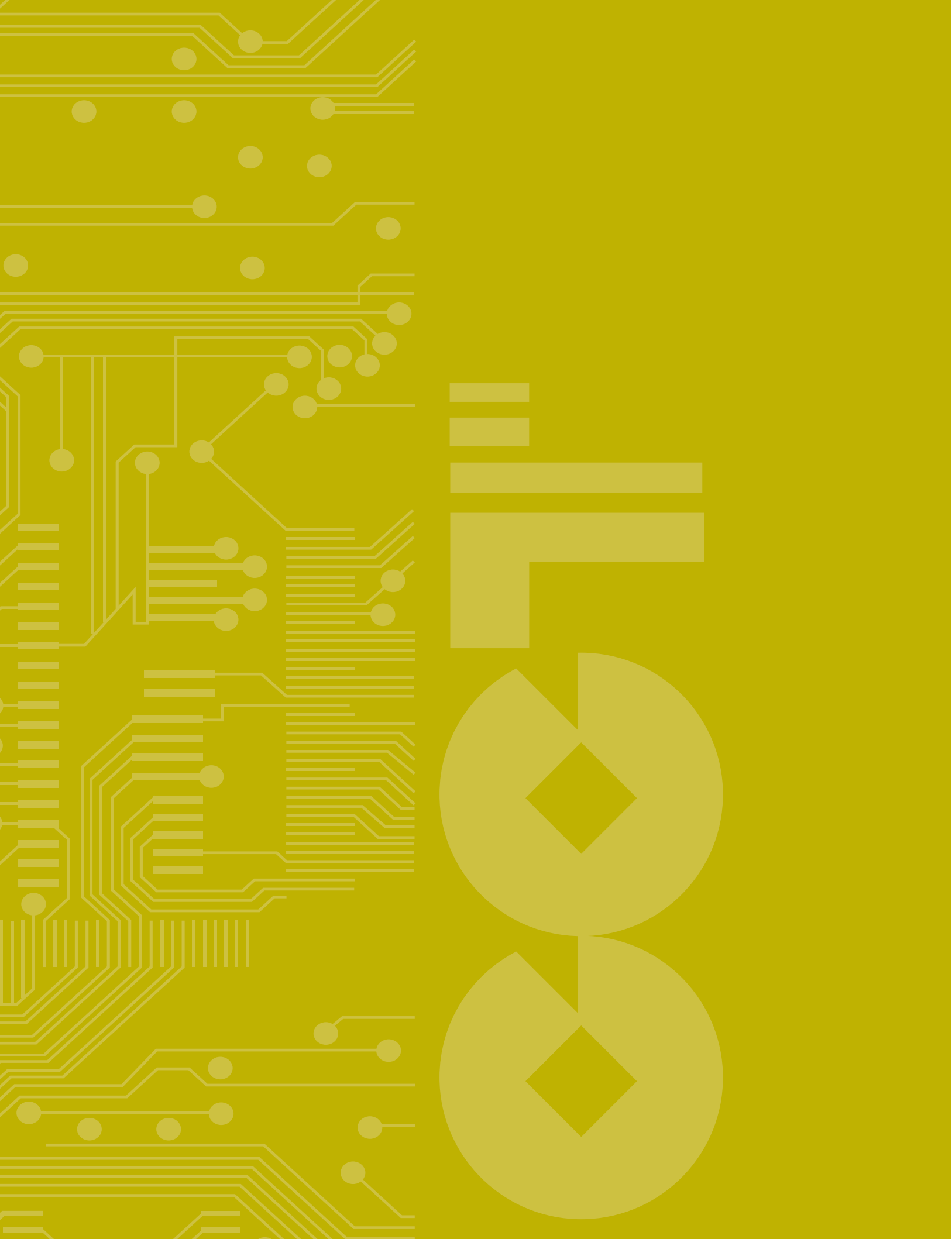



TECHNOLOGY

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chairman's letter

On behalf of the board of directors (the "Board") of CCT Telecom Holdings Limited (the "Company"), I am pleased to announce the annual results of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2005.

During the year under review, the Company recorded a turnover of HK$3,980 million, a slight decrease of approximately 1.9% compared to previous year. Profit for the year attributable to shareholders of the Company, including other income and gains of HK$175 million, rose to HK$225 million, an increase of approximately 110.3%.

The financial year 2005 was a difficult and challenging year for our manufacturing business, attributable to several unfavorable factors. Keen market competition in our major markets led to increasing price pressure from our customers. Coupled with the labour shortage problem in the Pearl River Delta region, the People's Republic of China (the "PRC"), this resulted in a slight decrease of 1.9% in turnover during the year under review as compared to that of 2004. Operating profit dropped due to price reduction and increase in operating costs including the rising costs of certain materials, salaries and wages of staff and workers, increase in overheads and appreciation in Renminbi.

Despite a difficult environment in the financial year of 2005, we maintained our leading position in the cordless phone manufacturing sector. The business of the Group in the United States ("U.S."), our largest market, performed well and achieved an increase in both sales orders and volume. We have also made excellent progress in developing our business in countries outside the U.S., especially Europe and the Asian Pacific regions. Growth in these regions was encouraging as we secured increased business from existing and new customers.

We are extremely pleased with the performance of the Group's business of investments in properties and securities which bore fruitful results during the year. The disposal and dilution of our interest in Haier Electronics Group Co., Ltd ("Haier Electronics") in January 2005 generated a realized gain of HK$109 million and the recovery of the commercial property market in Hong Kong resulted in the reversal of previous impairment loss of an investment property of our Group in the amount of HK$64 million. These investment gains are the main factors that contributed to the significant increase in net profit.

The Board recommends the payment of a final dividend of HK$0.02 per share for the year 2005 to the shareholders whose names appear on the register of members of the Company on Tuesday, 23 May 2006, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company. The proposed final dividend will be paid on or around Tuesday, 13 June 2006 following the shareholders' approval at the forthcoming annual general meeting of the Company. Taking into account the HK$0.68 special interim dividend per ordinary share paid in August 2005, the total dividend per ordinary share amounted to HK$0.70 for this financial year, compared with the total dividend of HK$0.13 per ordinary share (including the special interim dividend of HK$0.10 per share paid in 2004) distributed in respect of the financial year 2004. The increase in total dividend distributed this financial year is a sign of our gratitude towards the support of our shareholders throughout the past years.



PROPOSED PRIVATISATION OF CCT TECH INTERNATIONAL LIMITED

The Group's attempt to gain approval of the scheme in relation to the privatisation of CCT Tech International Limited ("CCT Tech") at the court meeting of CCT Tech held on 13 February 2006 was unsuccessful and, accordingly, the privatisation of CCT Tech will not proceed. The shares of CCT Tech remain listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). CCT Tech and its subsidiaries will continue to be engaged in the manufacturing and sale of telecom and electronic products.

In order to restore the public float of CCT Tech, the Company entered into a conditional agreement with Deutsche Bank on 17 March 2006 under which the Company agreed to sell in total 13,800,000,000 shares ("Sale Shares") in CCT Tech to Deutsche Bank and at least two other independent institutional investors for a total consideration of approximately HK$303.6 million upon the full conversion of the two convertible notes due by CCT Tech to the Group. At the same time, the Company also entered into a put agreement with Deutsche Bank granting the bank a right to put back the Sale Shares to the Company pursuant to the terms of the put agreement. The consideration for the sale of the Sale Shares will be paid to Deutsche Bank as an effective collateral to secure the Company's obligations under the put agreement. If the put options are not exercised pursuant to the terms of the put agreement, the consideration will be refunded back to the Company upon the early unwind of the put options or upon the expiration date of the put options. Upon completion of the sale of the Sale Shares, the Group's interest in CCT Tech will decrease from 84.12% to 74.62% and Deutsche Bank and the independent institutional investors together will hold in total approximately 21.4% of the then total issued share capital of CCT Tech.

The sale of the Sale Shares and the execution of the put agreement is subject to various conditions including the approval of the transactions at a special general meeting of CCT Telecom. The transactions have a number of advantages to the Group. First of all, the transactions will restore the public float of the CCT Tech on one hand and will increase the liquidity of shares of CCT Tech and broaden its shareholders base on the other. If the put options can be unwound and the consideration is refunded to the Company by Deutsche Bank, the Company would be able realise part of our investments in CCT Tech at a consideration of HK$303.6 million and yet maintain CCT Tech as our major subsidiary.

OUTLOOK

We are optimistic towards the outlook of the financial year of 2006 although we expect 2006 to be a challenging year for our manufacturing business. Keen market competition will continue to impose pressure on sale prices. The outlook for the prices of raw materials and components remain uncertain and we expect the prices to continue its upward trend or stabilize at a high level. The rising wages of workers due to continuing labour shortage and potential further appreciation of Renminbi will continue to affect our profit margin. To combat such issues, the Group has implemented various cost reduction and cost control measures. We have also invested in more automated production facilities and equipment and redesigned certain production processes in order to improve labour efficiency and reduce our reliance on manual labour. All these measures have produced encouraging results and the costs saved will partly compensate for the increase in operating costs. To further combat the difficulties caused by labour shortages, we will explore the possibility of establishing additional manufacturing facilities in locations outside the Guangdong Province in the northern part of China or even outside of China.

We will continue to benefit from the continuing robust economy in the U.S. and we expect revenue from our largest market will rise again. We are optimistic about our business in the markets outside the U.S., in the rest of the world. We expect the business in these non-U.S. markets to expand further especially Europe as the market in this region continues to grow and our customers increase sourcing from Asia.

Our strength in the telecom product business will continue to enable us to lead the market in the cordless telecom products industry. We will maintain our strong market position and will continue to diversify our customer and product base. We expect that the new advanced wireless and broadband telecom and electronic products will generate a lot of interest from the market. Our order books remain strong and continue to gain momentum. With an exciting product roadmap ahead of us, we are optimistic about the potential of the telecom and electronic product businesses.

As for our investment business, we are confident of its potential. We are very pleased that in January 2006, the Group further disposed of its approximately 24% remaining interest in Haier Electronics to Deutsche Bank generating approximately HK$551 million in cash and approximately HK$316 million unaudited profit which will be booked in the financial year 2006. We will continue to look for opportunities for new investment that will generate satisfactory returns. We will also closely monitor the property and investment market and will seize any opportunity to realize our investments for gains.

On the basis of the abovementioned measures and potential business opportunities, the management is optimistic about the Group's continuous growth in the years ahead.

ACKNOWLEDGEMENTS

The year's results could not have been achieved without the dedication and commitment of many individuals and groups. 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 and the Group's entire staff for their hard work. Finally, I would also like to thank our customers, suppliers, business partners, bankers and associates for their continued support and confidence in the Group. I am confident to say that we are well-placed to continue creating even greater value to our shareholders in the foreseeable future.

Mak Shiu Tong, Clement

Chairman

Hong Kong, 19 April 2006

review of operations

The Group is engaged in the (i) manufacturing and sale of telecom and electronic products (ii) manufacturing and sale of plastic and electronic components, (iii) manufacturing and sale of baby products, and (iv) investments in properties and securities.

TELECOM AND ELECTRONIC PRODUCTS

The principal businesses of the Group remain the manufacture and sale of telecom and electronic products through our listed subsidiary, CCT Tech.

Despite a challenging operating landscape in the global market, the Group was still able to expand its customer base to a number of worldwide distributors of telecom products, thereby, broadening our customer base and facilitating future growth. Our customers are mostly well-known multinational companies and owners of renowned global household brands. During the year under review, both of sales orders and sales volume increased.

We continued to benefit from robust consumer spending in the U.S. market in 2005, thus, enabling us to achieve growth in sales orders and volume from our U.S. customers. Revenue, however, decreased slightly due to the reduction in the average selling price of our products. Our business in the markets outside the U.S., especially Europe and the Asian Pacific regions, performed well as the markets in these regions continued to grow. The increase in revenue from these regions has been encouraging to say the least.

Turnover, however, decreased due to the reduction of prices for some of our products and shortage of workers. Competition in the consumer telecom products industry continued to be fierce and the Group faced tremendous pressure from our customers on pricing. Labour shortage in the Guangdong Province became more apparent and this has caused delay of certain shipments during the year under review.

The operating profit of our telecom product business dropped partly due to price reduction and partly due to escalating operating costs and overheads.









Rising interest rates and oil prices began to affect global economic growth during the year under review. The costs of certain raw materials and other components, in particular, plastic resin and copper, increased significantly. The shortage of electricity and labour in the Pearl River Delta region and the rising cost of wages for staff and workers in Hong Kong and the PRC is another major operating issue that increased our operating costs. In order to alleviate such pressures, the Group has actively and continuously invested in new technologies and highly automated procedures and equipment to enhance product quality and efficiency on one hand and to reduce over-reliance on labour on the other. We also implemented cost cutting and control measures and improved our operational efficiencies in all respects.

The Group's core strength and competitive edge continue to be our strong research and development ("R&D") capabilities, efficient production management, advanced production facilities and our economies of scale. To expand our R&D capabilities, during the year of 2005, we have established a new R&D center in Singapore and have already recruited over 40 highly qualified engineers and research staff in Singapore. We believe the Singapore R&D center will become an important contributor to our product development roadmap. We will continue to increase the number of engineers in Singapore and Shenzhen. Together with our strong team of engineers in Hong Kong, we have been able to launch new and innovative products to stimulate demands as evidenced by the encouraging reaction we have received from our customers so far on the launch of our new products during the year under review (such as 5.8 GHz digital cordless phones, cordless phones with multi-handsets, colour LCD display, camera and short message features and DECT phones with advanced features).

We have developed advanced consumer wireless electronic products such as VoIP (Voice over Internet Protocol) cordless phones, cordless phones with Skype and wireless broadband products and these new products have attracted significant market interest. We expect these new products to generate substantial business in the years ahead.

We have continued to utilize advanced machinery and equipment as well as information technology to manufacture our telecom products at our facilities in Huiyang and Dongguan, the PRC. During the year, we continued to invest considerably in our production machinery and equipment. We now have a total number of 61 surface mount technology ("SMT") manufacturing lines and 132 bonding machines to support our increasing ODM and contract manufacturing orders. We also have advanced testing equipment such as automatic PCBA testers and automatic casing testers in order to ensure that only products with the best quality are delivered to our customers.

Our high volume of production and scale of operation places us in a position to benefit from various economies of scale, such as, our ability to command various sourcing and procurement advantages within the industry. We have established long-term relationship and continue to enhance our strategic alliance with key component and chipset suppliers for worldwide market. We have taken initiatives to minimize component lead-time and improve supplier chain management through e-procurement and ERP system of SAP.



MANUFACTURING OF PLASTIC AND ELECTRONICS COMPONENTS

We manufacture components mainly for internal use in our telecom and electronics product business. We manufacture plastic and power supply components mainly for our own use. Our production base is located within the Group's production plants in Huiyang and Dongguan, the PRC and are some of the largest plastic injection manufacturing facilities in the district. We currently have a total of over 354 advance mould injection machines, including 45 automatic robotic plastic moulding machines. We are also engaged in other plastic products-related activities such as auto-





spraying, silk-screening and UV printing, hot-stamping, laser marking, tempo-printing, assembly and ultrasonic welding. Furthermore, we have the capability to manufacture moulds ourselves. We possess the most advanced mould building equipment including digital milling machines, wire-cutting machines, electrical discharge machines and computer numerical control processing centers.

During the year, the performance of our component business was affected by the increase in the price of raw materials especially plastic and copper. In order to counter-balance such difficulties, we have actively implemented cost control and cutting measures and continued to improve our operational efficiencies.

BABY PRODUCT BUSINESS

The baby product segment is engaged in the production of a variety of traditional plastic baby products, baby toys and other accessories, with its principal market in the US. Like other manufacturing businesses, the baby product business during the year under review was affected by keen price competition and increase in operating costs. Both gross profit and operating margin of the business have decreased due to the increasing cost of raw materials. Further cost control measures have already been implemented to tackle the difficult business environment in this sector.

Our major customers are multinational distributors of baby products with renowned household brands. The business from these customers has been stable. We have made efforts to develop new products with a view to stimulate growth and attract new business.

INVESTMENT BUSINESS

The Group has engaged in the business of investments in properties and securities. This sector performed extremely well during the year.

During the year, the Group derived a realized gain of HK$109 million arising from the disposal and deemed disposal of the 19.6% interest in Haier Electronics. One of the properties that we invested has appreciated in value resulting in the reversal of previous impairment loss in the amount of HK$64 million. The investment properties also generate recurrent rental income. We will continue to look for investment opportunities on a prudent basis in order to maximize the returns to our shareholders.




CCTTECHNOLOGY


CCTTECHNOLOGY



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














CCT



Our factory complex in Dongguan, Guangdong Province, the PRC









directors and senior management

EXECUTIVE DIRECTORS

Mr. MAK Shiu Tong, Clement, aged 52, has served as the Chairman, the Chief Executive Officer ("CEO") and an Executive Director of the Company since January 1994. Mr. Mak is a substantial shareholder and a member of the remuneration committee of the Company. Mr. Mak is responsible for the corporate planning, overall strategic direction of the Group and takes a leading role in managing the business. He has over 29 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.

Mr. TAM Ngai Hung, Terry, aged 52, has served as an Executive Director and the Group Finance Director of the Company since March 2001. Mr. Tam was appointed as the Deputy Chairman of the Company on 9 December 2005. Mr. Tam is 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 28 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, a company listed on the main board of the Stock Exchange.

Ms. CHENG Yuk Ching, Flora**, aged 52, 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 26 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. Ms. Cheng is also a director of certain subsidiaries of the Group.

