
Minority interests	(14)	6	N/A
	484	338	43.2%
Basic earnings per share	HK\$0.626	HK\$0.484	29.3%
Interim dividends per share	HK\$0.025	HK\$0.02	25.0%

DISCUSSION ON FINANCIAL RESULTS

The Group reported a turnover of HK\$1,828 million during the period under review, which represents a decrease of approximately 7.8% over the corresponding period. The decrease is mainly due to the difficult business environment which adversely affected our manufacturing business during the period under review.

Our profit reached a new record level. Profit attributable to equity holders of the Company rose to HK\$498 million, up 50.0% as compared with the corresponding period, attributable to the gains of HK\$514 million from our securities investment business. The profit for the previous corresponding period included a gain of HK\$316 million arising from the disposal of our remaining interest in Haier Electronics in January 2006.

The loss attributable to minority interests for the first half of 2007 represents the share of losses by the minority shareholders in CCT Tech and Tradeeasy which reported losses during the first half of the year.

Basic earnings per share increased significantly by 29.3% to HK\$0.626 per share. The increase was attributable to the increase in the profit reported for the period ended 30 June 2007.

Interim dividend per share is HK\$0.025, increase 25.0% as compared with the corresponding period.

ANALYSIS BY BUSINESS SEGMENT

HK\$ million	Turnover Six months ended 30 June				
	2007		2006		% increase/ (decrease)
	Amount (Unaudited)	Relative %	Amount (Unaudited)	Relative %	
Telecom and electronic products	1,584	86.7%	1,896	95.7%	(16.5%)
Baby products	57	3.1%	64	3.2%	(10.9%)
Securities investment business	152	8.3%	—	—	N/A
Property investment and development	2	0.1%	1	—	100%
Corporate and others	33	1.8%	21	1.1%	57.1%
Total	1,828	100.0%	1,982	100.0%	(7.8%)

HK\$ million	Operating profit /(loss) (before finance costs and tax)		
	2007 (Unaudited)	2006 (Unaudited)	% increase/ (decrease)
Telecom and electronic products	(48)	99	N/A
Baby products	6	8	(25.0%)
Securities investment business	514	316	62.7%
Property investment and development	—	—	—
Corporate and others	41	(60)	N/A
Total	513	363	41.3%

During the period under review, telecom and electronic products business continued to be the principal business of the Group, accounting for approximately 86.7% (corresponding period: 95.7%) of the Group's total turnover. The drop in percentage of turnover from telecom and electronic products business to the Group's total turnover is mainly due to (i) the decrease in the turnover from telecom and electronic products business, resulting from decrease of customers' orders, reduction of average selling prices of products and cancellation of certain orders and delay of shipments due to shortage of labour, and (ii) the turnover contribution from the securities investment business, accounting for 8.3% of the Group's total turnover.

The baby product business group accounted for approximately 3.1% (corresponding period: 3.2%) of the total turnover.

The telecom and electronic products business group reported a loss of approximately HK\$48 million in the first half of the year, as compared to an operating profit of HK\$99 million in the corresponding previous period. The change was mainly due to the fall in average selling prices of consumer telecom products driven by keen competition and substantial increase in operating costs arising from the high material prices, increase in salaries and wages and appreciation of Renminbi during the period under review.

The baby product business group reported an operating profit of HK\$6 million despite a difficult business environment due to successful efforts of the management to improve efficiency and control costs.

The gain of the securities investment business increased significantly to HK\$514 million, representing an impressive increase of 62.7%. The increase was mainly attributable to the realized gain of HK\$458 million from disposal of some of the shares in CCT Tech and the gain and interest income totaling HK\$56 million from the investment of listed shares and interest from equity-linked deposits.

Corporate and others represented the head office income and administrative expenses and the results of the e-commerce business.

ANALYSIS BY GEOGRAPHICAL SEGMENT

HK\$ million	Turnover Six months ended 30 June					
	2007		2006			
	Amount (Unaudited)	Relative %	Amount (Unaudited)	Relative %	% increase/ (decrease)	
US	847	46.4%	1,105	55.8%	(23.3%)	
Asia Pacific region	717	39.2%	515	25.9%	39.2%	
Europe	264	14.4%	362	18.3%	(27.1%)	
Total	1,828	100.0%	1,982	100.0%	(7.8%)	

The US market remained the major market of the Group accounting for approximately 46.4% (corresponding period: 55.8%) of the Group's total turnover for the period under review. The drop in our sales in the US market was mainly due to the reduction of customers' orders caused by a weakened US economy, the fall in the average selling price of products and the shortage of labour in our Guangdong factories which affected our production. Sales to the Asia Pacific region accounted for approximately 39.2% (corresponding period: 25.9%) of the Group's total turnover, reporting a growth of 39.2%. The growth was mainly due to the inclusion of turnover from the securities investment business during the first half of 2007. Sales to Europe decreased by 27.1% to HK\$264 million, contributing approximately 14.4% (corresponding period: 18.3%) of the Group's total turnover. The decrease of sales to the Europe was attributable to excess inventory in that market.