Save as disclosed above and apart from being an Executive Director of the Company, Ms. Cheng did not hold any directorship in any listed public company in the past three years and does not hold any other positions with the Company and any of its subsidiaries.

Ms. Cheng has entered into service contracts with the Company and CCT Tech for a fixed term. Ms. Cheng's directorship in the Company is subject to the retirement by rotation and re-election at the annual general meeting of the Company. Her emoluments from the Company and CCT Tech comprise annual salaries of HK$3,108,000 and bonuses. Her emoluments are determined with reference to her duties and responsibilities with the Group, the Group's performance as well as the market benchmark.

Ms. Cheng 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, Ms. Cheng had interest in 14,196,713 shares of the Company, in which 120,000 shares were held by her spouse. Save as disclosed above, as at the date of this Annual Report, Ms. Cheng had no other interests (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) in any shares, underlying shares or debentures of the Company and/or its associated corporations.

EXECUTIVE DIRECTORS *(Continued)*

Ms. CHENG Yuk Ching, Flora *(Continued)*

There is no information which should be disclosed under Rule 13.51(2)(h) to (v) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Save as disclosed above, there is no information which should be disclosed nor is/was Ms. Cheng 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 of the Company.

Dr. William Donald PUTT, aged 68, has served as an Executive Director of the Company since January 1997. Dr. Putt is responsible for the worldwide 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 United States. Dr. Putt has over 33 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, a company listed on the main board of the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Samuel OLENICK**, aged 78, has served as an Independent Non-executive Director since November 1997. Mr. Olenick is a member of the audit committee and the remuneration committee of the Company. He is a certified public accountant in the U.S., and has many years of experience in the U.S. telecommunications field.

Apart from being an Independent Non-executive Director of the Company, Mr. Olenick did not hold any directorship in any listed public company in the past three years and does not hold any other positions with the Company and any of its subsidiaries.

There is no service contract entered into between Mr. Olenick and the Company or any of its subsidiaries. Mr. Olenick's directorship in the Company is subject to the retirement by rotation and re-election at the annual general meeting of the Company. Mr. Olenick receives a director's fee of HK$20,000 per month which is determined by the Board with reference to his duties, responsibilities and is in line with that payable to other independent non-executive directors of the Company.

Mr. Olenick 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. Olenick is deemed to be interested in 545,000 shares of the Company. Save as disclosed above and as at the date of this Annual Report, Mr. Olenick 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 Mr. Olenick 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 of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. TAM King Ching, Kenny, aged 57, has served as an Independent Non-executive Director since December 1999. Mr. Tam is a member of the audit committee and the remuneration committee of the Company. 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. He is serving as a member of the Ethics Committee, Insolvency Practitioners Committee, Professional Risk Management Committee and Small and Medium Practitioners Committee in the Hong Kong Institute of Certified Public Accountants. He is a Past President of The Society of Chinese Accountants and Auditors. Mr. Tam also serves as an independent non-executive director 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 GEM board of the Stock Exchange, namely, North Asia Strategic Holdings Limited.

Mr. LAU Ho Man, Edward, aged 51, has served as an Independent Non-executive Director since February 2000. Mr. Lau is a member of the audit committee and the remuneration committee of the Company. Mr. Lau has more than 29 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 also serves as an independent non-executive director of Tradeeasy Holdings Limited, a company listed on the GEM board of the Stock Exchange.

** *Being the directors proposed to be rotated and re-elected by the shareholders at the forthcoming annual general meeting of the Company.*

SENIOR MANAGEMENT

Mr. TONG Chi Hoi, aged 40, joined the Group in November 1997. He is an executive director of CCT Tech, a listed subsidiary of the Company, and the President of the principal subsidiaries of CCT Tech. Mr. Tong serves as a key management executive for the telecom and electronic product business of the Group and is responsible for the day-to-day management of the business. Mr. Tong has a First Class Honours Degree in Electrical and Electronics Engineering from the University of London. He has over 19 years of experience in the electronics manufacturing industry.

Mr. MAN Chin Keung, Daniel, aged 42, 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 of plastic component and products. He has a Bachelor's Degree in Mechanical Engineering and a Master's Degree in Business Administration. He has more than 14 years of experience in the plastic injection industry.

Mr. LI Man To, Feynman, aged 35, currently holds the position of the Executive Vice President in a principal subsidiary of CCT Tech. Mr. Li is primarily responsible for the research and development, sales and marketing, customer service and logistics activities of advance products. Mr. Li also oversees the operations of the new 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 research and development of telecommunication field for more than 11 years with extensive engineering management experiences. He was recently invited as member of Advisory Committee on Electronics Engineering of The Chinese University of Hong Kong.

SENIOR MANAGEMENT *(Continued)*

Mr. TUNG Shuk Lun, Maximilian, aged 37, 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.

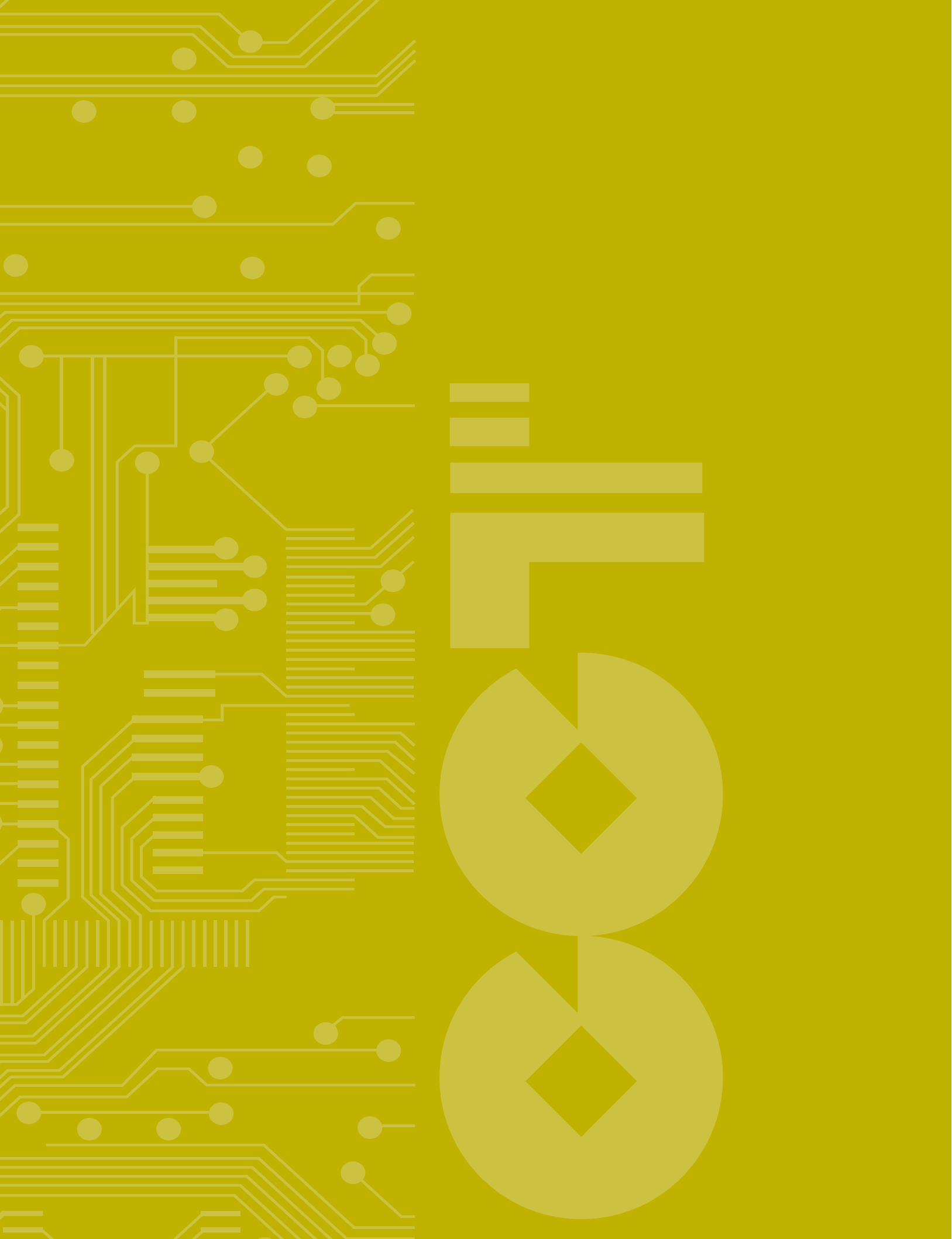
Mr. CHEUNG Chi Wah, Patrick, aged 35, joined the Company in October 1999. He currently holds the position of Group Financial Controller and is responsible for finance and accounting management of the Group. Mr. Cheung graduated from the Hong Kong Polytechnic University with an Honours Degree in Accountancy. 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.

Mr. LAW Hing Lam, Andy, aged 42, 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.

Ms. LOW Pui Man, Jaime, aged 37, 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 highlights of the year

HK$ million	**2005**	2004 (Restated)	% increase/ (decrease)
Key Financial Results Highlights			
Turnover	**3,980**	4,057	(1.9%)
Profit for the year attributable to shareholders of the Company	**225**	107	110.3%
Per Share Data			
Earnings per share	**HK$0.44**	HK$0.25	76.0%
Dividend per share			
— Paid interim dividend	**—**	HK$0.01	
— Paid special interim dividend	**HK$0.68**	HK$0.10	
— Proposed final dividend	**HK$0.02**	HK$0.02	
Total dividend per share	**HK$0.70**	HK$0.13	



FINANCIAL RESULTS

Highlights on Financial Results

HK$ million	**2005**	2004 (Restated)	% increase/ (decrease)
Turnover	**3,980**	4,057	(1.9%)
Gross profit	**454**	464	(2.1%)
Other income and gains	**175**	53	230.2%
Finance costs	**(23)**	(6)	283.3%
Share of profit of Haier Electronics as an associate	**—**	49	N/A
Tax	**(18)**	(18)	—
Profit for the year attributable to minority interests	**(28)**	(80)	(65.0%)
Profit for the year attributable to shareholders of the Company	**225**	107	110.3%

Adoption of New Accounting Standards

During the year, the Company has adopted the new financial reporting standards which came into effect on 1 January 2005. The effect of the adoption of these financial reporting standards have been summarized in notes 2.2, 2.3 and 2.4 of the financial statement.

Discussion on Financial Results

The Group recorded a turnover of HK$3,980 million during the year of 2005, which represents a decrease of 1.9% over the corresponding previous year. The decrease is mainly attributable to the price reduction of certain telecom products and delay in shipment of goods of our factories arisen from the continuous labour shortage in the Pearl River Delta region throughout the year 2005.

Gross profit decreased by 2.1% due to decrease in turnover.

Operating profit for our manufacturing business dropped due to the decrease in sale price and increase in the operating costs.

Other income and gains amounted to HK$175 million, more than tripled that of previous year mainly due to the realized gain of HK$109 million arising from the disposal and deemed disposal of 19.6% interest in Haier Electronics in January 2005.

Effective from January 2005, Haier Electronics ceased to be an associate of the Group and the Group has since ceased to share any of the results of Haier Electronics. In 2004, the Group's investment in Haier Electronics was classified as an interest in an associate. As a result of the adoption of the reverse acquisition accounting method by Haier Electronics, the results of Haier Electronics in prior years have been restated. The Group's share of result of Haier Electronics for the year ended 31 December 2004 was therefore restated from a loss to a profit of HK$49 million.

FINANCIAL RESULTS *(Continued)*

Discussion on Financial Results *(Continued)*

Finance costs surged by approximately 283.3% to HK$23 million in 2005. The increase was mainly attributable to the increase in bank loans borrowed for the operations and the increase in interest rates during the year. Also, due to the adoption of the new HKAS 32, a deemed effective interest of approximately HK$5 million was accrued on the zero rate convertible bonds of the Company. Despite the increase in finance costs, the Company maintains a very healthy financial position as its gearing ratio is only 14.6% and interest cover is over 12 times.

Profit shared by minority interest decreased sharply by 65% because the Group increased its shareholding in CCT Tech during the year.

Profit after tax attributable to shareholders of the Company for the year under review amounted to HK$225 million, up 110.3% from that of previous year, attributable mainly to the investment gains from disposal and dilution of our interest in Haier Electronics and the reversal of previous impairment loss of the investment property.

Analysis by Business Segment

	Turnover (excluding other revenue)				
	2005		2004		
HK$ million	**Amount**	**Relative %**	Amount	Relative %	% increase/ (decrease)
Telecom and electronic products	**3,846**	**96.8%**	3,906	96.4%	(1.5%)
Baby products	**124**	**3.1%**	146	3.6%	(15.0%)
Investments	**2**	**0.1%**	—	—	N/A
Total	**3,972**	**100.0%**	4,052	100.0%	(1.9%)

	Operating profit (before finance costs and tax)		
HK$ million	**2005**	2004	% increase/ (decrease)
		(Restated)	
Telecom and electronic products	**189**	222	(14.9%)
Baby products	**6**	14	(57.1%)
Investments	**165**	1	16,400%
Corporate and others	**(74)**	(77)	(3.9%)
Total	**286**	160	78.8%

During the year, telecom and electronic product business continued to be the principal business of the Group, accounting for approximately 96.8% (2004: 96.4%) of the Group's total revenue (excluding other revenue). The baby product business, accounted for approximately 3.1% (2004: 3.6%) and the investment business accounted for approximately 0.1% (2004: nil) of the total revenue.

FINANCIAL RESULTS *(Continued)*

Analysis by Business Segment *(Continued)*

The telecom and electronic product business contributed HK$189 million in operating profit in the year, represented a decrease of approximately 14.9% as compared with 2004. The decrease was due to the decrease in turnover and the increase in costs. The decrease of the operating profit of the baby product business from HK$14 million in 2004 to HK$6 million in 2005 was attributable to keen competition and rising operating costs.

The investment business contributed HK$165 million profit after related expenses in the year, representing mainly the realized gain on disposal and deemed disposal of the 19.6% interest in Haier Electronics and the reversal of the impairment on the investment property in the year. Corporate segment represented the net amount of the unallocated corporate administrative and other expenses incurred for the year. The net amount of the corporate expenses for 2005 remained the same as 2004.

Analysis by Geographical Segment

	Turnover (excluding other revenue)				
	2005		2004		
HK$ million	**Amount**	**Relative %**	Amount	Relative %	% increase/ (decrease)
United States of America ("U.S.")	**2,360**	**59.4**	2,516	62.1%	(6.2%)
Rest of the World	**1,612**	**40.6**	1,536	37.9%	4.9%
Total	**3,972**	**100.0%**	4,052	100.0%	

The U.S. remained the major market of the Group accounting for approximately 59.4% (2004: 62.1%) of the total revenue (excluding other revenue) for the year. The decrease in revenue from the U.S. was attributable to decrease in sales as a result of the labor shortage and reduction in sale price. We achieved good progress in developing markets outside the U.S. in the rest of the world include the PRC (including Hong Kong), the Asian Pacific regions and European Union and others. The business in the rest of the world performed well and the revenue from these regions accounted for approximately 40.6% (2004: 37.9%) of the Group's revenue. Our reliance on our major U.S. market has gradually decreased as the sales to the emerging markets have increased.

FINANCIAL POSITION

Highlights on Financial Position and Major Balance Sheet Items

HK$ million	**31 December 2005**	31 December 2004	% increase/ (decrease)
		(Restated)	
Property, plant and equipment	**1,253**	1,273	(1.6%)
Investment properties	**257**	101	154.5%
Prepaid land lease payments	**220**	225	(2.2%)
Goodwill	**110**	28	292.9%
Interest in an associate	**—**	222	N/A
Available-for-sale financial assets/other assets/long-term investments (non-current assets)	**18**	16	12.5%
Held-to-maturity financial assets	**18**	—	N/A
Financial assets at fair value through profit or loss (non-current assets)	**37**	—	N/A
Other non-current assets	**48**	32	50.0%
Total non-current assets	**1,961**	1,897	3.4%
Financial assets at fair value through profit or loss/short term investments (under current assets)	**24**	3	700.0%
Available-for-sale financial assets (under current assets)	**551**	—	N/A
Cash and cash equivalents	**528**	832	(36.5%)
Non-current liabilities	**296**	189	56.6%
Minority interest	**68**	197	(65.5%)
Equity attributable to shareholders of the Company	**2,642**	2,210	19.5%

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 were stated at cost less accumulated depreciation and impairment losses. The decrease in their net book value in the year under review was attributable to the net effect of reclassification of a property to investment property and depreciation less additions during the year.

Investment properties in the amount of HK$257 million (31 December 2004: HK$101 million (restated)) represents the fair value of the properties and car parks held by the Group for rental and investment purposes. The increase is mainly attributable to the reclassification of a property from property, plant and equipment to investment property due to a change of use from own use to investment and the reversal of the previous impairment loss of such property during the year.

FINANCIAL POSITION *(Continued)*

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

In prior years, leasehold land and buildings held for own use were classified as properties and were stated at cost less accumulated depreciation and any impairment losses. With effect from 1 January 2005, the Group has adopted the new financial reporting standard HKAS 17 under which interest in leasehold land is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Land lease payments under operating leases are initially stated at cost and subsequently amortized on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings element, the entire lease payments are included in the properties, plant and equipment. The comparative amounts in the balance sheet as at 31 December 2004 have been restated to reflect the reclassification of the leasehold land in accordance with HKAS 17. The decrease in prepaid land lease payments represents the amortization during the year.