HIGHLIGHTS ON FINANCIAL POSITION AND MAJOR BALANCE SHEET ITEMS

HK\$ million	30 June 2007 (Unaudited)	31 December 2006 (Audited)	% increase/ (decrease)
NON-CURRENT ASSETS			
Property, plant and equipment	1,238	1,222	1.3%
Goodwill	76	128	(40.6%)
Long term receivable	9	312	(97.1%)
CURRENT ASSETS			
Inventories	311	233	33.5%
Financial assets at fair value through profit or loss	349	226	54.4%
Cash and cash equivalents	1,820	865	110.4%
EQUITY AND NON-CURRENT LIABILITIES			
Long term payable	9	256	(96.5%)
Derivative financial instrument	2	71	(97.2%)
Other non-current liabilities	319	299	6.7%
Minority interests	594	57	942.1%
Equity attributable to shareholders' of the Company	3,249	2,752	18.1%

DISCUSSION ON FINANCIAL POSITION AND MAJOR BALANCE SHEET ITEMS

The property, plant and equipment were held by the Group for use in its core manufacturing business. The increase in the net book value of the property, plant and equipment was mainly due to additions to fixed assets to cope with the needs of production less depreciation made during the period.

Goodwill decreased by 40.6% to HK\$76 million as at 30 June 2007, mainly due to the realization of goodwill as a result of the decrease in our equity interests in CCT Tech during the period under review.

The 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 in respect of the Put Options granted by the Company to Deutsche Bank in relation to the 13.8 billion shares in CCT Tech sold to Deutsche Bank and the three other independent third party investors. During the period under review, Deutsche Bank and the three other independent third party investors disposed of in total 13,426,000,000 shares in CCT Tech to other public shareholders on the Hong Kong Stock Market. The Put Options related to the shares sold were unwound and cancelled under the Put Agreement and the option unwind amount representing the portion of the Initial Exchange Amount attributable to the shares sold was then refunded to the Company. The outstanding amount of HK\$9 million as at 30 June 2007 represents the balance of the long term receivable related to the shares in CCT Tech not yet sold by the investors as at 30 June 2007.

Inventory increased by 33.5% due to seasonal factor as raw materials were accumulated to prepare for production peak season.

The increase in financial assets at fair value through profit or loss under current assets was mainly attributable to our additional investment in listed shares and in high yield deposits linked to listed shares.

Cash and cash equivalents increased by 110.4% to HK\$1,820 million mainly due to (i) the receipt of the option unwind amounts from Deutsche Bank related to the disposal of CCT Tech shares by Deutsche Bank and the three other independent third party investors; and (ii) proceeds from our disposal of approximately 15 billion shares in CCT Tech on the stock market in May and June 2007. With strong cash reserves, we are well placed to pursue new business opportunities.

Long term payable represents the liability of the Company in respect of the repurchase obligations of the CCT Tech Shares under the Put Agreement. The significant decrease in the long term payable was due to the disposal of 13,426,000,000 CCT Tech shares by Deutsche Bank and the three other independent third parties investors in the first half of the year. The related portion of the long term liability of the Company in relation to those shares in CCT Tech sold by Deutsche Bank and the three investors during the first half of the year was derecognized and was recognized in the consolidated income statement during the six months ended 30 June 2007.

Derivative financial instrument represents the fair value of put options under the Put Agreement. Followed the disposal of 13,426,000,000 shares of CCT Tech by Deutsche Bank and the three other independent third party investors, the related put options were unwound and the derivative financial instrument decreased to HK\$2 million as at 30 June 2007.

Increase in minority interests was mainly due to disposal of shares in CCT Tech by Deutsche Bank and the three other independent third party investors and by CCT Telecom on the Hong Kong Stock Market during the first half of the year. After the disposal of approximately 15 billion shares in CCT Tech, our equity interest in CCT Tech decreased to approximately 51% as at 30 June 2007.

The increase in shareholders' fund of approximately 18.1% was mainly due to the carried forward of the retained profits for the first half of the year and issue of new shares from the conversion of convertible bonds during the six months ended 30 June 2007.

CAPITAL STRUCTURE AND GEARING RATIO

HK\$ million	30 June 2007		31 December 2006	
	Amount (Unaudited)	Relative %	Amount (Audited)	Relative %
Bank loans	557	14.4%	450	13.8%
Convertible bonds (liability component)	42	1.1%	49	1.5%
Finance lease payable	9	0.2%	4	0.2%
Total borrowings	608	15.7%	503	15.5%
Equity	3,249	84.3%	2,752	84.5%
Total capital employed	3,857	100.0%	3,255	100.0%

The Group's gearing ratio was approximately 15.7% as at 30 June 2007 (31 December 2006: 15.5%). The gearing ratio maintained at low level which reflects a healthy financial position and the prudent financial policy of the Group. Taking into account the cash on hand, the Group in fact did not have any net borrowings.

Outstanding bank borrowings amounted to HK\$557 million at 30 June 2007 (31 December 2006: HK\$450 million). Approximately 51.7% 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 48.3% of the bank borrowings was of long-term nature, principally comprising mortgage loans on properties used by the Group.

Acquisition of certain of the Group's assets was financed by way of finance leases and the total outstanding finance lease payables for the Group as at 30 June 2007 amounted to approximately HK\$9 million (31 December 2006: HK\$4 million).

As at 30 June 2007, the maturity profile of the bank and other borrowings and convertible bonds 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\$292 million, HK\$244 million and HK\$72 million, respectively (31 December 2006: HK\$207 million, HK\$208 million and HK\$88 million, respectively). There was no material effect of seasonality on the Group's borrowing requirements.

LIQUIDITY AND FINANCIAL RESOURCES

HK\$ million	30 June 2007 (Unaudited)	31 December 2006 (Audited)
Current assets	3,505	2,293
Current liabilities	1,422	1,295
Current ratio	246%	177%

Current ratio as at 30 June 2007 was 246% (31 December 2006: 177%). The current ratio improved significantly, mainly due to the increase in cash relating to the realization of a portion of our shareholdings in CCT Tech during the six months ended 30 June 2007. The strong liquid position was attributable to our effective financial management of the Group.

As at 30 June 2007, the Group's total cash balance amounted to HK\$1,910 million (31 December 2006: HK\$953 million), of which HK\$90 million (31 December 2006: HK\$88 million) was pledged for general banking facilities.

Almost all of the Group's surplus cash was placed on deposits with licensed banks in Hong Kong. The strong cash balance plus the 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 period under review, the Group incurred capital expenditure amounted to approximately HK\$110 million, which was mainly related to the core manufacturing businesses of the Group.

The Group's capital commitments amounted to approximately HK\$132 million (31 December 2006: HK\$69 million) as at 30 June 2007, which was mainly related to capital expenditure for the expansion of the manufacturing business of the Group and all of which will be financed by internal resources.

TREASURY MANAGEMENT

The Group employs a conservative approach to cash management and risk control. To achieve better risk control and efficient fund management, the Group's treasury activities are centralised.

During the period under review, the Group's receipts were mainly denominated in US dollars, with some in Hong Kong dollars and the Euros. Payments were mainly made in Hong Kong dollars, US dollars and Renminbi and some made in Euros. Surplus cash of the Group was generally placed in short-term deposits and medium-term deposits denominated in Hong Kong dollars and US dollars. As at 30 June 2007, the Group's borrowings were mainly denominated in Hong Kong dollars and US dollars. As at 30 June 2007, other than the convertible bonds in an aggregate principal amount of approximately HK\$48 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 foreign exchange exposure risk for the US dollar is not material.

For Renminbi exposure, as our wages and overheads in our factories in China are paid in Renminbi, our production costs will be increased by the possible further appreciation of Renminbi. Any further appreciation of the Renminbi in future will be of concern to all manufacturers with manufacturing facilities in China. We have also invested some of our surplus funds on listed shares that we believe will benefit from appreciation of Renminbi. We hope that the returns and gains that we may derive from these listed shares will hedge partly against the potential appreciation of the Renminbi.

ACQUISITION AND DISPOSAL OF MATERIAL SUBSIDIARIES AND ASSOCIATES

The Group did not acquire or dispose of any material subsidiaries and associates during the period under review. During the period under review, the Group disposed of 15,009,360,000 shares in CCT Tech on the stock market. After the disposal, our shareholdings in CCT Tech changed to approximately 51% as at 30 June 2007.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investment as at 30 June 2007 (31 December 2006: Nil).