Available-for-sale financial assets/other assets/long term investment in the amount of HK$18 million under non-current assets represent the fair value of certain unlisted equity securities and club debenture held for non-trading purposes.

Goodwill increased by almost 3 times to HK$110 million due to the increase in shareholdings in CCT Tech arising from the general offers made during the year.

Other non-current assets increased by 50.0% to HK$48 million due to the increase in capitalized product development costs attributable to new products developed.

As a result of the adoption of the new financial reporting standards, certain cash deposits previously classified as cash and cash equivalents have been reclassified in the current year and categorised with reference to the purpose and terms for which they were held. These deposits were reclassified in accordance with HKAS 32 and HKAS 39 and accounted for in the balance sheet as at 31 December 2005 separately as held-to-maturity financial assets in the amount of HK$18 million under non-current assets, financial assets at fair value through profit or loss in the amount of HK$37 million under non-current assets and financial assets at fair value through profit or loss in the amount of HK$20 million under current assets. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated and these assets were included as part of the cash and cash equivalents under the current assets in the prior years.

FINANCIAL POSITION *(Continued)*

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

Available-for-sale financial assets classified under the current assets as at 31 December 2005 in the amount of HK$551 million represents the fair value of the Group's interest in Haier Electronics. Upon completion of the asset injection by the Haier Group in January 2005, our interest in Haier Electronics reduced and we ceased to have board representation in Haier Electronics. As such, Haier Electronics ceased to be an associate of the Group in 2005. Accordingly, the Group's interest in Haier Electronics was classified as available-for-sale financial assets in the year in accordance with the new financial reporting standard HKAS 39. The fair value of the Group's interest in Haier Electronics as at 31 December 2005 amounted to HK$551 million, determined with reference to the price for the sale of such interest to Deutsche Bank in January 2006. Such investment was however accounted for as interest in an associate in prior years and was stated in 2004's balance sheet at the Group's share of net assets under the equity method of accounting, as restated by adoption of the new financial reporting standards. An adjustment of HK$316 million was credited to the revaluation reserve during 2005, as a result of the adjustment of the value of the investment in Haier Electronics from book value to its fair value. In January 2006, we disposed all our remaining interest in Haier Electronics and we have ceased to have any interest in that company since then.

Cash and cash equivalents decreased by 36.5%, mainly due to the use of cash for the general offers related to CCT Tech during the year and the special dividend paid in August, which was partially off-set by the proceeds on disposal of interest in Haier Electronics in January 2005 and the cash generated from operations. The decrease in cash and cash equivalents is also attributable to the reclassification of certain deposits in the current year to other assets in accordance with HKAS 39 as elaborated above but comparative amounts have not been restated.

The increase in non-current liabilities of approximately 56.6% was mainly due to the increase in bank loans and other borrowings utilized for the operations of the Group and the issuance of convertible bonds of approximately HK$155 million pursuant to the offers relating to CCT Tech to holders who accepted the offers and elected for convertible bonds, of which HK$103 million remained outstanding as at 31 December 2005. Out of the convertible bonds outstanding as at 31 December 2005, HK$72 million together with deemed effective interest of HK$5 million was accounted for as the non-current liability and HK$31 million was accounted for as the equity component in accordance with HKAS 32. Minority interests decreased sharply by 65.5% due to the reduction of the minority shareholders' interest in CCT Tech as a result of the general offers made on CCT Tech during the year.

The equity attributable to shareholder of the Company increased by of approximately 19.5%, mainly due to the profit for the year, the inclusion of the revaluation reserve attributable to the investment in Haier Electronics, the partial conversion of the convertible bonds and exercise of the share options less the dividend paid in cash during the year.

FINANCIAL POSITION *(Continued)*

Capital Structure and Gearing Ratio

HK$ million	31 December 2005 Amount	31 December 2005 Relative %	31 December 2004 Amount	31 December 2004 Relative %
			(Restated)	
Bank loans	**364**	**11.8%**	321	12.4%
Convertible bonds (liability component)	**77**	**2.5%**	45	1.7%
Finance lease payable	**10**	**0.3%**	13	0.5%
Total borrowings	**451**	**14.6%**	379	14.6%
Equity	**2,642**	**85.4%**	2,210	85.4%
Total capital employed	**3,093**	**100.0%**	2,589	100.0%

The Group's gearing ratio, calculated on the basis of the Group's total borrowings (including bank and other borrowings, convertible notes and finance lease payables) over total capital employed (total shareholders' fund plus total borrowings), was approximately 14.6% as at 31 December 2005 which was the same as that at 31 December 2004. The low gearing ratio reflects a healthy financial position and the prudent financial policy of the Group.

Outstanding bank borrowings amounted to HK$364 million at 31 December 2005 (31 December 2004: HK$321 million). Approximately 41.8% 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 58.2% of the bank borrowings was of long-term nature, principally comprised of mortgage loans on properties held by the Group.

As a result of the offers made by the Company relating to CCT Tech during the year, the Company issued convertible bonds in an aggregate principal amount of approximately HK$155 million, among which the convertible bonds with total principal amounts of approximately HK$52 million were converted into shares of the Company during the year. As at the balance sheet date, the total outstanding carrying amount of the convertible bonds amounted to HK$108 million (including HK$77 million accounted for as a liability and HK$31 accounted for as equity in accordance with HKAS 32). The convertible bonds are interest free and will mature in 2010.

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 2005 amounted to approximately HK$10 million (31 December 2004: HK$13 million).

As at 31 December 2005, the maturity profile of the bank and other borrowings and the liability component of the 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$158 million, HK$240 million and HK$53 million, respectively (31 December 2004: HK$195 million, HK$113 million and HK$71 million, respectively). There was no material effect of seasonality on the Group's borrowing requirements.

FINANCIAL POSITION *(Continued)*

Liquidity and Financial Resources

HK$ million	**31 December 2005**	31 December 2004
Current assets	**2,357**	1,992
Current liabilities	**1,312**	1,293
Current ratio	**180%**	154%

Current ratio (a ratio of current assets over current liabilities) as at 31 December 2005 was 180% (31 December 2004: 154%). 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 2005, the cash balance (excluding amounts reclassified as other assets under HKAS 39) of the Group amounted to HK$599 million (31 December 2004: HK$949 million), among which HK$71 million (31 December 2004: HK$117 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$201 million, which was mainly related to the core manufacturing businesses of the Group. The Group also incurred HK$55 million for research and development expenditure which has been capitalized as intangible assets and amortised in accordance with the financial standard.

The Group had authorised and contracted capital commitments of approximately HK$7 million (31 December 2004: HK$33 million) as at 31 December 2005, 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.

FINANCIAL POSITION *(Continued)*

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 2005, the Group's borrowings were mainly denominated in Hong Kong dollars and US dollars. As at 31 December 2005, other than the convertible bonds in an aggregate principal amount of approximately HK$103 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. The introduction of the refinements to the operation of the Linked Exchange Rate System by the Hong Kong Monetary Authority in 2005, which limits the fluctuation between the two currencies, further reinforces the stability of exchange rates between Hong Kong dollar and US dollar. 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, 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 risk to any Renminbi fluctuation has, therefore, been partly hedged 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 manufacturers with manufacturing facilities in China, and to their respective customers.

Acquisition and Disposal of Material Subsidiaries and Associates

The asset injection for Haier Electronics was successfully completed on 28 January 2005. Following the Asset Injection and after the placing of shares to restore the public float of Haier Electronics in January this year, the Company's interest in Haier Electronics was reduced from 43.6% to 24.0% during the year under review. Since then, Haier Electronics ceased to be an associate of the Group and became an investment held by the Group.

The Group further disposed its entire remaining interest of in 3,926,774,819 shares in Haier Electronics to Deutsche Bank on 5 January 2006. Since then, the Group does not own any interest in Haier Electronics.

FINANCIAL POSITION *(Continued)*

Significant Investment

There was no significant investment unrelated to the core manufacturing businesses of the Group during the year under review.

Pledge of Assets

As at 31 December 2005, certain of the Group's assets with a net book value of HK$821 million (31 December 2004: HK$254 million) and time deposits of HK$71 million (31 December 2004: HK$117 million) were pledged to secure the general banking facilities granted to the Group.

Contingent Liabilities

As at 31 December 2005, 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$154 million (31 December 2004: HK$173 million).

As at 31 December 2005, 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 2004: HK$9 million). Save as aforesaid, the Group did not have any other significant contingent liabilities as at 31 December 2005.

Employees and Remuneration Policy

The total number of employees of the Group as at 31 December 2005 was 17,697 (31 December 2004: 18,477). 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 2005, 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

Natexis Banques Populaires

SOLICITORS

Sidley Austin

AUDITORS

Ernst & Young, Certified Public Accountants

FINANCIAL YEAR END

31 December

REGISTERED OFFICE

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2208, 22/F., St. George's Building

2 Ice House Street

Central

Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tengis Limited

26/F., Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

TELEPHONE NUMBER

+852 2102 8138

FAX NUMBER

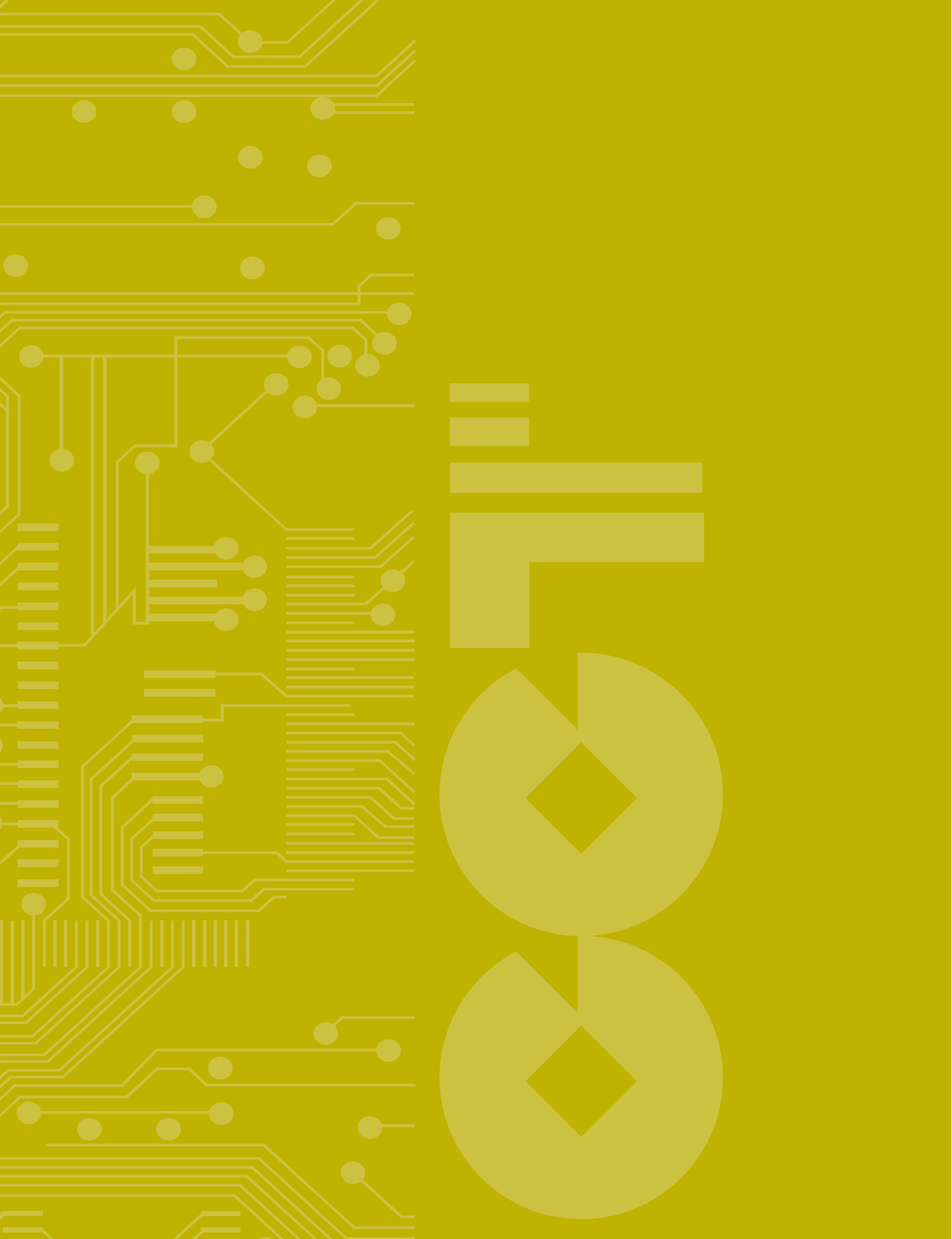
+852 2102 8100

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. Throughout the financial year ended 31 December 2005, the Board has reviewed the Group's corporate governance practices and is satisfied that the Company has complied with the code provisions in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules, except with the following deviations:

Code Provision A.2.1

There is no separation of the role of chairman and chief executive officer as set out in the code provision A.2.1. Mr. Mak Shiu Tong, Clement currently assumes the role of both the Chairman and the CEO of the Company. 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 independent non-executive directors ("INED(s)") with a balance of skills and experience appropriate for the requirements of the Group. Furthermore, the role of the presidents 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 role 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 is appointed for a specific term. However, all INEDs are subject to the retirement by rotation and re-election at every annual general meeting 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 the 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 the 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 annual general meeting 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 annual general meeting is short.

Pursuant to the bye-laws of the Company, the Chairman and the managing director of the Company shall not be subject to the 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 of the Company (the "Director(s)") other than the Chairman will rotate at least once every three years in order to comply with the code provision A.4.2.

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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all the 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 2005.

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 decision include those relating to:

— the strategic direction of the Group;

— the objectives of the Group;

— monitoring the performance of management;

— 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 accounts, 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 BOARD *(Continued)*

The management was delegated the authority and responsibility by the Board for the management 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 was provided to the Board members in a timely manner. During the financial year ended 31 December 2005, the Board held fifty-two meetings. The attendance of the Directors at the Board meetings (either in person or by phone) is set out as follows:

Name of the Director	Number of attendance
Mak Shiu Tong, Clement	52/52
Tam Ngai Hung, Terry	52/52
Cheng Yuk Ching, Flora	50/52
William Donald Putt	37/52
Samuel Olenick	38/52
Tam King Ching, Kenny	44/52
Lau Ho Man, Edward	45/52

The Company Secretary is responsible for taking minutes of the Board and all Board minutes are open for inspection by the Directors upon reasonable notice.

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. The Board considers that the Group has sufficient and appropriate liability insurance to cover its Directors and the management against any legal liability arising from their performance of their duties.

BOARD 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 business 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 in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all INEDs are independent within the definition of the Listing Rules.

BOARD COMPOSITION *(Continued)*

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 2005. 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 members have no financial, business, family or other material/relevant relationships with each other. Such balanced Board 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 role of both the Chairman and the CEO of the Company. The considered reasons for such deviation from the code provisions set out in 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 business.

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 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 and be eligible for re-election at each annual general meeting of the Company; and (ii) any Director appointed by the Board, either to fill a casual vacancy or as an addition to the existing Board, shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the INEDs 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 are not appointed for any specific terms, but they are subject to the retirement by rotation and re-election at each annual general meeting of the Company in accordance with the bye-laws of the Company.

BOARD COMMITTEES

The Board has established two committees, namely the remuneration committee (the "Remuneration Committee") and the audit committee (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.

BOARD COMMITTEES *(Continued)*

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 in 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 Company; and (iii) reviewing and recommending to the Board the fees payable to the INEDs.

The Remuneration Committee consists of five members comprising the 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. Tam King Ching, Kenny acted as the chairman of the Remuneration Committee for the year 2005. The chairman of the Remuneration Committee is subject to the rotation each year, provided that he/she must be an INED.

During the financial year ended 31 December 2005, the Remuneration Committee held one meeting. The attendance of the members of the Remuneration Committee at the Remuneration Committee meeting (either in person or by phone) is set out as follows:

Name of the members of the Remuneration Committee	Number of attendance
Tam King Ching, Kenny	1/1
Samuel Olenick	1/1
Lau Ho Man, Edward	1/1
Mak Shiu Tong, Clement	1/1
Tam Ngai Hung, Terry	1/1

For the financial year ended 31 December 2005, the Remuneration Committee met on one occasion and reviewed the current framework, policies and structure for the remuneration of the Directors and the senior management and reported to the Board of their review with recommendation. The Remuneration Committee also reviewed specific remuneration package including the terms of employment, incentive rewards and performance-based bonus of the executive Directors and senior management and the fees payable to the INEDs.

The primary objective of the Group's remuneration policy is to retain and motivate executive Directors and senior management 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 or her own remuneration.

In order to attract, retain, and motivate executives and employees serving for the Group, the Company has adopted a share option scheme in 2002. The 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 of the Company 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 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 applicable standard; (v) reviewing and monitoring financial reporting and the reporting judgement contained in them; and (vi) reviewing financial and internal controls, accounting policies and practices with management, internal and external auditors of the Company.

The Audit Committee consists of three members comprising the three INEDs, namely Mr. Tam King Ching, Kenny, Mr. Lau Ho Man, Edward and Mr. Samuel Olenick. The Audit Committee was chaired by an INED, Mr. Tam King Ching, Kenny, for the year 2005, who possesses extensive experience in, and knowledge of, finance and accounting. The chairman of the Audit Committee is subject to the rotation each year. All members of the Audit Committee hold the relevant industry and accounting and financial experience necessary to advise on Board 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 2005, the Audit Committee held three meetings. The attendance of the members of the Audit Committee at the Audit Committee meetings (either in person or by phone) is set out as follows:

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

In 2005, 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 implications of the introduction of new accounting standards in Hong Kong.