PLEDGE OF ASSETS

As at 30 June 2007, certain of the Group's assets with a net book value of HK\$1,001 million (31 December 2006: HK\$1,004 million) and time deposits of HK\$90 million (31 December 2006: HK\$88 million) were pledged to secure the general banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 30 June 2007, 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 2006: HK\$1 million). Save as aforesaid, the Group did not have any other significant contingent liabilities as at 30 June 2007.

EMPLOYEES AND REMUNERATION POLICY

The total number of employees of the Group as at 30 June 2007 was 21,261 (31 December 2006: 17,820). Remuneration packages are normally reviewed on an annual basis. Apart from salary payments, other staff benefits include provident fund contributions, medical insurance coverage and performance related bonuses. Share options may also be granted to eligible employees and persons of the Group. At 30 June 2007, there were no outstanding share options issued by the Company.



interim results

The Board of the Company is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2007 together with the comparative figures for the corresponding period in 2006 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

HK\$ million	Notes	Six months ended 30 June	
		2007 (Unaudited)	2006 (Unaudited)
REVENUE	3	1,828	1,982
Cost of sales		(1,692)	(1,765)
Gross profit		136	217
Other income and gains		573	363
Selling and distribution costs		(26)	(27)
Administrative expenses		(148)	(150)
Other expenses		(22)	(40)
Finance costs		(15)	(13)
PROFIT BEFORE TAX	4	498	350
Tax	5	(14)	(12)
PROFIT FOR THE PERIOD		484	338
Profit/(loss) attributable to:			
Equity holders of the parent		498	332
Minority interests		(14)	6
		484	338
PROPOSED INTERIM DIVIDENDS	6	20	16
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic		HK\$0.626	HK\$0.484
Diluted		HK\$0.585	HK\$0.403

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2007

HK\$ million	Notes	30 June 2007 (Unaudited)	31 December 2006 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		1,238	1,222
Investment properties		490	490
Prepaid land lease payments		222	225
Other intangible assets		42	45
Goodwill		76	128
Long term receivable		9	312
Available-for-sale financial assets		11	11
Deferred tax assets		2	4
Total non-current assets		2,090	2,437
CURRENT ASSETS			
Inventories		311	233
Trade and bills receivables	9	842	837
Prepayment, deposits and other receivables		93	42
Financial assets at fair value through profit or loss		349	226
Held-to-maturity financial assets		—	2
Pledged time deposits		90	88
Cash and cash equivalents		1,820	865
Total current assets		3,505	2,293
CURRENT LIABILITIES			
Trade and bills payables	10	925	886
Tax payable		35	25
Other payables and accruals		170	177
Interest-bearing bank loans and other borrowings		292	207
Total current liabilities		1,422	1,295
NET CURRENT ASSETS		2,083	998
TOTAL ASSETS LESS CURRENT LIABILITIES		4,173	3,435

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

30 June 2007

HK\$ million	Notes	30 June 2007 (Unaudited)	31 December 2006 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings		274	247
Convertible bonds	11	42	49
Long term payable		9	256
Derivative financial instrument		2	71
Deferred tax liabilities		3	3
Total non-current liabilities		330	626
Net assets		3,843	2,809
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	12	80	78
Reserves		3,149	2,654
Proposed interim/final dividend		20	20
Shareholders' funds		3,249	2,752
Minority interests		594	57
Total equity		3,843	2,809

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

HK\$ million	Attributable to equity holders of the parent											Total equity	
	Issued share capital	Share premium account	Capital reserve	Distributable reserve	Investment revaluation reserve	Equity component of convertible bonds	Share option reserve	Exchange fluctuation reserve	Retained profits/(losses) (accumulated)	Proposed interim/final dividend	Total		Minority interests
At 1 January 2007	78	67	741	1,417	1	13	2	4	409	20	2,752	57	2,809
Exchange realignment	—	—	—	—	—	—	—	5	—	—	5	—	5
Total income and expense recognised directly in equity	—	—	—	—	—	—	—	5	—	—	5	—	5
Profit for the period	—	—	—	—	—	—	—	—	498	—	498	(14)	484
Total income and expense for the period	—	—	—	—	—	—	—	5	498	—	503	(14)	489
Equity-settled share option Arrangements	—	—	—	—	—	—	7	—	—	—	7	6	13
Arising from disposal of shares in a subsidiary	—	—	—	—	—	—	—	—	—	—	—	507	507
Deemed acquisition of minority interests upon exercise of share options in a subsidiary	—	—	5	—	—	—	(5)	—	—	—	—	38	38
Issue of new shares upon conversion of convertible bonds	2	8	—	—	—	(3)	—	—	—	—	7	—	7
2006 final dividend	—	—	—	—	—	—	—	—	—	(20)	(20)	—	(20)
Proposed 2007 interim dividend	—	—	—	—	—	—	—	—	(20)	20	—	—	—
At 30 June 2007	80	75	746	1,417	1	10	4	9	887	20	3,249	594	3,843
At 1 January 2006	65	—	741	1,417	320	31	—	1	54	13	2,642	68	2,710
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	11	11
Acquisition of minority interests	—	—	—	—	—	—	—	—	—	—	—	(29)	(29)
Issue of convertible bonds	—	—	—	—	—	4	—	—	—	—	4	—	4
Issue of new shares upon conversion of convertible bonds	13	62	—	—	—	(22)	—	—	4	—	57	—	57
Realisation of revaluation reserve upon disposal of investment	—	—	—	—	(318)	—	—	—	—	—	(318)	—	(318)
Profit for the period	—	—	—	—	—	—	—	—	332	—	332	6	338
2005 final dividend	—	—	—	—	—	—	—	—	(2)	(13)	(15)	—	(15)
At 30 June 2006	78	62	741	1,417	2	13	—	1	388	—	2,702	56	2,758

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

HK\$ million	Six months ended 30 June	
	2007 (Unaudited)	2006 (Unaudited)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(38)	(33)
NET CASH INFLOW FROM INVESTING ACTIVITIES	898	249
NET CASH INFLOW FROM FINANCING ACTIVITIES	92	50
NET INCREASE IN CASH AND CASH EQUIVALENTS	952	266
Cash and cash equivalents at beginning of period	865	528
Effect of foreign exchange rate changes, net	3	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,820	794
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	488	329
Non-pledged time deposits with original maturity of less than three months when acquired	1,332	465
	1,820	794

NOTES TO CONDENSED FINANCIAL STATEMENT

1. *BASIS OF PREPARATION*

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and with Hong Kong Accounting Standards (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited annual financial statements of the Group for the year ended 31 December 2006.

2. *PRINCIPAL ACCOUNTING POLICIES*

The accounting policies adopted are consistent with those of the consolidated financial statements for the year ended 31 December 2006.

The following new standards, amendments to standards and interpretations which are relevant to its operations are mandatory for financial year ending 31 December 2007.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economics
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

The adoption of these new standards, amendments to standards and interpretations has no significant impact on the Group interim results and financial position.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The Group has commenced considering the potential impact of these new HKFRSs. The management anticipates the application of these new HKFRSs will have no material impact on the results of operations and financial position of the Group.

2. **PRINCIPAL ACCOUNTING POLICIES (Continued)**

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions ²
HK(IFRIC)-Int 12	Service Concession Arrangements ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

3. **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 investment 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 expenses items.

3. **SEGMENT INFORMATION (Continued)**

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

(a) **Business segments**

The following tables present revenue and profit/(loss) regarding the Group's business segments for the period ended 30 June 2007 and 2006.

2007

HK\$ million	Telecom and electronic products (Unaudited)	Baby products (Unaudited)	Securities investment (Unaudited)	Property investment and development (Unaudited)	Corporate and others (Unaudited)	Consolidated (Unaudited)
Segment revenue:						
Sales to external customers	1,584	57	152	2	23	1,818
Other revenue	9	1	484	—	79	573
Total revenue	<u>1,593</u>	<u>58</u>	<u>636</u>	<u>2</u>	<u>102</u>	<u>2,391</u>
Segment results	<u>(48)</u>	<u>6</u>	<u>514</u>	<u>—</u>	<u>31</u>	<u>503</u>
Interest income						10
Finance costs						<u>(15)</u>
Profit before tax						498
Tax						<u>(14)</u>
Profit for the period						<u>484</u>

3. **SEGMENT INFORMATION (Continued)****(a) Business segments (Continued)**

2006

HK\$ million	Telecom and electronic products (Unaudited) (Restated)	Baby products (Unaudited) (Restated)	Securities investment (Unaudited) (Restated)	Property investment and development (Unaudited) (Restated)	Corporate and others (Unaudited) (Restated)	Total (Unaudited) (Restated)
Segment revenue:						
Sales to external customers	1,896	64	—	1	11	1,972
Other revenue	11	2	316	—	34	363
Total revenue	<u>1,907</u>	<u>66</u>	<u>316</u>	<u>1</u>	<u>45</u>	<u>2,335</u>
Segment results	<u>99</u>	<u>8</u>	<u>316</u>	<u>—</u>	<u>(70)</u>	<u>353</u>
Interest income						10
Finance costs						<u>(13)</u>
Profit before tax						350
Tax						<u>(12)</u>
Profit for the period						<u>338</u>

3. SEGMENT INFORMATION (Continued)
(b) Geographical segments

The following tables present revenue information regarding the Group's geographical segments for the period ended 30 June 2007 and 2006.