For the financial year ended 31 December 2005, the Audit Committee reviewed the accounting principles and practices adopted by the Company and discussed with management 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 half year results for the period ended 30 June 2005 and the annual results for the year ended 31 December 2005 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 Company's bye-laws to appoint any person as a director either to fill a casual vacancy on or as an additional member of 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 business. 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 year under review, no new director was appointed to the Board.

AUDITORS' REMUNERATION

During the year ended 31 December 2005, the remuneration paid to the external auditors of the Company, Messrs. Ernst & Young, is set out as follows:

Service rendered	Fees paid/payable HK$'000
Audit services	6,000
Non-audit services:	
Tax compliance services	159
Other services	1,805
Total	7,964

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 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 "Report of the Auditors" 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. Through the Company's internal audit department, the Directors conduct a review of the effectiveness of the system of internal control of the Company which covers all material controls, including financial, operational and compliance controls and risk management functions. The reports and findings prepared by the internal audit team of the Company have been circulated to the Audit Committee for reference. If necessary, the internal audit team of the Company will present their findings and the prospective internal audit plan at the Audit Committee meeting for its approval.

The internal audit team reviews the major operational, financial control and compliance control 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 reports their findings and makes their recommendations directly to the Board. The Audit Committee reports to the Board at each Board meeting the progress of work plan and related findings.

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

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 and sale of baby products, the manufacture of plastic and power supply components and investment in securities and properties. 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 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 55 to 137.

A special interim dividend of HK$0.68 per ordinary share was paid on 19 August 2005.

The Directors recommend the payment of a final dividend of HK$0.020 (2004: HK$0.020) per ordinary share in respect of the year to the shareholders on the register of members of the Company on Tuesday, 23 May 2006 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 138. 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 NOTE/BONDS

There were no movements in the Company's authorised share capital during the year. Details of movements in the Company's issued share capital, share options and convertible note/bonds during the year are set out in notes 35, 36 and 33 to the financial statements, respectively.

CHANGE OF DOMICILE

The Company has been deregistered from Cayman Islands and duly continued in Bermuda as an exempted company under the laws of Bermuda. The change of domicile became effective on 9 December 2005.

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 OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 37(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda, amounted to HK$2,484 million, of which HK$13 million has been proposed as a final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$9 million (2004: HK$3 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	
	2005	2004	**2005**	2004
Largest customer	**45%**	44%		
Five largest customers in aggregate	**70%**	76%		
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, Ms. Cheng Yuk Ching, Flora and Mr. Samuel Olenick will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

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

The Company has received from each of the INEDs 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 16 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

During the year, no Director had a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 44 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

A share option scheme was adopted by the Company on 28 February 2002 (the "Share Option Scheme"). Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period of 10 years from the date of the adoption. As at 31 December 2005, there were no share options outstanding under the Share Option Scheme. No share options has been granted under the Share Option Scheme during the year.

The purpose of the Share Option Scheme is to provide incentives and rewards to the eligible participants who contribute to the success of the 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, 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 the 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 of the Company on 19 May 2003. As at the date of this Annual Report, the total number of the shares available for issue in respect thereof is 42,221,046, which represents approximately 6.44% 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 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 INEDs, excluding the INED(s) 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 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.

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

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

Name or category of the participant	Number of the share options					Date of grant of the share options	Exercise period of the share options	Exercise price per share (Note 1) HK$	Price of the shares at the date of exercise of the share options (Note 2) HK$
	Outstanding as at 1 January 2005	Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year	Outstanding as at 31 December 2005				
Executive Directors									
Mak Shiu Tong, Clement	420,000	—	420,000	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.720
Cheng Yuk Ching, Flora	4,200,000	—	4,200,000	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.720
Tam Ngai Hung, Terry	4,200,000	—	4,200,000	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.740
William Donald Putt	420,000	—	420,000	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.740
	9,240,000	—	9,240,000	—	—				
Independent non-executive Directors									
Samuel Olenick	420,000	—	420,000	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.720
Tam King Ching, Kenny	420,000	—	420,000	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.740
Lau Ho Man, Edward	420,000	—	420,000	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.740
	1,260,000	—	1,260,000	—	—				
Other employees									
In aggregate	31,280,000	—	31,280,000	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.721
	31,280,000	—	31,280,000	—	—				
	41,780,000	—	41,780,000	—	—				

Notes:

1. The exercise price of the share options is subject to adjustment(s) in the case of a rights or bonus share issues, or other similar changes in the share capital of the Company.

2. The price of the shares of the Company as at the date of exercise of the share options is the weighted average of the closing price of the shares of the Company as listed on the Stock Exchange on the trading date immediately before the date on which the share options were exercised.

SHARE OPTION SCHEME *(Continued)*

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

DIRECTORS' INTERESTS

As at 31 December 2005, 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 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 2005

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

Name of the Director	Notes	Number of the shares beneficially held and nature of interest				Approximate percentage of the total issued share capital (%)
		Personal	Family	Corporate	Total	
Mak Shiu Tong, Clement	(a)	715,652	—	126,280,640	126,996,292	19.37
Cheng Yuk Ching, Flora	(b)	14,076,713	120,000	—	14,196,713	2.17
Tam Ngai Hung, Terry		1,868,000	—	—	1,868,000	0.28
William Donald Putt		591,500	—	—	591,500	0.09
Samuel Olenick	(c)	—	—	545,000	545,000	0.08

Notes:

(a) Included in the shareholdings in which Mr. Mak Shiu Tong, Clement was interested, 126,280,640 shares were held by the corporations controlled by Mr. Mak Shiu Tong, Clement, whose interest in such shares has also been disclosed under the section headed "Substantial Shareholders' Interests" below.

(b) 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 was deemed to be interested in such shares under the provisions of Part XV of the SFO.

(c) Mr. Samuel Olenick was deemed to be interested in 545,000 shares under the provisions of Part XV of the SFO.

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 2005 *(Continued)*

(ii) *Long positions in the underlying shares of the 2010 convertible bonds of the Company:*

Name of the Director	Number of the total underlying shares	Approximate percentage of the total issued share capital (%)
Mak Shiu Tong, Clement (Note)	171,357,615	26.13

Note: The convertible bonds with an outstanding principal amount of HK$103,500,000 as at 31 December 2005, were issued by the Company to New Capital Industrial Limited ("New Capital"), a company controlled by Mr. Mak Shiu Tong, Clement, on 25 April 2005. The convertible bonds, due on 25 April 2010, are interest free, convertible into the shares of the Company 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 of the Company has also been disclosed under the section headed "Substantial Shareholders' Interests" below.

(b) Interests and short positions in the shares and the underlying shares of the share options of associated corporations as at 31 December 2005

(i) *Long positions in the shares of Haier Electronics:*

Name of the Director	Notes	Number of the shares beneficially held and nature of interest		Approximate percentage of the total issued share capital (%)
		Personal	Corporate	
Mak Shiu Tong, Clement	(a)	—	30,717,334	0.184
Cheng Yuk Ching, Flora		19,195,498	—	0.115
Tam Ngai Hung, Terry		3,070,000	—	0.018
William Donald Putt		179,112	—	0.001
Samuel Olenick	(b)	—	130,548	0.001

Notes:

(a) The shares were held by a corporation controlled by Mr. Mak Shiu Tong, Clement.

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

DIRECTORS' INTERESTS *(Continued)*

(b) Interests and short positions in the shares and the underlying shares of the share options of associated corporations as at 31 December 2005 *(Continued)*

(ii) *Long positions in the underlying shares of the share options of Haier Electronics:*

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	16/8/2002	16/8/2003 – 15/8/2007	0.156	89,000,000	89,000,000	0.53
Cheng Yuk Ching, Flora	16/8/2002	16/8/2003 – 15/8/2007	0.156	74,000,000	74,000,000	0.44
Tam Ngai Hung, Terry	16/8/2002	16/8/2003 – 15/8/2007	0.156	78,000,000	78,000,000	0.47
William Donald Putt	16/8/2002	16/8/2003 – 15/8/2007	0.156	5,000,000	5,000,000	0.03

(iii) *Interests and short positions in the shares and the underlying shares of CCT Tech:*

None of the Directors had interests and short positions in respect of the shares, debentures, equity derivatives or interests in the underlying shares of CCT Tech.

Save as disclosed above, as at 31 December 2005, none of the Directors and the chief executive of the Company and/or any of their respective associates had any interest and short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code adopted by the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the sections headed "Share Option Scheme" and "Directors' Interests" above, at no time during the year was the Company, or any of its subsidiaries or associated companies, 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 shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2005, the following persons had interests or short positions in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

(i) Long positions in the shares of the Company as at 31 December 2005:

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	14.77
Capital Interest Limited (Note)	29,411,848	4.49
	126,280,640	19.26

Note: Capital Force International Limited and Capital Interest 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 2005:

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 (Note)	103,500,000	171,357,615	26.13

Note: The convertible bonds with an outstanding principal amount of HK$103,500,000 as at 31 December 2005, were issued by the Company to New Capital on 25 April 2005. The convertible bonds, due on 25 April 2010, are interest free, convertible into the shares of the Company 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 of the Company has also been disclosed under the section headed "Directors' Interests" above.

Save as disclosed above, as at 31 December 2005, there was no other persons who had an interest or short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

(1) On 31 January 2005, the Company and CCT Tech jointly announced that a voluntary conditional cash offer with a securities exchange alternative (the "General Offers") would be made by Jade Assets Company Limited ("Jade Assets"), a wholly-owned subsidiary of the Company to the shareholders of CCT Tech other than the Group, the holder of the convertible note due 2005 issued by CCT Tech ("CCT Tech 2005 CN") and the option holders of CCT Tech. The CCT Tech 2005 CN was held by New Capital at that time. Pursuant to the General Offer, the CCT Tech 2005 CN was transferred to Jade Assets at a consideration of approximately HK$103 million during the year in return for the issue of the Company's 2010 convertible bonds in the amount of approximately HK$103 million to New Capital. The General Offers were approved by the independent shareholders of the Company in the extraordinary general meeting held on 18 April 2005 and the transaction was completed on 25 April 2005. Further details of the General Offers were set out in the circular of the Company dated 31 March 2005.

(2) During the year, certain indirect wholly-owned subsidiaries of the Company had the following material transactions with the wholly-owned subsidiaries of CCT Tech.

HK$ million	Notes	**2005**	2004
Factory rental expenses	(a)	**6**	6
Office rental income	(b)	**3**	3
Management information system service fee	(c)	**4**	3

Notes:

(a) The factory rental expenses were charged to Shine Best Developments Limited ("Shine Best"), an indirect wholly-owned subsidiary of the Company, by CCT Enterprise Limited ("CCT Ent"), an indirect wholly-owned subsidiary of CCT Tech, for the provision of factory space in Huiyang, the PRC, at a rate determined in accordance with the terms and conditions set out in a tenancy agreement entered into between Shine Best and CCT Ent on 15 May 2003.

(b) The office rental income was charged to CCT Telecom (HK) Limited ("CCT HK") and CCT Telecom R&D Limited ("CCT R&D"), indirect wholly-owned subsidiaries of CCT Tech, by Goldbay Investments Limited ("Goldbay"), an indirect wholly-owned subsidiary of the Company, for the provision of office space in Hong Kong, at a rate determined in accordance with the terms and conditions set out in the five tenancy agreements entered into between CCT HK and Goldbay on 17 September 2004 and 19 October 2005, and between CCT R&D and Goldbay on 17 December 2004.

(c) The management information system service fee was charged to the Company and its wholly-owned subsidiaries by CCT HK for the provision of general management information system support, network and software consultation and hardware maintenance services. The rate was determined in accordance with the terms and conditions set out in an agreement entered into between the Company and CCT HK on 15 May 2003.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

For transactions under (a), (b) and (c), the Stock Exchange has granted conditional waivers to the Company from strict compliance with the connected transactions requirements as set out in the Listing Rules for the three financial years ending 31 December 2005. The continuing connected transactions under (a), (b) and (c) above were approved by the INEDs of the Company.

The INEDs of the Company have reviewed and confirmed that:

(i) the consideration received/paid by the Group in respect of each of the transactions under (a), (b) and (c) above for the year ended 31 December 2005 did not exceed the higher of HK$10 million or 3% of the net tangible asset value of the Company;

(ii) the continuing connected transactions under (a), (b) and (c) above were conducted on normal commercial terms; and

(iii) the continuing connected transactions under (a), (b) and (c) above were conducted in accordance with the terms of the agreements governing such transactions.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 46 to the financial statements.

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 deviations from code provisions A.2.1, A.4.1 and A.4.2. Details information of such deviations and their respective considered reasons as well as further information of 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 2005 have been audited by 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 annual general meeting of the Company.

ON BEHALF OF THE BOARD

Mak Shiu Tong, Clement
Chairman

Hong Kong
19 April 2006

report of the auditors

ERNST & YOUNG
安永會計師事務所

To the members

CCT Telecom Holdings Limited

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

We have audited the financial statements on pages 55 to 137 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion 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.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our 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 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Hong Kong

19 April 2006

consolidated income statement

Year ended 31 December 2005

HK$ million	Notes	2005	2004 (Restated)
REVENUE	5	**3,980**	4,057
Cost of sales		**(3,526)**	(3,593)
Gross profit		**454**	464
Other income and gains		**175**	53
Selling and distribution costs		**(59)**	(53)
Administrative expenses		**(257)**	(243)
Other expenses, net		**(19)**	(59)
Finance costs	7	**(23)**	(6)
Share of profit of an associate		**—**	49
PROFIT BEFORE TAX	6	**271**	205
Tax	10	**(18)**	(18)
PROFIT FOR THE YEAR		**253**	187
Attributable to:			
Equity holders of the parent	11	**225**	107
Minority interests		**28**	80
		253	187
DIVIDENDS	12		
Paid special interim		**319**	42
Paid interim		**—**	4
Proposed final		**13**	8
		13	12
Total		**332**	54
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**HK$0.44**	HK$0.25
Diluted		**HK$0.37**	HK$0.24

consolidated balance sheet

31 December 2005

HK$ million	Notes	2005	2004 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,253**	1,273
Investment properties	15	**257**	101
Prepaid land lease payments	16	**220**	225
Other intangible assets	17	**45**	28
Goodwill	18	**110**	28
Interest in an associate	20	**—**	222
Available-for-sale financial assets/other assets/long term investments	21	**18**	16
Held-to-maturity financial assets	22	**18**	—
Financial assets at fair value through profit or loss	26	**37**	—
Deferred tax assets	34	**3**	4
Total non-current assets		**1,961**	1,897
CURRENT ASSETS			
Inventories	23	**294**	215
Trade and bills receivables	24	**838**	794
Prepayments, deposits and other receivables	25	**50**	31
Available-for-sale financial assets	21	**551**	—
Financial assets at fair value through profit or loss/short term investments	26	**24**	3
Forward currency contracts	30	**1**	—
Pledged time deposits	27	**71**	117
Cash and cash equivalents	27	**528**	832
Total current assets		**2,357**	1,992
CURRENT LIABILITIES			
Trade and bills payables	28	**988**	897
Tax payable		**26**	23
Other payables and accruals	29	**139**	178
Forward currency contracts	30	**1**	—
Interest-bearing bank and other borrowings	31	**158**	150
Convertible note	33	**—**	45
Total current liabilities		**1,312**	1,293
NET CURRENT ASSETS		**1,045**	699
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,006**	2,596

HK$ million	Notes	2005	2004 (Restated)
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	31	**216**	184
Convertible bonds	33	**77**	—
Deferred tax liabilities	34	**3**	5
Total non-current liabilities		**296**	189
Net assets		**2,710**	2,407
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	35	**65**	42
Reserves	37(a)	**2,564**	2,160
Proposed final dividend	12	**13**	8
		2,642	2,210
Minority interests		**68**	197
Total equity		**2,710**	2,407