2007

HK\$ million	United States of America (Unaudited)	Asia Pacific (Unaudited)	Europe (Unaudited)	Consolidated (Unaudited)
Segment revenue:				
Sales to external customers	847	707	264	1,818
Other revenue	—	573	—	573
Total revenue	847	1,280	264	2,391

2006

HK\$ million	United States of America (Unaudited)	Asia Pacific (Unaudited)	Europe (Unaudited)	Consolidated (Unaudited)
Segment revenue:				
Sales to external customers	1,105	505	362	1,972
Other revenue	—	363	—	363
Total revenue	1,105	868	362	2,335

4. PROFIT BEFORE TAX

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

HK\$ million	Six months ended 30 June	
	2007 (Unaudited)	2006 (Unaudited)
Cost of inventories sold	1,563	1,768
Depreciation	66	64
Amortisation of prepaid land lease payments	3	3
Amortisation of deferred development costs	18	22
Write off of deferred development costs	12	8
and after crediting:		
Gain on disposal of available-for-sale financial assets	—	316

5. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. 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 following by a 50% reduction for the next three consecutive years.

HK\$ million	Six months ended 30 June	
	2007 (Unaudited)	2006 (Unaudited)
Current — Hong Kong	7	8
Current — Elsewhere	5	5
Deferred tax	2	(1)
Total tax charge for the period	14	12

6. *DIVIDENDS*

The board of directors has declared an interim dividend for 2007 of HK\$0.025 per share (30 June 2006: HK\$0.02 per share) to be payable from the Company's retained earnings. The interim dividend will be paid on or around Wednesday, 31 October 2007 to shareholders whose names appear on the register of members of the Company on Friday, 12 October 2007. The register of members of the Company will be closed from Wednesday, 10 October 2007 to Friday, 12 October 2007 (both date inclusive).

7. *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 period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds (see below). The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the period, 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.

7. **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)**

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

HK\$ million	Six months ended 30 June	
	2007 (Unaudited)	2006 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	498	332
Interest on convertible bonds	1	2
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	499	334
Shares		
	Number of shares	
Weighted average number of ordinary shares in issue during the period used in basic earnings per share calculation	795,584,050	685,192,777
Effect of dilution — weighted average number of ordinary shares:		
Convertible bonds	58,036,873	142,906,215
	853,620,923	828,098,992

8. **PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2007, the Group acquired fixed assets of HK\$83 million (six months ended 30 June 2006: HK\$78 million) and disposed of fixed assets of HK\$2 million (six months ended 30 June 2006: HK\$4 million).

9. 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:

HK\$ million	30 June 2007 (Unaudited)		31 December 2006 (Audited)	
	Balance	Percentage	Balance	Percentage
Current to 30 days	283	34	294	35
31 to 60 days	247	29	249	30
61 to 90 days	201	24	243	29
Over 90 days	111	13	51	6
	842	100	837	100

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

10. TRADE AND BILLS PAYABLES

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

HK\$ million	30 June 2006 (Unaudited)		31 December 2006 (Audited)	
	Balance	Percentage	Balance	Percentage
Current to 30 days	256	28	232	26
31 to 60 days	236	25	233	26
61 to 90 days	219	24	168	19
Over 90 days	214	23	253	29
	925	100	886	100

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

II. CONVERTIBLE BONDS

- (a) On 25 April 2005, the Company issued the 2010 Convertible Bonds with an aggregate nominal value of approximately HK\$155 million 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 principal amount 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 years, the 2010 Convertible Bonds with an aggregate nominal value of approximately HK\$126.5 million were converted into 204,834,544 shares in the Company of HK\$0.10 each. During the first half of 2007, the 2010 Convertible Bonds with a nominal value of HK\$10.4 million were converted into 17,242,781 shares of the Company of HK\$0.10 each. The nominal value of 2010 Convertible Bonds outstanding as at 30 June 2007 was approximately HK\$18.1 million.