Mak Shiu Tong, Clement

Chairman

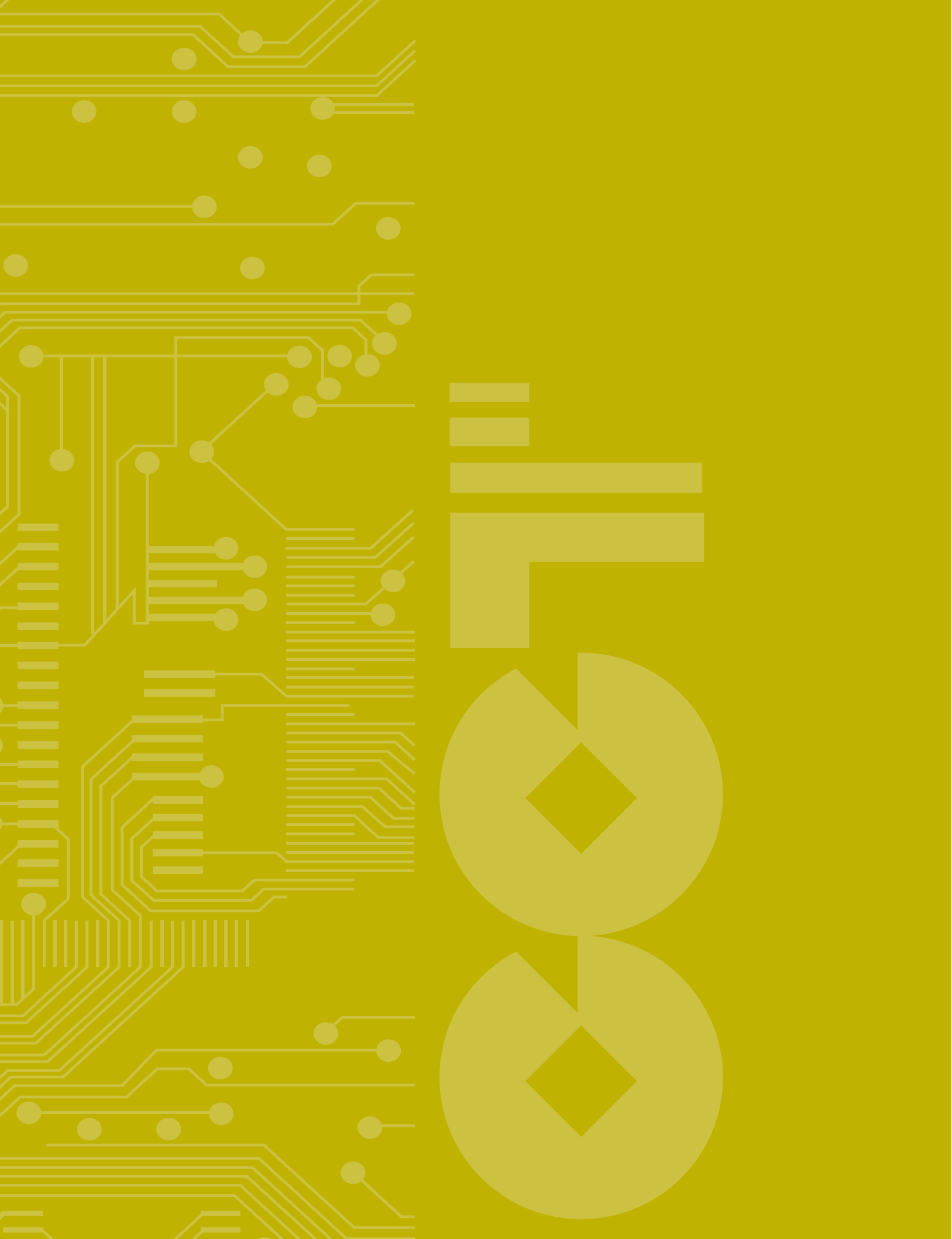
Tam Ngai Hung, Terry

Director

consolidated statement of changes in equity

Year ended 31 December 2005

HK$ million	Notes	Attributable to equity holders of the parent											
		Issued share capital	Share premium account	Capital reserve (Note 37(a))	Distributable reserve	Investment revaluation reserve	Equity component of convertible bonds	Exchange fluctuation reserve	Retained profits/ (accumulated losses)	Proposed final dividend	Total	Minority interests	Total equity
At 1 January 2004													
As previously reported		42	1,250	1,114	—	—	—	—	(117)	6	2,295	101	2,396
Prior year adjustments	2.4	—	—	—	—	—	—	—	(140)	—	(140)	2	(138)
As restated		42	1,250	1,114	—	—	—	—	(257)	6	2,155	103	2,258
Profit for the year (as restated)		—	—	—	—	—	—	—	107	—	107	80	187
Total income and expense for the year		—	—	—	—	—	—	—	107	—	107	80	187
Disposal of subsidiaries	38	—	—	—	—	—	—	—	—	—	—	(7)	(7)
Acquisition of minority interests		—	—	—	—	—	—	—	—	—	—	21	21
2003 final dividend declared		—	—	—	—	—	—	—	—	(6)	(6)	—	(6)
2004 special interim dividend	12	—	—	(42)	—	—	—	—	—	—	(42)	—	(42)
2004 interim dividend	12	—	—	(4)	—	—	—	—	—	—	(4)	—	(4)
Proposed 2004 final dividend	12	—	—	(8)	—	—	—	—	—	8	—	—	—
At 31 December 2004		42	1,250	1,060	—	—	—	—	(150)	8	2,210	197	2,407
At 1 January 2005													
As previously reported		42	1,250	1,060	—	—	—	—	(61)	8	2,299	196	2,495
Prior year adjustments	2.4	—	—	—	—	—	—	—	(89)	—	(89)	1	(88)
Opening adjustments	2.4	—	—	—	—	—	—	—	(8)	—	(8)	8	—
As restated		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	33	—	—	—	—	—	46	—	—	—	46	—	46
Issue of new shares upon conversion of convertible bonds	35	8	44	—	—	—	(15)	—	—	—	37	—	37
2004 final dividend declared		—	—	—	—	—	—	—	—	(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		65	—	741	1,417	320	31	1	54	13	2,642	68	2,710



consolidated cash flow statement

Year ended 31 December 2005

HK$ million	Notes	2005	2004 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**271**	205
Adjustments for:			
Finance costs	7	**23**	6
Share of profit of an associate		**—**	(49)
Interest income	5	**(8)**	(5)
Depreciation	6	**122**	125
Amortisation of prepaid land lease payments	6	**5**	5
Goodwill amortisation and impairment	6	**7**	1
Amortisation of intangible assets	6	**30**	30
Bad and doubtful debt provisions on trade receivables	6	**15**	3
Provisions for and write-off of prepayment and other receivables	6	**—**	33
Write off of deferred development costs	6	**8**	15
Write off of items of property, plant and equipment	6	**1**	2
Loss/(gain) on disposal of items of property, plant and equipment, net	6	**1**	(1)
Impairment loss on items of property, plant and equipment	6	**1**	—
Write-down of inventories to net realisable value	6	**8**	36
Fair value loss on financial assets at fair value through profit or loss	6	**2**	—
Impairment loss on available-for-sale financial assets	6	**2**	—
Reversal of impairment losses for properties	6	**(66)**	—
Gain on disposal and deemed disposal of interest in an associate	6	**(109)**	—
Net gain on disposal/deemed disposal of subsidiaries	6	**(42)**	(10)
Operating profit before working capital changes		**271**	396
Increase in inventories		**(87)**	(77)
Increase in trade and bills receivables		**(59)**	(149)
Decrease/(increase) in prepayments, deposits and other receivables		**(19)**	3
Increase in trade and bills payables and other payables and accruals		**94**	47
Cash generated from operations		**200**	220
Interest received		**8**	5
Interest paid		**(18)**	(6)
Hong Kong profits tax paid		**(16)**	(16)
Net cash inflow from operating activities		**174**	203

HK$ million	Notes	2005	2004 (Restated)
Net cash inflow from operating activities		**174**	203
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(197)**	(232)
Proceeds from disposal of items of property, plant and equipment		**4**	85
Purchases of investment properties		**—**	(95)
Proceeds from disposal of investment properties		**3**	1
Additions to intangible assets		**(55)**	(50)
Disposal of subsidiaries	38	**—**	7
Disposal of interest in an associate		**96**	—
Acquisition of minority interests		**(144)**	(1)
Purchase of financial assets at fair value through profit or loss		**(16)**	—
Decrease/(increase) in pledged time deposits		**46**	(17)
Net cash outflow from investing activities		**(263)**	(302)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**31**	—
Proceeds from disposal of convertible note		**—**	45
New bank loans		**117**	340
Net new/(repayment of) trust receipts loans		**(2)**	102
Repayment of bank loans		**(72)**	(374)
Capital element of finance lease rental payments		**(7)**	(3)
Dividends paid		**(220)**	(52)
Net cash inflow/(outflow) from financing activities		**(153)**	58
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(242)**	(41)
Cash and cash equivalents at beginning of year		**832**	873
Effect of initial adoption of HKAS 39		**(62)**	—
CASH AND CASH EQUIVALENTS AT END OF YEAR		**528**	832
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	**411**	398
Non-pledged time deposits with original maturity of less than three months when acquired		**117**	434
		528	832

balance sheet

31 December 2005

HK$ million	Notes	2005	2004
NON-CURRENT ASSETS			
Property, plant and equipment	14	**3**	1
Interests in subsidiaries	19	**2,496**	1,863
Held-to-maturity financial assets	22	**18**	—
Financial assets at fair value through profit or loss	26	**37**	—
Total non-current assets		**2,554**	1,864
CURRENT ASSETS			
Prepayments, deposits and other receivables	25	**2**	3
Financial assets at fair value through profit or loss	26	**20**	—
Pledged time deposits	27	**—**	16
Cash and cash equivalents	27	**86**	391
Total current assets		**108**	410
CURRENT LIABILITIES			
Other payables and accruals	29	**5**	6
Interest-bearing bank and other borrowings	31	**—**	10
Total current liabilities		**5**	16
NET CURRENT ASSETS		**103**	394
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,657**	2,258
NON-CURRENT LIABILITIES			
Convertible bonds	33(b)	**77**	—
Total non-current liabilities		**77**	—
Net assets		**2,580**	2,258
EQUITY			
Issued capital	35	**65**	42
Reserves	37(b)	**2,502**	2,208
Proposed final dividend	12	**13**	8
Total equity		**2,580**	2,258

Mak Shiu Tong, Clement
Chairman

Tam Ngai Hung, Terry
Director

1. CORPORATE INFORMATION

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; and
- holding of securities and properties.

During the year, the Company changed its domicile from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continued as an exempted company under the laws of Bermuda. The change of domicile became effective on 9 December 2005.

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, derivative financial instruments and certain 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 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 2005. 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 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 in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes — Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 23, 27, 28, 31, 33, 37 and 38, HKFRS 5, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

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

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 — Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. 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.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

(b) HKAS 32 and HKAS 39 — Financial Instruments

(i) *Equity securities*

In prior years, the Group classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at cost less any impairment losses on an individual basis. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of approximately HK$4 million are designated as available-for-sale investments under the transitional provisions of HKAS 39 and are stated at cost less any impairment losses.

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

(b) HKAS 32 and HKAS 39 — Financial Instruments *(Continued)*

(i) *Equity securities (Continued)*

In prior years, the Group classified its investments in equity securities held for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of approximately HK$3 million are designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities. Comparative amounts have been reclassified for presentation purposes.

(ii) *Convertible bonds*

In prior years, convertible bonds were stated at amortised cost. Upon the adoption of HKAS 32, convertible bonds are split into liability and equity components. The effects of the above changes are summarised in note 2.4 to the financial statements.

(iii) *Derivative financial instruments — forward currency contracts*

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

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group's forward currency contracts do not qualify for hedge accounting and accordingly gains or losses arising from changes in fair value are taken directly to net profit or loss for the year.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

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

(c) HKAS 40 — Investment Property

In prior years, changes in the fair values of investment properties were dealt with as movements in the asset revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, 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. The adoption of HKAS 40 has had no significant impact on the financial statements.

(d) HKFRS 2 — Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 December 2003, 2004 and 2005.

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

(e) HKFRS 3 — Business Combinations and HKAS 36 — Impairment of Assets

In prior years, goodwill arising on acquisitions prior to 1 January 2001 was eliminated against the consolidated retained profits in the year of acquisition and was not recognised in the consolidated income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill. Goodwill previously eliminated against the consolidated retained profits remains eliminated against the consolidated retained profits 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.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

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. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK (IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK (IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK (IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
HK (IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 — Financial Reporting in Hyperinflationary Economies

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

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 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5, HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January 2005

Effect of new policies (Increase/(decrease)) HK$ million	Previous accounting policies	Effect of adopting: HKAS 17* Prepaid land lease payments	HKAS 8* Changes in accounting policy adopted by an associate	HKAS 32* & HKAS 39# Change in classification of financial assets	HKAS 40# Share of surplus on revaluation of investment properties by minority interests	Total effect on adoption of HKFRSs & HKASs	Adoption of HKFRSs & HKASs
Assets:							
Fixed assets	1,621	(1,621)	—	—	—	(1,621)	—
Property, plant and equipment	—	1,273	—	—	—	1,273	1,273
Investment properties	—	101	—	—	—	101	101
Prepaid land lease payments	—	225	—	—	—	225	225
Interests in an associate	293	—	(71)	—	—	(71)	222
Prepayment, deposits and other receivables	26	5	—	—	—	5	31
Cash and cash equivalents	832	—	—	(62)	—	(62)	770
Held-to-maturity financial assets	—	—	—	18	—	18	18
Financial assets at fair value through profit or loss	—	—	—	44	—	44	44
Total equity:							
Issued capital	42	—	—	—	—	—	42
Share premium	1,250	—	—	—	—	—	1,250
Capital reserve	1,060	—	—	—	—	—	1,060
Accumulated losses	(61)	(17)	(71)	(1)	(8)	(97)	(158)
Proposed final dividend	8	—	—	—	—	—	8
Minority interests	196	—	—	1	8	9	205
	2,495	(17)	(71)	—	—	(88)	2,407

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect on the consolidated balance sheet *(Continued)*

At 31 December 2005

Effect of new policies (Increase/(decrease)) HK$ million	Previous accounting policies	Effect of adopting					
		HKAS 17* Prepaid land lease payments	HKAS 32* & HKAS 39# Change in classification of financial assets	HKAS 32# Convertible bonds	HKAS 40# Share of surplus on revaluation of investment properties by minority interests	Total effect on adoption of HKFRSs & HKASs	Adoption of HKFRSs & HKASs
Assets:							
Fixed assets	1,755	(1,755)	—	—	—	(1,755)	—
Property, plant and equipment	—	1,253	—	—	—	1,253	1,253
Investment properties	—	257	—	—	—	257	257
Prepaid land lease payments	—	220	—	—	—	220	220
Other assets	12	—	(12)	—	—	(12)	—
Long term investments	239	—	(239)	—	—	(239)	—
Short term investments	4	—	(4)	—	—	(4)	—
Prepayment, deposits and other receivables	45	5	—	—	—	5	50
Cash and cash equivalents	605	—	(77)	—	—	(77)	528
Held-to-maturity financial assets	—	—	18	—	—	18	18
Available-for-sale financial assets	—	—	569	—	—	569	569
Financial assets at fair value through profit or loss	—	—	61	—	—	61	61
Forward currency contracts	—	—	1	—	—	1	1
Liabilities:							
Convertible bonds	104	—	—	(27)	—	(27)	77
Forward currency contracts	—	—	1	—	—	1	1
Total equity:							
Issued capital	65	—	—	—	—	—	65
Distributable reserve	1,417	—	—	—	—	—	1,417
Capital reserve	741	—	—	—	—	—	741
Investment revaluation reserve	—	—	320	—	—	320	320
Equity component of convertible bonds	—	—	—	31	—	31	31
Exchange fluctuation reserve	1	—	—	—	—	—	1
Retained profits	86	(20)	(4)	(4)	(4)	(32)	54
Proposed final dividend	13	—	—	—	—	—	13
Minority interests	64	—	—	—	4	4	68
	2,387	(20)	316	27	—	323	2,710

* adjustments which take effect retrospectively

\# adjustments which take effect prospectively from 1 January 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

Effect of new policies (Increase/(decrease)) HK$ million	Effect of adopting				
	HKAS 17* Amortisation of prepaid land lease payment	HKAS 8* Changes in accounting policy adopted by associate	HKAS 32* Convertible bonds in non-wholly owned subsidiary	HKAS 40# Share of surplus on revaluation of investment properties by minority interests	Total effect on adoption of HKFRSs & HKASs
1 January 2004					
Accumulated losses	(14)	(124)	(2)	—	(140)
Minority interests	—	—	2	—	2
	(14)	(124)	—	—	(138)
1 January 2005					
Accumulated losses	(17)	(71)	(1)	(8)	(97)
Minority interests	—	—	1	8	9
	(17)	(71)	—	—	(88)

* adjustments which take effect retrospectively

\# adjustments which take effect prospectively from 1 January 2005

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

HK$ million	Effect of adopting		Total effect on adoption of HKFRSs & HKASs
	HKAS 17*	HKAS 32* & HKAS 39#	
Year ended 31 December 2005			
Decrease in depreciation	**2**	**—**	**2**
Increase in amortisation of prepaid land lease payments	**(5)**	**—**	**(5)**
Increase in finance costs	**—**	**(5)**	**(5)**
Total decrease in profit	**(3)**	**(5)**	**(8)**
Decrease in basic earnings per share (HK$)	**(0.006)**	**(0.010)**	**(0.016)**
Decrease in diluted earnings per share (HK$)	**(0.005)**	**(0.008)**	**(0.013)**

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004 *(Continued)*

HK$ million	Effect of adopting		Total effect on adoption of HKFRSs & HKASs
	HKAS 17*	HKAS 8*	
Year ended 31 December 2004			
Decrease in depreciation	2	—	2
Increase in amortisation of prepaid land lease payments	(5)	—	(5)
Increase in share of profit of an associate	—	51	51
Decrease in tax	—	2	2
Total increase/(decrease) in profit	(3)	53	50
Increase/(decrease) in basic earnings per share (HK$)	(0.007)	0.126	0.119
Increase/(decrease) in diluted earnings per share (HK$)	(0.007)	0.121	0.114

* adjustments which take effect retrospectively

\# adjustments which take effect prospectively from 1 January 2005

2.5 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint venture companies

A joint venture company is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

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 and associates 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than a separately identified asset on the consolidated balance sheet.

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 the consolidated reserves

Prior to the adoption of SSAP 30 "Business combinations" 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 the consolidated retained profits and is not recognised in profit or loss 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets

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, goodwill and non-current assets), 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.

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:

Leasehold land and 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%

2.5 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

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.

2.5 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 four years, commencing from the date when the products are put into commercial production.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Applicable to the year ended 31 December 2004:

Club memberships

Club memberships are intended to be held for long term purposes. They are stated at cost less any impairment losses, on an individual membership basis.

Long term investments

Long term investments are stated at cost less any impairment losses, on an individual investment basis.

Short term investments

Short term investments are investments in equity securities held for trading purposes. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis, as determined by the directors having regard to the prices of the most recent reported sales or purchases of the securities, or professional valuations performed at the end of each financial year. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement for the period in which they arise.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, 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 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, i.e., the date that the Group commits to purchase 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 classified as held for trading are included in the category "financial assets 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 are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Applicable to the year ended 31 December 2005: *(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 carried at amortised cost using the effective interest method. 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 investments

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. Other long term investments that are intended to be held to maturity, such as bonds, 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. For investments carried at amortised cost, 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (applicable to the year ended 31 December 2005)

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 investments 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 profit or loss.

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.

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.

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 profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets (applicable to the year ended 31 December 2005)

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 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.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.5 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 (applicable to the year ended 31 December 2005)

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 profit or loss.

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005)

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 net profit or loss for the year.

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.

2.5 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 and associates, 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 and associates, 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.

2.5 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Pension schemes

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 vesting fully, in accordance with the rules of the MPF Scheme.

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 vesting 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.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

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 profit or loss. 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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.

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 sheets, 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) 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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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); or

(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.

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.

Classification between interest in an associate and available-for-sale financial assets

As further explained in note 20 to the financial statements, the Group has determined that upon the resignation of the directors nominated by the Group to the board of directors of Haier Electronics Group Co., Ltd. ("Haier Electronics"), a former associate, on 28 January 2005, the Group ceased to be in a position to exercise significant influence over Haier Electronics, notwithstanding that the Group's shareholding in Haier Electronics was 24% as at 31 December 2005 because appointment of new directors nominated by shareholders needs to be approved by shareholders at general meetings, and the majority holding by Haier Group Corporation in Haier Electronics effectively precludes such appointment from other shareholders. Accordingly, the Group's interest in Haier Electronics was ceased to be accounted for as an associate and was reclassified to available-for-sale financial assets.

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

Judgements *(Continued)*

Disposal and subsequent buy-back of interest in a subsidiary subject to a put option

During the year, in order to restore the public float of CCT Tech International Limited ("CCT Tech"), a listed subsidiary of the Company, the Company, Jade Assets Company Limited ("Jade Assets") (a wholly-owned subsidiary of the Company) and a third party (the "Purchaser") entered into a sale and purchase agreement dated 22 July 2005 for the sale of 1.5 billion shares in CCT Tech (the "CCT Tech Sale Shares") (representing 9.4% of the then issued share capital of CCT Tech) owned by Jade Assets to the funds under management by the Purchaser at a price of HK$0.02 per share of CCT Tech with a put option granted to the Purchaser which is exercisable within 14 business days immediately after 21 January 2006 requiring the Company to repurchase the CCT Tech Sale Shares at HK$0.023 per share.

In December 2005, the Company, Jade Assets and the Purchaser entered into a supplemental agreement under which Jade Assets bought back the CCT Tech Sale Shares at HK$0.023 per share and the put option granted to the Purchaser was cancelled. The supplemental agreement was completed on 22 December 2005. Details of the disposal and subsequent buy-back of the CCT Tech Sale Shares were set out in the Company's circulars to shareholder dated 15 August 2005 and 6 January 2006, respectively.

The Group has determined that it has neither transferred nor retained substantially all the risks and rewards associated with the CCT Tech Sale Shares, but retained control over the CCT Tech Sales Share for accounting purposes. Accordingly, the Group has accounted for the proceeds of HK$30 million received from the Purchaser as a liability upon the disposal of the CCT Tech Sale Shares and accounted for the amount of HK$4.5 million (representing the difference between the consideration for the disposal and subsequent buy-back of the CCT Tech Sale Shares) as finance cost upon the buy-back of the CCT Tech Sale Shares.

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 2005 was HK$110 million (2004: HK$28 million). More details are given in note 18.

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 investment segment engages in investment in securities and properties; and

(d) the corporate and others segment comprises 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/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Group

HK$ million	Telecom and electronic products		Baby products		Investment		Corporate and others		Consolidated	
	2005	2004 (Restated)	**2005**	2004 (Restated)	**2005**	2004 (Restated)	**2005**	2004 (Restated)	**2005**	2004 (Restated)
Segment revenue:										
Sales to external customers	**3,846**	3,906	**124**	146	**2**	—	**—**	—	**3,972**	4,052
Other revenue	**—**	—	**—**	—	**2**	—	**23**	39	**25**	39
Total revenue	**3,846**	3,906	**124**	146	**4**	—	**23**	39	**3,997**	4,091
Segment results	**189**	222	**6**	14	**165**	1	**(74)**	(77)	**286**	160
Interest income									**8**	5
Unallocated expenses									**—**	(3)
Finance costs									**(23)**	(6)
Share of profit of an associate	**—**	—	**—**	—	**—**	—	**—**	49	**—**	49
Profit before tax									**271**	205
Tax									**(18)**	(18)
Profit for the year									**253**	187
Segment assets	**2,800**	2,482	**76**	99	**817**	108	**622**	974	**4,315**	3,663
Interest in an associate	**—**	—	**—**	—	**—**	—	**—**	—	**—**	222
Unallocated assets									**3**	4
Total assets									**4,318**	3,889
Segment liabilities	**1,095**	982	**18**	43	**2**	—	**13**	50	**1,128**	1,075
Unallocated liabilities									**480**	407
Total liabilities									**1,608**	1,482
Other segment information:										
Capital expenditure	**241**	229	**1**	20	**—**	—	**14**	142	**256**	391
Depreciation	**96**	100	**3**	3	**—**	—	**23**	22	**122**	125
Amortisation	**35**	35	**—**	—	**—**	—	**—**	1	**35**	36
Impairment losses recognised directly in the income statement	**—**	—	**—**	—	**2**	—	**10**	—	**12**	—
Other non-cash expenses	**33**	87	**—**	2	**—**	—	**1**	3	**34**	92
Reversal of impairment losses for properties	**—**	—	**—**	—	**64**	—	**2**	—	**66**	—
Gain on disposal and deemed disposal of interest in an associate	**—**	—	**—**	—	**109**	—	**—**	—	**109**	—

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

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

Group

	United States of America		PRC, including HK		European Union		Others		Consolidated	
HK$ million	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
Segment revenue:										
Sales to external customers	**2,360**	2,516	**929**	701	**460**	139	**223**	696	**3.972**	4,052
Other revenue	**—**	—	**25**	39	**—**	—	**—**	—	**25**	39
Total revenue	**2,360**	2,516	**954**	740	**460**	139	**223**	696	**3,997**	4,091

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 and capital expenditure 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 income from investments and rental income from investment properties.

Revenue from the following activities has been included in turnover:

HK$ million	**2005**	2004
Revenue		
Manufacture and sale of telecom and electronic products	**3,846**	3,906
Manufacture and sale of baby products	**124**	146
Rental income from investment properties	**2**	—
Interest income	**8**	5
	3,980	4,057

6. PROFIT BEFORE TAX

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

HK$ million	Notes	Group 2005	Group 2004 (Restated)
Cost of inventories sold		**3,044**	3,563
Depreciation	14	**122**	125
Amortisation of prepaid land lease payments	16	**5**	5
Minimum lease payments under operating leases in respect of land and buildings		**4**	3
Research and development costs:			
Deferred expenditure amortised*	17	**30**	30
Current year expenditure		**54**	48
Goodwill amortisation and impairment**	18	**7**	1
Auditors' remuneration		**6**	6
Employee benefits expense (excluding directors' remuneration — note 8)			
Wages and salaries		**379**	356
Pension scheme contributions****		**3**	3
Less: Amount capitalised in deferred development cost		**(30)**	(28)
		352	331
Bad and doubtful debt provisions on trade receivables**		**15**	3
Provisions for and write off of prepayment and other receivables**		**—**	33
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	**1**	2
Write off of deferred development costs**	17	**8**	15
Write-down of inventories to net realisable value*		**8**	36
Foreign exchange losses/(gains), net		**13**	(9)
Compensation for release of guarantee**	40(a)	**36**	—
Fair value loss on financial assets at fair value through profit or loss**		**2**	—
Impairment loss on available-for-sale financial assets**		**2**	—
and after crediting:			
Net gain on disposal/deemed disposal of subsidiaries***		**42**	10
Gain on disposal and deemed disposal of interest in an associate***	20	**109**	—
Gross rental income from investment properties		**2**	—
Reversal of impairment losses for 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 2005	2004
Interest on bank loans and overdrafts wholly repayable within five years	**7**	3
Interest on bank loans wholly repayable after five years	**6**	3
Interest on convertible bonds (note 33)	**5**	—
Interest on other liability	**5**	—
	23	6

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 2005	2004
Fees:		
Executive directors	**—**	—
Independent non-executive directors	**1**	1
	1	1
Executive directors' other emoluments:		
Salaries, allowances and benefits in kind	**20**	18
Performance related bonuses*	**12**	13
Pension scheme contributions	**1**	1
	33	32
	34	33

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

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	**2005**	2004
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 (2004: Nil).

(b) Executive directors

HK$ million	**Salaries, allowances and benefits in kind**	**Performance related bonuses**	**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**
2004				
Mak Shiu Tong, Clement	11	5	1	17
Tam Ngai Hung, Terry	4	5	—	9
Cheng Yuk Ching, Flora	3	3	—	6
William Donald Putt	—	—	—	—
	18	13	1	32

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 (2004: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2004: two) non-director, highest paid employees for the year are as follows:

	Group	
HK$ million	**2005**	2004
Salaries, allowances and benefits in kind	**5**	5
Performance related bonuses	**3**	3
Pension scheme contributions	**—**	—
	8	8

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

	Number of employees	
	2005	2004
HK$2,000,001 – HK$2,500,000	**1**	—
HK$2,500,001 – HK$3,000,000	**—**	1
HK$5,500,001 – HK$6,000,000	**—**	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% (2004: 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 following by a 50% reduction for the next three consecutive years.

10. TAX *(Continued)*

HK$ million	Group 2005	2004 (Restated)
Current — Hong Kong:		
Charge for the year	**12**	14
Overprovision in prior years	**(1)**	(3)
Current — Elsewhere		
Charge for the year	**7**	3
Underprovision in prior years	**1**	1
Deferred — note 34	**(1)**	3
Total tax charge for the year	**18**	18

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the locations in which the Company and the majority of its subsidiaries and associate 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 — 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**
Higher/(lower) tax rate for specific provinces or local authority	**—**	**—**	**(25.7)**	**(23.8)**	**(25.7)**	**(9.5)**
Adjustment 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)**
Temporary differences not recognised	**(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**

10. TAX *(Continued)*

Group — 2004

HK$ million	Hong Kong	%	The PRC, excluding Hong Kong	%	Total	%
Profit/(loss) before tax	(33.2)		238.2		205.0	
Tax at the statutory or appropriate tax rate	(5.8)	17.5	57.2	24.0	51.4	25.1
Higher/(lower) tax rate for specific provinces or local authority	—	—	(22.0)	(9.2)	(22.0)	(10.7)
Adjustments in respect of current tax of previous periods	(2.8)	8.4	1.2	0.5	(1.6)	(0.8)
Profits and losses attributable to an associate	2.1	(6.3)	(14.6)	(6.1)	(12.5)	(6.1)
Income not subject to tax	(85.5)	257.5	(6.8)	(2.9)	(92.3)	(45.0)
Expenses not deductible for tax	104.5	(314.8)	24.0	10.1	128.5	62.7
Tax losses recognised	(2.5)	7.5	1.4	0.6	(1.1)	(0.5)
Tax losses not recognised	1.6	(4.8)	5.0	2.1	6.6	3.2
Tax exemption	—	—	(39.5)	(16.6)	(39.5)	(19.3)
Tax charge at the Group's effective rate	11.6	(35.0)	5.9	2.5	17.5	8.5

The share of tax attributable to an associate for the year ended 31 December 2004 amounting to approximately HK$7 million is included in "Share of profit of an associate" on the face of the consolidated income statement.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was approximately HK$428 million (2004: HK$92 million) (note 37(b)).

12. DIVIDENDS

HK$ million	**2005**	2004
Paid special interim — HK$0.68 (2004: HK$0.10) per ordinary share	**319**	42
Paid interim — Nil (2004: HK$0.010) per ordinary share	**—**	4
Proposed final — HK$0.020 (2004: HK$0.020) per ordinary share	**13**	8
	13	12
Total	**332**	54

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 net 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 net profit for the year 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 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	**2005**	2004 (Restated)
Earnings		
Net profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**225**	107
Interest on convertible bonds (note 7)	**5**	—
Net profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**230**	107

	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**512,524,188**	422,149,984
Effect of dilution — weighted average number of ordinary shares:		
Share options	**8,941,582**	14,704,047
Convertible bonds	**102,961,814**	—
	624,427,584	436,854,031

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 2005							
At 31 December 2004 and 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 property (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)*

Group

HK$ million	Leasehold land and buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total (Restated)
31 December 2004							
At 1 January 2004:							
Cost	1,325	307	126	123	19	—	1,900
Accumulated depreciation and impairment	(340)	(162)	(72)	(73)	(11)	—	(658)
Net carrying amount	985	145	54	50	8	—	1,242
At 1 January 2004, net of accumulated depreciation and impairment	985	145	54	50	8	—	1,242
Additions	33	83	27	10	5	88	246
Disposals	(84)	—	(2)	2	(1)	—	(85)
Write off	—	—	—	(2)	—	—	(2)
Disposal of subsidiaries (note 38)	—	(1)	—	(2)	—	—	(3)
Depreciation provided during the year	(46)	(44)	(20)	(12)	(3)	—	(125)
Reclassification	49	—	—	—	—	(49)	—
At 31 December 2004, net of accumulated depreciation and impairment	937	183	59	46	9	39	1,273
At 31 December 2004:							
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

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

Company

HK$ million	**Furniture and office equipment**
31 December 2005	
At 31 December 2004 and 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**

HK$ million	Furniture and office equipment
31 December 2004	
At 1 January 2004, net of accumulated depreciation	1
Depreciation provided during the year	—
At 31 December 2004, net of accumulated depreciation	1
At 31 December 2004:	
Cost	5
Accumulated depreciation	(4)
Net carrying amount	1

During the year, a reversal of impairment loss of HK$66 million was recognised in the consolidated income statement to increase the carrying amount of certain properties to the recoverable amount. The recoverable amount estimation was based on fair value less costs to sell. An independent valuation was obtained to determine the fair value.

The net book value of the property, plant and equipment of the Group held under finance leases included in the total amounts of plant and machinery and motor vehicles as at 31 December 2005, amounted to approximately HK$12 million (2004: HK$14 million) and HK$6 million (2004: HK$2.4 million), respectively.

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

The Group's land and buildings included above are held under the medium term leases:

HK$' million	Hong Kong	Elsewhere	Total
Medium term leases	54	870	924

At 31 December 2005, certain of the Group's land and buildings with a net book value of approximately HK$567 (2004: HK$159 million) were pledged to secure general banking facilities granted to the Group (note 31).

15. INVESTMENT PROPERTIES

	Group	
HK$ million	**2005**	2004
Carrying amount at 1 January	**101**	7
Additions	**—**	95
Disposals	**(3)**	(1)
Transfer from owner-occupied property (note 14)	**159**	—
Carrying amount at 31 December	**257**	101

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

HK$ million	
Long term leases	95
Medium term leases	162
	257

The Group's investment properties were revalued on 31 December 2005 by Grant Sherman Appraisal Limited, independent professionally qualified valuers, on an open market, existing use basis. Some of the investment properties have been leased to third parties under operating leases. Further details of the investment properties are included in note 42(a) to the financial statements.

At 31 December 2005, the Group's investment properties with a value of HK$254 million (2004: HK$95 million) were pledged to secure general banking facilities granted to the Group (note 31).

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%
32/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road, Central, Hong Kong	Office building	Medium term lease	100%
Carpark No. 64 and 66 of Basement of Site No. 1, No. 26, 27, 234, 236 and 237 of Basement of Site No. 3, Whampoa Garden, Hunghom, Kowloon, Hong Kong	Residential	Medium term lease	100%

16. PREPAID LAND LEASE PAYMENTS

	Group	
HK$ million	**2005**	2004 (Restated)
Carrying amount at 1 January		
As previously reported	**—**	—
Effect on adopting HKAS 17 (note 2.2(a))	**230**	235
As restated	**230**	235
Recognised during the year	**(5)**	(5)
Carrying amount at 31 December	**225**	230
Current portion included in prepayments, deposits and other receivables	**(5)**	(5)
Non-current portion	**220**	225

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

17. OTHER INTANGIBLE ASSETS

Group

HK$ million	Deferred development costs
31 December 2005	
Cost at 1 January 2005, net of accumulated amortisation	**28**
Additions	**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**

HK$ million	Deferred development costs
31 December 2004	
Cost at 1 January 2004, net of accumulated amortisation	23
Additions — internal development	50
Write off	(15)
Amortisation provided during the year	(30)
At 31 December 2004	28
At 31 December 2004:	
Cost	99
Accumulated amortisation	(71)
Net carrying amount	28

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 2005	
At 1 January 2005:	
Cost as previously reported	**30**
Effect of adopting HKFRS 3 (note 2.2(e))	**(2)**
Cost as restated	**28**
Accumulated amortisation as previously reported	**(2)**
Effect of adopting HKFRS 3 (note 2.2(e))	**2**
Accumulated amortisation as restated	**—**
Net carrying amount	**28**
Cost at 1 January 2005	**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)*

Group

HK$ million	
31 December 2004	
At 1 January 2004:	
Cost	27
Accumulated amortisation	(1)
Net carrying amount	26
Cost at 1 January 2004, net of accumulated amortisation	26
Acquisition of minority interests in subsidiaries	14
Disposal of subsidiaries (note 38)	(11)
Amortisation provided during the year	(1)
At 31 December 2004	28
At 31 December 2004:	
Cost	30
Accumulated amortisation	(2)
Net carrying amount	28

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over its estimated useful life of 20 years.