11. CONVERTIBLE BONDS (Continued)

- (b) On 23 June 2006, the Company issued the 2009 Convertible Bond with a nominal value of HK\$30 million as part of consideration for the acquisition of a property.

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 principal amount 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 principal amount 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 prior year and the first half of 2007.

The fair value of the liability component of the 2010 Convertible Bonds and 2009 Convertible Bond were 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.

12. **SHARE CAPITAL**

HK\$ million	30 June 2007 (Unaudited)	31 December 2006 (Audited)
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each	200	200
Issued and fully paid:		
797,108,274 (31 December 2006: 779,865,493) ordinary shares of HK\$0.10 each	80	78

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

	Number of ordinary shares of HK\$0.10 each	Issued share capital HK\$ million
At 1 January 2007	779,865,493	78
Issue of new shares upon conversion of convertible bonds	17,242,781	2
At 30 June 2007	797,108,274	80

During the six months ended 30 June 2007, the 2010 Convertible Bonds with a nominal value of approximately HK\$10.4 million were converted into 17,242,781 shares of the Company of HK\$0.10 each at conversion price of HK\$0.604 per share.

13. **CONTINGENT LIABILITIES**

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 30 June 2007 (31 December 2006: HK\$1 million). 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.

14. PLEDGE OF ASSETS

At 30 June 2007, the Group's bank borrowings were secured by:

- (i) pledge of the Group's fixed deposits amounting to approximately HK\$90 million (31 December 2006: HK\$88 million); and
- (ii) fixed charges over certain of the Group's investment properties and leasehold land and buildings with an aggregate net book value amounting to approximately HK\$1,001 million (31 December 2006: HK\$1,004 million).

15. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to ten years.

At 30 June 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

HK\$ million	30 June 2007 (Unaudited)	31 December 2006 (Audited)
Within one year	3	4
In the second to fifth years, inclusive	4	4
After five years	3	3
	10	11

15. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

The group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from two to five years.

At 30 June 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

HK\$ million	30 June 2007 (Unaudited)	31 December 2006 (Audited)
Within one year	6	8
In the second to fifth years, inclusive	4	5
After five years	—	—
	10	13

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:

HK\$ million	30 June 2007 (Unaudited)	31 December 2006 (Audited)
Within one year	2	2
In the second to fifth years, inclusive	9	9
After five years	115	117
	126	128

16. COMMITMENTS

In addition to the operating lease commitments detailed in note 15, the Group had the following commitments at the balance sheet date:

HK\$ million	30 June 2007 (Unaudited)	31 December 2006 (Audited)
Contracted, but not provided for:		
Construction in progress	25	64
Purchases of plant and machinery and equipment	12	5
	37	69
Authorised, but not contracted for:		
Purchases of PRC land	95	—
	132	69

17. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group

HK\$ million	Six months ended 30 June	
	2007 (Unaudited)	2006 (Unaudited)
Short term employee benefits	23	32
Post-employment benefits	—	—
Total compensation paid to key management personnel	23	32

18. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with the current period's presentation.

disclosure of interests

DIRECTORS' INTERESTS

As at 30 June 2007, 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 30 JUNE 2007

(i) Long positions in the Shares:

Name of the Director	Number of the Shares beneficially held and nature of interest			Total	Approximate
	Personal	Family	Corporate		percentage of the total issued share capital
					(%)
Mak Shiu Tong, Clement	715,652	—	238,283,758	238,999,410	29.98
Tam Ngai Hung, Terry	500,000	—	—	500,000	0.06
Cheng Yuk Ching, Flora (Note)	14,076,713	120,000	—	14,196,713	1.78
William Donald Putt	591,500	—	—	591,500	0.07
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)	29,942,649	3.76
	2009 convertible bonds	(2)	26,548,672	3.33

Notes:

- (1) The 2010 convertible bonds with an outstanding principal amount of HK\$18,085,360 as at 30 June 2007, were issued by the Company to New Capital Industrial Limited (a company controlled by Mr. Mak Shiu Tong, Clement) on 25 April 2005. The 2010 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 2010 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.
- (2) The 2009 convertible bonds with an outstanding principal amount of HK\$30,000,000 as at 30 June 2007, were issued by the Company to Capital Winner Investments Limited (a company controlled by Mr. Mak Shiu Tong, Clement) on 23 June 2006. The 2009 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 2009 convertible bonds).