As further detailed in note 2.2 to the financial statements, the Group applied the transitional provision of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against the consolidated reserves.

The cost and net amount of goodwill remaining in consolidated reserves as at 1 January 2005, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was approximately HK$103,000,000 as at 1 January 2005 and 31 December 2005.

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

- Telecom and electronic products cash-generating unit;
- Power supply components products cash-generating unit; and
- Property holding cash-generating unit.

18. GOODWILL *(Continued)*

Telecom and electronic products cash-generating unit

The recoverable amount of the telecom 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.

Power supply components products cash-generating unit

The recoverable amount of the power supply components products cash-generating unit is determined based on estimated fair value less costs to sell. The fair value less costs to sell is estimated based on net realisable value of the underlying assets of the cash-generating unit. An impairment loss of HK$7 million was recognised to reduce the carrying amount of goodwill to nil.

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.

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

HK$ million	**2005**	2004
Telecom and electronic products	**103**	14
Power supply components products	**—**	7
Property holding	**7**	7
Carrying amount of goodwill	**110**	28

Key assumptions were used in the value in use calculation of the telecom and electronic products cash-generating unit for 31 December 2005. 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 unit carried on its business.

19. INTERESTS IN SUBSIDIARIES

	Company	
HK$ million	**2005**	2004
Unlisted shares, at cost	**45**	113
Due from subsidiaries	**3,552**	3,993
Due to subsidiaries	**—**	(641)
	3,597	3,465
Provision for impairment	**(1,101)**	(1,602)
	2,496	1,863

The balances with the subsidiaries are unsecured, interest-free and are repayable on demand.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
CCT Marketing Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	84.12	Trading of telecom products
CCT Telecom (HK) Limited	Hong Kong	HK$2,600,000 Ordinary	—	84.12	Sourcing of telecom products
CCT Tech International Limited[@]	Bermuda/Hong Kong	HK$159,384,226 Ordinary	—	84.12	Investment holding
Electronic Sales Limited	Hong Kong	HK$5,948,000 Ordinary	—	100	Sale of telecom products
Goldbay Investments Limited	Hong Kong	HK$2 Ordinary	—	100	Investment property holding
Huge Partner Limited	Hong Kong	HK$10,000 Ordinary	—	100	Property holding
Canford Holdings Limited	Hong Kong	HK$2 Ordinary	—	100	Investment 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

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 share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Wiltec Industries Limited	Hong Kong	HK$100 Ordinary HK$1,000,000 Deferred**	—	100	Sale of baby products
CCT Tech Advanced Products Limited	Hong Kong	HK$2 Ordinary	—	84.12	Trading of advanced wireless electronic products
CCT Electronics Limited	Hong Kong	HK$2 Ordinary	—	84.12	Sale of electronic products
Huiyang CCT Telecommunications Products Co., Ltd.	People's Republic of China	HK$80,000,000 Registered^	—	84.12	Manufacturing of telecom products
Dongguan Eswire Electronics Co. Ltd.	People's Republic of China	HK$49,597,740 Registered^	—	84.12	Manufacturing of telecom products
Dongguan CCT Digital Products Company Limited	People's Republic of China	HK$5,909,300 Registered^	—	84.12	Manufacturing of electronic products
Huiyang CCT Plastic Products Co., Ltd.	People's Republic of China	HK$48,600,000 Registered^	—	100	Manufacturing of plastic casings and parts
Dongguan Electronic Sales Products Co. Ltd.	People's Republic of China	HK$27,842,781 Registered^	—	100	Manufacturing of telecom products

* 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 Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

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. INTEREST IN AN ASSOCIATE

Group

HK$ million	2005	2004 (Restated)
Share of net assets	—	222
Market value of listed shares	—	1,326

Particulars of the associate, held indirectly through subsidiaries, are as follows:

Name	Particular of issued shares held	Place of incorporation and operations	Nominal value of issued share capital as at 31 December 2004	Percentage of ownership interest attributable to the Group 2005	2004	Principal activites
Haier Electronics Group Co., Ltd.*	Ordinary shares of HK$0.1 each	Bermuda/People's Republic of China	HK$996,402,795 Ordinary	—	43.6	Investment holding

* Listed on the Stock Exchange.

Upon the completion of the placement of 419,997,667 ordinary shares of HK$0.10 each in Haier Electronics at a price of HK$0.24 per share (the "Placement") on 24 January 2005 and the completion of the acquisition of washing machines business by Haier Electronics from Haier Group Corporation and the exercise of the call option by Haier Electronics to acquire the 35.5% of the mobile handset business (the "Asset Injection") on 28 January 2005, the equity interests of the Group in Haier Electronics was reduced from 43.6% to 24%. Haier Electronics was ceased to be accounted for as the Group's associate and reclassified to available-for-sale financial assets in January 2005 as the Group ceased to be in a position to exercise significant influence over Haier Electronics after Haier Group Corporation has gained control over Haier Electronics and all the directors nominated by the Group to the board of directors of Haier Electronics resigned as directors of Haier Electronics. The Asset Injection in Haier Electronics is accounted for as a reverse acquisition under HKFRS 3 and the consolidated financial statements of Haier Electronics have been restated retrospectively by adopting the reverse acquisition accounting method. As such, the interest in Haier Electronics in the Group's financial statements in previous years has been restated accordingly. The effect of the Asset Injection and the Placement resulted in the disposal and deemed disposal of approximately 19.6% equity interests in Haier Electronics and the Group recorded a gain of approximately HK$109 million therefrom in the current year.

20. INTEREST IN AN ASSOCIATE *(Continued)*

Included in the Group's share of the net assets of its associate in prior year is the share of net assets of Haier Electronics which, in the opinion of the directors, is material in the context of the Group's financial statements. Details of the financial information of Haier Electronics and its subsidiaries in respect of the financial year ended 31 December 2004 are set out below:

HK$ million	2004 (Restated)
Assets	2,196
Liabilities	(1,507)
Revenue	5,894
Profit	149

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS/OTHER ASSETS/LONG TERM INVESTMENTS

	Group	
HK$ million	**2005**	2004
Listed equity investment in Hong Kong, at fair value	**551**	—
Unlisted equity investment, at cost less impairment	**2**	4
Other assets, at fair value	**16**	12
	569	16
Less: portion classified as current assets	**(551)**	—
Non-current assets	**18**	16

During the year, the gross gain of the Group's available-for-sale financial assets recognised directly in equity amounted to HK$320 million (2004: Nil).

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, 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 stated the unlisted equity investment at cost less impairment.

The fair value of the listed equity investment, which was sold subsequent to the balance sheet date (note 46(b)), is based on the sale consideration, net of incidental costs.

22. HELD-TO-MATURITY FINANCIAL ASSETS

	Group and Company	
HK$ million	**2005**	2004
Unlisted held-to-maturity financial assets, at amortised cost	**18**	—

The above held-to-maturity financial assts have maturities of 2 to 4 years and carry effective interest rates of 1.7% to 4.0%.

23. INVENTORIES

	Group	
HK$ million	**2005**	2004
Raw materials	**95**	67
Work in progress	**71**	50
Finished goods	**128**	98
	294	215

24. TRADE AND BILLS RECEIVABLES

An aged analysis of the trade and bills receivables as at the balance sheet date is as follows:

	Group			
	2005		2004	
HK$ million	**Balance**	**Percentage**	Balance	Percentage
Current to 30 days	**286**	**34**	302	38
31 to 60 days	**259**	**31**	264	33
61 to 90 days	**239**	**29**	216	27
Over 90 days	**54**	**6**	12	2
	838	**100**	794	100

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

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
HK$ million	**2005**	2004	**2005**	2004
Prepayments	**21**	9	**—**	—
Deposits and other receivables	**29**	22	**2**	3
	50	31	**2**	3

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	Group		Company	
HK$ million	**2005**	2004	**2005**	2004
Listed equity investments in Hong Kong, at market value	**4**	3	**—**	—
Deposits with embedded derivatives,at fair value	**57**	—	**57**	—
	61	3	**57**	—
Less: portion classified as current assets	**(24)**	(3)	**(20)**	—
Non-current assets	**37**	—	**37**	—

The above equity investments and deposits with embedded derivatives at 31 December 2005 were classified as financial assets at fair value through profit or loss.

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.

27. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
HK$ million	**2005**	2004	**2005**	2004
Cash and bank balances	**411**	398	**7**	33
Time deposits	**188**	551	**79**	374
	599	949	**86**	407
Less: Time deposits pledged for bank borrowings	**(71)**	(117)	**—**	(16)
	528	832	**86**	391

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$7 million (2004: HK$15 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.

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.

28. TRADE AND BILLS PAYABLES

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

	Group			
	2005		2004	
HK$ million	**Balance**	**Percentage**	Balance	Percentage
Current to 30 days	**290**	**29**	249	28
31 to 60 days	**243**	**25**	179	20
61 to 90 days	**167**	**17**	196	22
Over 90 days	**288**	**29**	273	30
	988	**100**	897	100

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

29. OTHER PAYABLES AND ACCRUALS

	Group		Company	
HK$ million	**2005**	2004	**2005**	2004
Other payables	**27**	62	**—**	—
Accruals	**112**	116	**5**	6
	139	178	**5**	6

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

30. FORWARD CURRENCY CONTRACTS

	Group	
	2005	
HK$ million	**Asset**	**Liabilities**
Forward currency contracts	**1**	**1**

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

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

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

HK$ million	Effective interest rate (%)	Maturity	Group 2005	Group 2004	Company 2005	Company 2004
Current						
Finance lease payables (note 32)	2.5–3	2006	**6**	5	**—**	—
Bank loans — unsecured	5.62–6.75	2006	**46**	—	**—**	—
Bank loans — secured	4.25–6.75	2006	**106**	145	**—**	10
			158	150	**—**	10
2005 Convertible Note (note 33(a))	5.75	2005	**—**	45	**—**	—
			158	195	**—**	10
Non-current						
Finance lease payables (note 32)	2.5–3	2007–2008	**4**	8	**—**	—
Bank loans — secured	4.25–6.75	2007–2014	**212**	176	**—**	—
			216	184	**—**	—
2010 Convertible Bonds (note 33(b))	7.25	2010	**77**	—	**77**	—
			293	184	**77**	—
			451	379	**77**	10

HK$ million	Group 2005	Group 2004	Company 2005	Company 2004
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**152**	145	**—**	10
In the second year	**67**	42	**—**	—
In the third to fifth years, inclusive	**92**	63	**—**	—
Beyond five years	**53**	71	**—**	—
	364	321	**—**	10
Other borrowings repayable:				
Within one year or on demand	**6**	50	**—**	—
In the second year	**4**	5	**—**	—
In the third to fifth years, inclusive	**77**	3	**77**	—
	87	58	**77**	—
	451	379	**77**	10

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

(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$254 million (2004: HK$95 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$567 million (2004: HK$159 million); and

(iii) the pledge of certain of the Group's time deposits amounting to HK$71 million (2004: HK$117 million).

(b) Except for the secured bank loans aggregating HK$163 million which is denominated in RMB and United States dollars, all other borrowings are in Hong Kong dollars.

Other interest rate information:

	Group			
	2005		2004	
HK$ million	**Fixed rate**	**Floating rate**	Fixed rate	Floating rate
Finance lease payables	**3**	**7**	2	11
Bank loans — unsecured	**—**	**46**	—	—
Bank loans — secured	**—**	**318**	—	321
Convertible note/bonds	**77**	**—**	45	—
	80	**371**	47	332

	Company			
	2005		2004	
HK$ million	**Fixed rate**	**Floating rate**	Fixed rate	Floating rate
Bank loans — secured	**—**	**—**	—	10
Convertible bonds	**77**	**—**	—	—
	77	**—**	—	10

Except for the convertible note/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 note/bonds with the carrying amount of HK$77 million (2004: HK$45 million) and HK$77 million (2004: Nil) are HK$68 million (2004: HK$45 million) and HK$68 million (2004: Nil) at the balance sheet date, respectively.

The fair value of the liability portion of the convertible note/bonds is estimated using an equivalent market interest rate for a similar convertible bond. The fair value of other borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

32. 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 terms ranging from two to three years.

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 2005**	Minimum lease payments 2004	**Present value of minimum lease payments 2005**	Present value of minimum lease payments 2004
Amounts payable:				
Within one year	**7**	5	**6**	5
In the second year	**4**	5	**4**	5
In the third to fifth years, inclusive	**—**	3	**—**	3
Total minimum finance lease payments	**11**	13	**10**	13
Future finance charges	**(1)**	—		
Total net finance lease payables	**10**	13		
Portion classified as current liabilities — note 31	**(6)**	(5)		
Non-current portion — note 31	**4**	8		

33. CONVERTIBLE NOTE/BONDS

(a) On 2 March 2004, the Company entered into a sale and purchase agreement under which the Company agreed to sell to New Capital Industrial Limited, a company controlled by Mr. Mak Shiu Tong, Clement, the chairman and a director of the Company, and his associates, the zero coupon convertible note in the principal amount of HK$45 million due 2005 (the "2005 Convertible Note") for a consideration of HK$45 million. The 2005 Convertible Note was issued by CCT Tech on 17 May 2002 to an indirect wholly owned subsidiary of the Company. As the directors consider that the equity component of the 2005 Convertible Note is not significant, the equity component was not separately recognised in the shareholders' equity of the Group.

Under the General Offers (as defined below) as detailed in (b) below, the 2005 Convertible Note was transferred to the Group after the closing of the General Offers.

(b) On 31 January 2005, Jade Assets made a voluntary conditional cash offer with securities exchange alternative (the "General Offers") of cash or the convertible bonds issued by the Company to acquire all the then issued share capital of CCT Tech and the then 2005 Convertible Note not already owned at that time by the Group and to cancel the CCT Tech options. The General Offers were closed on 6 May 2005. Up to the closing of the General Offers, valid acceptances have been received in respect of 7,907,179,696 CCT Tech Shares, the 2005 Convertible Note in the amount of HK$45,000,000 (representing all the then outstanding issued 2005 Convertible Note) and 1,082,781,000 CCT Tech options (representing all the then outstanding issued CCT Tech options). The CCT Tech options were cancelled and the 2005 Convertible Note was transferred to Jade Assets. On 25 April 2005, the Company issued convertible bonds with an aggregate nominal value of HK$155,218,720 (the "2010 Convertible Bonds") to those CCT Tech's shareholders and the holder of the 2005 Convertible Note who accepted the General Offers and who opted for the 2010 Convertible Bonds. During the year, the 2010 Convertible Bonds with a nominal value of HK$51,705,840 were converted into 80,662,359 shares of the Company of HK$0.10 each (note 35).

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, being the fifth anniversary of the date of issue. Unless converted into the shares of the Company or 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 2010 Convertible Bonds a prior written notice of 14 days.

33. CONVERTIBLE NOTE/BONDS *(Continued)*

The fair value of the liability component of the 2010 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.

The convertible note/bonds have been split between the liability and equity components, as follows:

	Group		Company	
HK$ million	**2005**	2004 (Restated)	**2005**	2004
Nominal value of convertible note/bonds issued:				
— 2010 Convertible Bonds — note (b)	**155**	—	**155**	—
— 2005 Convertible Note — note (a)	**—**	45	**—**	—
	155	45	**155**	—
Equity component	**(46)**	—	**(46)**	—
Liability component at the issuance date	**109**	45	**109**	—
Conversion in current year	**(37)**	—	**(37)**	—
Interest expense (note 7)	**5**	—	**5**	—
Liability component at 31 December (note 31)	**77**	45	**77**	—

34. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

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

34. DEFERRED TAX *(Continued)*

Deferred tax assets

Group

HK$ million	2005 Losses available for offset 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	**—**

Deferred tax liabilities

Group

HK$ million	2004 Accelerated tax depreciation
At 1 January 2004	7
Deferred tax credited to the income statement during the year — note 10	(2)
Gross deferred tax liabilities at 31 December 2004	5

Deferred tax assets

Group

HK$ million	2004 Losses available for offset against future taxable profit
At 1 January 2004	9
Deferred tax charged to the income statement during the year — note 10	(5)
Gross deferred tax assets at 31 December 2004	4
Net deferred tax liabilities at 31 December 2004	(1)

34. DEFERRED TAX *(Continued)*

The Group has tax losses arising in Hong Kong of HK$194 million (2004: HK$242 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 2005, there is no significant unrecognised deferred tax liability (2004: 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

	Company	
HK$ million	**2005**	2004
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200**	200
Issued and fully paid:		
655,693,308 (2004: 422,525,230) ordinary shares of HK$0.10 each	**65**	42

During the year, the movements in share capital were as follows:

(a) The 2010 Convertible Bonds with a nominal value of approximately HK$52 million were converted into 80,662,359 shares of the Company of HK$0.10 each. Further details relating to the 2010 Convertible Bonds were set out in note 33(b) to the financial statements.

(b) The subscription rights attaching to 41,780,000 share options were exercised at the subscription price of HK$0.75 per share (note 36), resulting in the issue of 41,780,000 shares of HK$0.10 each for a total cash consideration, before expenses, of approximately HK$31 million.

(c) 110,725,719 shares were issued at HK$0.10 each in form of the scrip dividend shares in lieu of cash as part of the payment of the special interim dividend with equivalent total cash value of approximately HK$107 million. All the scrip dividend shares issued rank pari passu with the existing issued shares of the Company in all respects.

35. SHARE CAPITAL *(Continued)*

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

	Number of ordinary shares of HK$0.10 each in issue	Issued share capital HK$ million	Share premium account HK$ million	Total HK$ million
At 1 January 2004	422,105,230	42	1,250	1,292
Exercise of share options	420,000	—	—	—
At 31 December 2004 and 1 January 2005	422,525,230	42	1,250	1,292
Exercise of share options	41,780,000	4	27	31
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	655,693,308	65	—	65

On 18 November 2005, the cancellation of the entire amount of approximately HK$1,417 million standing to the credit of the share premium account of the Company and the credit arising be credited to the distributable reserve account of the Company (the "Cancellation of the Share Premium Account") was approved by a special resolution at the extraordinary general meeting of the Company. The Cancellation of the Share Premium Account became effective on 9 December 2005.

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. During the year, 41,780,000 share options were exercised resulting in the issue of 41,780,000 shares of HK$0.10 each for a total cash consideration, before expenses, of approximately HK$31 million. As at 31 December 2005, there were no share options outstanding under the Share Option Scheme. No share option has been granted under the Share Option Scheme during the year.

36. SHARE OPTION SCHEME *(Continued)*

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 Company) 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 New 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 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.

36. SHARE OPTION SCHEME *(Continued)*

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

Name or category of participant HK$	Number of share options					Date of grant of share options	Exercise period of share options	Exercise price per share (Note 1)	Price of the shares immediately before exercise date of share options (Note 2)	Price of the shares at exercise date of share options
	Outstanding as at 1 January 2005	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding as at 31 December 2005					
Executive directors										
Mak Shiu Tong, Clement	420,000	—	(420,000)	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.750	1.720	1.690
Cheng Yuk Ching, Flora	4,200,000	—	(4,200,000)	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.750	1.720	1.690
Tam Ngai Hung, Terry	4,200,000	—	(4,200,000)	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.750	1.740	1.710
William Donald Putt	420,000	—	(420,000)	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.750	1.740	1.710
	9,240,000	—	(9,240,000)	—	—					
Independent non-executive directors										
Samuel Olenick	420,000	—	(420,000)	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.750	1.720	1.690
Tam King Ching, Kenny	420,000	—	(420,000)	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.750	1.740	1.710
Lau Ho Man, Edward	420,000	—	(420,000)	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.750	1.740	1.710
	1,260,000	—	(1,260,000)	—	—					
Other employees										
In aggregate	31,280,000	—	(31,280,000)	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.750	1.721	1.691
	31,280,000	—	(31,280,000)	—	—					
	41,780,000	—	(41,780,000)	—	—					

Notes to the reconciliation of share options outstanding during the year:

1. The exercise price of the share options is subject to adjustment(s) in the case of rights or bonus share issues, or other similar changes in the share capital of the Company.

2. The price of the shares of the Company as at the date of exercise of the share options is the weighted average of the closing price of the shares of the Company as listed on the Stock Exchange on the trading day immediately before the date on which the share options were exercised.

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 58 of the financial statements.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against consolidated retained profits, as further detailed in note 18 to 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	Notes	Share premium account	Capital reserve	Distributable reserve	Equity component of convertible bonds	Retained profits/ (accumulated losses)	Total
Balance at 1 January 2004		1,250	1,114	—	—	(194)	2,170
Profit for the year	11	—	—	—	—	92	92
2004 special interim dividend	12	—	(42)	—	—	—	(42)
2004 interim dividend	12	—	(4)	—	—	—	(4)
Proposed 2004 final dividend	12	—	(8)	—	—	—	(8)
At 31 December 2004 and 1 January 2005		1,250	1,060	—	—	(102)	2,208
Exercise of share options	35	27	—	—	—	—	27
Issue of convertible bonds	33	—	—	—	46	—	46
Conversion of convertible bonds	35	44	—	—	(15)	—	29
Issue of scrip dividend shares	35	96	—	—	—	—	96
Cancellation of share premium account	35	(1,417)	—	1,417	—	—	—
Profit for the year	11	—	—	—	—	428	428
2005 special interim dividend	12	—	(319)	—	—	—	(319)
Proposed 2005 final dividend	12	—	—	—	—	(13)	(13)
At 31 December 2005		—	741	1,417	31	313	2,502

Note: At 31 December 2005, 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$2,471 million.

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

38. DISPOSAL OF SUBSIDIARIES

HK$ million	2005	2004
Net assets disposed of:		
Property, plant and equipment (note 14)	—	3
Cash and bank balances	—	5
Trade and bills receivables	—	7
Inventories	—	4
Prepayments, deposits and other receivables	—	8
Trade and bills payables	—	(2)
Other payables and accruals	**(42)**	(6)
Tax payable	—	(1)
Minority interests	—	(7)
	(42)	11
Reversal of goodwill upon disposal of subsidiaries - note 18	—	11
Net gain on disposal of subsidiaries	**42**	—
	—	22
Satisfied by:		
Cash	—	12
Other receivables	—	7
Other payables	—	3
	—	22

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

HK$ million	2005	2004
Cash consideration	—	12
Cash and bank balances disposed of	—	(5)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	—	7

The results of the subsidiaries disposed of during the year and in the prior year had no significant impact on the Group's consolidated turnover or profit after tax and before minority interests for the years ended 31 December 2005 and 2004.

39. 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 equipment with a total capital value at the inception of the finance leases of HK$4 million (2004: HK$14 million).

(b) As further detailed in note 33(b) to the financial statements, during the year, the Company issued the 2010 Convertible Bonds with an aggregate nominal value of HK$155 million to the CCT Tech's shareholders and the holder of the 2005 Convertible Note who accepted the General Offers and who opted for the 2010 Convertible Bonds.

40. CONTINGENT LIABILITIES

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

	Group		Company	
HK$ million	**2005**	2004	**2005**	2004
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	**—**	—	**186**	186
Guarantee given to an independent third party in respect of a rental arrangement (note)	**—**	48	**—**	48
	—	48	**186**	234

Note: During the year, the Company entered into a deed of release of guarantee with the landlord in respect of the rental arrangement and paid HK$36 million to the landlord. The amount paid has been recognised as an expense in the income statement (note 6).

As at 31 December 2005, the bank facilities granted to the subsidiaries subject to corporate guarantees given to the banks by the Company were utilised to the extent of approximately HK$154 million (2004: HK$173 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 2005 (2004: HK$9 million), as further explained under the heading "Employees benefits" in note 2.5 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.

41. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group, are included in note 31 to the financial statements.

42. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 2 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	**2005**	2004
Within one year	**2**	—
In the second to fifth years, inclusive	**2**	—
	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	**2005**	2004
Within one year	**2**	3
In the second to fifth years, inclusive	**6**	3
After five years	**1**	—
	9	6

42. 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	**2005**	2004
Within one year	**2**	2
In the second to fifth years, inclusive	**9**	9
After five years	**115**	114
	126	125

43. COMMITMENTS

In addition to the operating lease commitments detailed in note 42(b) above, the Group had the following commitments at the balance sheet date:

Capital commitments

	Group	
HK$ million	**2005**	2004
Contracted, but not provided for		
Construction in progress	**—**	28
Purchases of motor vehicles	**—**	4
Purchases of plant and machinery and equipment	**7**	1
	7	33

In addition, the Group's share of the associate's own capital commitments as at 31 December 2004, which are not included in the above, was as follows:

HK$ million	Group 2004
Contracted, but not provided for	7

At the balance sheet date, the Company had no significant commitments.

44. RELATED PARTY TRANSACTION

(a) During the prior year, on 2 March 2004, the Company entered into a sale and purchase agreement under which the Company agreed to sell to New Capital and the associates of Mr. Mak Shiu Tong, Clement, the 2005 Convertible Note for a cash consideration of HK$45 million. This transaction was approved by the independent shareholders of the Company on 15 April 2004 and was completed on 26 April 2004.

(b) Pursuant to the General Offers, the 2005 Convertible Note held by New Capital was acquired by Jade Assets at a consideration of approximately HK$103.5 million during the year in return for the issue of the Company's 2010 Convertible Bonds with a principal amount of approximately HK$103.5 million to New Capital. The transaction was approved by the independent shareholders of the Company in the extraordinary general meeting held on 18 April 2005 and was completed on 25 April 2005. Further details of the transaction were set out in the circular of the Company dated 31 March 2005.

(c) Compensation of key management personnel of the Group

HK$ million	**2005**	2004
Short term employee benefits	**42**	40
Post-employment benefits	**—**	—
Total compensation paid to key management personnel	**42**	40

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

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

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible bonds, finance leases, and cash and short term deposits. 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 enters 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 2.5 to the financial statements.

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

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 a floating interest rate. The Group's policy is to manage its interest cost using an appropriate mix of fixed and variable rate debts.

Foreign currency risk

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

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.

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

Fair values

Other than certain available-for-sale financial assets, financial assets at fair value through profit or loss and forward currency contracts 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 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 their fair value.

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

The carrying amounts of bank loans and finance lease payables approximate their fair values, based on the prevailing interest rates. The fair value of convertible bonds is disclosed in note 31 to the financial statements.

46. POST BALANCE SHEET EVENTS

(a) On 9 November 2005, the Company and CCT Tech jointly announced that a proposal made by Jade Assets in relation to a privatisation of CCT Tech by way of a scheme of arrangement under Section 99 of the Companies Act of Bermuda (the "Scheme") to the shareholders of CCT Tech other than the Company and parties acting in concert with it (the "Scheme Shareholders"). The Scheme would privatise CCT Tech by way of the cancellation of the CCT Tech shares held by the Scheme Shareholders (the "Scheme Shares") at a price of HK$0.023 per Scheme Share payable in cash by CCT Tech to the Scheme Shareholders. The scheme document regarding the Scheme was dispatched to the shareholders of CCT Tech on 18 January 2006.

On 13 February 2006, the court meeting (the "Court Meeting") was held to approve the Scheme by the Scheme Shareholders by way of poll. The Scheme was not approved by a majority in number of the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than 75% in value of the Scheme Shares that were voted either in person or by proxy by the Scheme Shareholders at the Court Meeting and was disapproved by the Scheme Shareholders at the Court Meeting holding more than 10% in value of all the CCT Tech shares held by the Scheme Shareholders. As such, the Scheme cannot be put into effect and hence has lapsed. The shares in CCT Tech remain listed on the Stock Exchange.

Further details of this event were set out in the Company's press announcement dated 9 November 2005, the major transaction circular dated 18 January 2006, the scheme document dated 18 January 2006 and the press announcement dated 13 February 2006.

46. POST BALANCE SHEET EVENTS *(Continued)*

(b) On 22 November 2005, the Company announced that a conditional agreement was entered into between the Company and Deutsche Bank on 16 November 2005, pursuant to which the Company agreed to procure Greatway International Corp., Info-Net International Corp., Clear Access Agents Limited, Super Control Investments Limited, Invest Paradise Group Limited and Full Elite Assets Limited, all of which are indirect wholly-owned subsidiaries of the Company, to sell and Deutsche Bank agreed to purchase, or procure the purchase of 3,926,774,819 ordinary shares of HK$0.10 each in the share capital of Haier Electronics at a total consideration of approximately HK$557.6 million in cash. The transaction was approved by the shareholders of the Company at the special general meeting held on 29 December 2005 and was completed on 5 January 2006. After the completion, the Company does not own any share and/or interest in Haier Electronics.

Details of the transaction were set out in the Company's very substantial disposal circular dated 12 December 2005.

(c) On 6 March 2006, the Company announced that Topcon Investments Limited, an indirect wholly-owned subsidiary of the Company, entered into a binding provisional sale and purchase agreement dated 2 March 2006 with an independent third party for the purchase of a property at a consideration of approximately HK$94 million, of which approximately HK$4 million was paid upon signing of the provisional sale and purchase agreement. The transaction is expected to be completed on or before 20 May 2006. Topcon Investments Limited signed the formal sale and purchase agreement on 16 March 2006 to replace the provisional sale and purchase agreement and a further deposit of HK$6 million was paid to the vendor. Further details of the transaction were set out in the announcement of the Company dated 6 March 2006 and the Company's circular to shareholders dated 23 March 2006.

(d) On 7 March 2006, the Company entered into a conditional subscription agreement (the "Subscription Agreement") with Tradeeasy Holdings Limited ("Tradeeasy"), a company listed on the Growth Enterprises Market of the Stock Exchange to subscribe for a total of 550,000,000 new shares to be allotted and issued by Tradeeasy (the "Subscription Shares") at a subscription price of HK$0.04 per Subscription Share, for a total consideration of HK$22 million. The total consideration will be settled by cash upon completion. Following the completion, Tradeeasy will become a non-wholly-owned subsidiary of the Company.

The transaction was approved by the independent shareholders of Tradeeasy at the extraordinary general meeting held on 19 April 2006. The transaction will be completed subject to the fulfilment or waiver of the other conditions as provided under the Subscription Agreement. Further details of the transaction were set out in the joint announcement of the Company and Tradeeasy dated 9 March 2006.

46. POST BALANCE SHEET EVENTS *(Continued)*

(e) On 17 March 2006, the Company entered into a conditional sale and purchase agreement (the "S&P Agreement") with Deutsche Bank in relation to the sale of a total 13,800,000,000 shares in CCT Tech (the "Sale Shares") to Deutsche Bank and not less than two third party investors (the "Third Party Investors") in order to restore the public float of CCT Tech to not less than 25% of the total issued capital of the Company. The price for the sale of the Sale Shares is HK$0.022 per Sale Share and the total consideration amounted to approximately HK$303,600,000, payable in cash. On the same day, the Company and Deutsche Bank entered into a put agreement (the "Put Agreement") in relation to the options granted by the Company to Deutsche Bank which give Deutsche Bank a right to put back the Sale Shares to the Company in accordance with the Put Agreement (the "Options"). The Put Agreement is conditional upon completion of the S&P Agreement. The consideration under the S&P Agreement will be paid as an initial exchange amount (the "Initial Exchange Amount") to the bank account of Deutsche Bank pursuant to the terms of the Put Agreement to effectively serve as collateral to secure the Company's obligations under the Put Agreement. The Initial Exchange Amount will be refunded to the Company with interest if Deutsche Bank and/or the Third Party Investors dispose of any of the Sale Shares or upon the expiration date of the Options, being the date falling on the second anniversary of the completion date of the S&P Agreement. The transactions under the S&P Agreement and the Put Agreement are subject to the approval of the Company's shareholders at a special general meeting to be held and fulfillment or waiver of other conditions in accordance with the S&P Agreement.

Upon fulfillment or waiver of the conditions and immediately before completion, Jade Assets will convert the convertible notes due 2007 and 2008 issued by CCT Tech in full into 48,428,571,428 new ordinary shares in CCT Tech, out of which 13,800,000,000 new CCT Tech shares will be sold to Deutsche Bank and the Third Party Investors. The Group will hold approximately 74.62% of the total issued share capital of CCT Tech as enlarged by the full conversion of the convertible notes and the public shareholders will hold 25.38%.

Details of the transactions under the S&P Agreement and the Put Agreement were set out in the joint announcement of the Company and CCT Tech dated 22 March 2006.

47. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 April 2006.

five year financial summary

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. The amounts for each year in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policies, as detailed in note 2.2 to the financial statements.

RESULTS

	Year ended 31 December				
HK$ million	**2005**	2004 (restated)	2003 (restated)	2002 (restated)	2001 (restated)
REVENUE	**3,980**	4,057	3,441	3,130	3,106
PROFIT/(LOSS) BEFORE TAX	**271**	205	153	(596)	(670)
Tax	**(18)**	(18)	(13)	(10)	(10)
PROFIT/(LOSS) FOR THE YEAR	**253**	187	140	(606)	(680)
Attributable to:					
Equity holders of the parent	**225**	107	94	(603)	(693)
Minority interests	**28**	80	46	(3)	13
	253	187	140	(606)	(680)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
HK$ million	**2005**	2004 (restated)	2003 (restated)	2002 (restated)	2001 (restated)
TOTAL ASSETS	**4,318**	3,889	3,602	3,287	4,640
TOTAL LIABILITIES	**(1,608)**	(1,482)	(1,344)	(1,181)	(1,300)
	2,710	2,407	2,258	2,106	3,340
EQUITY:					
Equity attributable to equity holders of the parent	**2,642**	2,210	2,155	2,075	2,513
Minority interests	**68**	197	103	31	827
	2,710	2,407	2,258	2,106	3,340

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 Tuesday, 23 May 2006 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 2005.

2. To declare a final dividend.

3. To re-elect the retiring directors, Ms. Cheng Yuk Ching, Flora, as an executive director of the Company, and Mr. Samuel Olenick, as an independent non-executive director 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**:

(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;

(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 general meeting."

6. 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 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. 5 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 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)."

7. 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. 5 and 6 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. 6 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. 5 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."

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

Hong Kong, 28 April 2006

Notes:

(1) The register of members of the Company will be closed from Friday, 19 May 2006 to Tuesday, 23 May 2006 (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 Thursday, 18 May 2006.

(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, Ms. Cheng Yuk Ching, Flora and Mr. Samuel Olenick 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 2005 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 a 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 2005 annual report of the Company.

(8) With respect to the resolutions set out in resolutions nos. 6 and 7 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.