(B) INTERESTS AND SHORT POSITIONS IN THE SHARES AND THE UNDERLYING SHARES OF THE SHARE OPTIONS OF AN ASSOCIATED CORPORATION – CCT TECH AS AT 30 JUNE 2007

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

Name of the Director	Number of the shares held	Approximate percentage of the total issued share capital
		(%)
Mak Shiu Tong, Clement	120,000,000	0.18
Tam Ngai Hung, Terry	20,000,000	0.03
Cheng Yuk Ching, Flora	18,000,000	0.03

(ii) Long positions in the underlying shares of the share options of CCT Tech:

Name of the Director	Date of grant of the share options	Exercise period of the share options	Exercise price per share	Number of the share options outstanding	Number of the total underlying shares	Approximate percentage of the total issued share capital
			HK\$			(%)
William Donald Putt	8/6/2007	8/6/2007–7/12/2007	0.055	10,000,000	10,000,000	0.02
Samuel Olenick	8/6/2007	8/6/2007–7/12/2007	0.055	10,000,000	10,000,000	0.02
Tam King Ching, Kenny	8/6/2007	8/6/2007–7/12/2007	0.055	10,000,000	10,000,000	0.02
Lau Ho Man, Edward	8/6/2007	8/6/2007–7/12/2007	0.055	10,000,000	10,000,000	0.02

(C) **INTERESTS AND SHORT POSITIONS IN THE SHARES AND THE UNDERLYING SHARES OF THE SHARE OPTIONS OF AN ASSOCIATED CORPORATION – TRADEEASY AS AT 30 JUNE 2007**

(i) **Long positions in the shares of Tradeeasy:**

None of the Directors had any interest and short position in respect of the shares, debentures, convertible bonds and equity derivatives of Tradeeasy as at 30 June 2007.

(ii) **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	Number of the share options outstanding	Number of the total underlying shares	Approximate percentage of the total issued share capital
			HK\$			(%)
Mak Shiu Tong, Clement	14/8/2006	14/8/2006–13/8/2011	0.038	45,000,000	45,000,000	4.47
Tam Ngai Hung, Terry	14/8/2006	14/8/2006–13/8/2011	0.038	28,000,000	28,000,000	2.78
Cheng Yuk Ching, Flora	14/8/2006	14/8/2006–13/8/2011	0.038	5,000,000	5,000,000	0.50
William Donald Putt	14/8/2006	14/8/2006–13/8/2011	0.038	5,000,000	5,000,000	0.50

Save as disclosed above, as at 30 June 2007, 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2007, 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 30 JUNE 2007:

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	12.15
New Capital Industrial Limited (Note)	141,414,966	17.74
	238,283,758	29.89

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 30 JUNE 2007:

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)	18,085,360	29,942,649	3.76

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 30 June 2007, 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.



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 30 June 2007, 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 period for the six months ended 30 June 2007.

o t h e r i n f o r m a t i o n

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 six months ended 30 June 2007.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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 period for the six months ended 30 June 2007, 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 least once every three years at the 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.

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.

Other information on the corporate governance practices of the Company has been disclosed in the corporate governance report contained in the 2006 Annual Report of the Company issued in April 2007.

AUDIT COMMITTEE

The Company has established the Audit Committee with specific written terms of reference formulated in accordance with the requirements of the Listing Rules. 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, all of whom are qualified accountants and have extensive experience in accounting and financial matters. The Audit Committee is chaired by an INED who is subject to rotation each year.

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2007 and the 2007 Interim Report of the Company.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee with specific written terms of reference in line with the code provisions under the Code. The Remuneration Committee consists of five members comprising three INEDs, namely Mr. Lau Ho Man, Edward, Mr. Tam King Ching, Kenny 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 an INED who is subject to rotation each year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

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 period for the six months ended 30 June 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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 period for the six months ended 30 June 2007. The Board comprises three INEDs, all of whom have accounting and financial expertise and bring strong independent judgement, knowledge and experience to the Board.

BOARD OF DIRECTORS

As at the date of the 2007 Interim Report, the executive Directors are Mr. Mak Shiu Tong, Clement, Mr. Tam Ngai Hung, Terry, Ms. Cheng Yuk Ching, Flora and Dr. William Donald Putt and the INEDs of the Company are Mr. Samuel Olenick, Mr. Tam King Ching, Kenny and Mr. Lau Ho Man, Edward.

By Order of the Board
Mak Shiu Tong, Clement
Chairman

Hong Kong, 19 September 2007



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 30 June 2007. 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\$18,098,242 as at 30 June 2007. 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
Wi-Fi	Wireless Fidelity
%	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 period
Current Ratio	Current assets divided by current liabilities



中建電訊集團有限公司

CC7 TELECOM