# CCT TELECOM HOLDINGS LIMITED

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

(Stock Code: 138)

# ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

## FINANCIAL HIGHLIGHTS

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2006** | 2005 | |
| **HK$ million** | **(Unaudited)** | (Unaudited) | % increase |
| **Key Financial Results Highlights** | | | |
| Revenue | **1,982** | 1,800 | 10.1% |
| Profit before tax | **350** | 172 | 103.5% |
| Net profit attributable to equity holders of the Company | **332** | 142 | 133.8% |

## CHAIRMAN'S LETTER

I am pleased to announce the interim results of CCT Telecom Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the six months ended 30 June 2006. During the first half of the year, the revenue of the Group increased by approximately 10.1% to HK$1,982 million. Profit attributable to equity holders of the Company, including a realized gain of HK$316 million arising from the disposal of the equity interest in Haier Electronics Group Co., Ltd ("Haier Electronics"), rose to HK$332 million, representing a sharp increase of approximately 133.8% and the highest profit achieved during the operational history of the Group.

During the first half of the year, the manufacturing business encountered several operating challenges as in 2005 which led to a decrease in operating profit. However, the excellent results of the investment business has more than offset the reduction of the manufacturing profits resulting in a significant jump in net profit of the Group.

## INTERIM DIVIDEND

The board of directors (the "Board") has declared an interim dividend of HK$0.02 per share for 2006 (30 June 2005: Nil) to be payable from the Company's retained profits. The interim dividend of HK$0.02 per share will be payable on or around Friday, 27 October 2006 to the shareholders whose names appear on the register of members of the Company on Friday, 13 October 2006.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 11 October 2006 to Friday, 13 October 2006 (both days inclusive), during which period no transfer of share(s) will be effected. In order to qualify for the interim dividend of HK$0.02 per share, 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 Tuesday, 10 October 2006.

## REVIEW OF OPERATIONS

The principal businesses of the Group are (i) manufacture and sale of telecom and electronic products; (ii) manufacture and sale of plastic and electronic components; (iii) manufacture and sale of baby products; (iv) provision of e-commerce services and (v) investments in properties and securities.

### Telecom and electronic products business

The telecom and electronic products business is operated through our listed subsidiary, CCT Tech International Limited ("CCT Tech"). It continued to be our principal operation and accounted for over 90% of the Group's total revenue.

During the period under review, we continued to maintain our leading position as one of the largest ODM manufacturers in the world for production of cordless phones and hi-tech electronic products. The United States of America (U.S.) remained our principal market, accounting for over 55% of the Group's total revenue. Benefit from the robust consumer spending in the U.S. market and the strong growth of European market, we were able to secure growth in both sales volume and revenue. Our performance in Europe was excellent, achieving growth in revenue of approximately 294% during the first half of the year. Our performance in the Asia and the rest of the world was also satisfactory as customers in these markets increased sourcing of their products from China.

Our product strategy has also been successful. Our key products of 2.4 GHz and 5.8 GHz cordless phones and DECT cordless phones continued to sell well. Until recently, DECT phones were only popular in Europe. In the second half of this year, we launched DECT phones in the U.S. and the response has been very positive. We are convinced that DECT phones will be accepted by U.S. consumers and will become mainstay products in the U.S. We have already developed VoIP (voice over Internet protocol) phones, wireless broadband cordless phones and cordless phones with Skype capability. We target to launch these new and innovative products in the second half of the year. We expect the market response to be positive. We believe the VoIP and the broadband markets will offer considerable opportunities as this new technology platform further improves, it will provide quality voice and image transmission at relatively effective costs. Our market strategy to broaden our customer base and diversify our market geographically has also been successful. Today, our customers include many of the world's well-known brands and our business footprint covers most parts of the world.

During the period under review, the business environment of the telecom product business was even more difficult than 2005. In the first half of 2006, we continued to encounter many operating challenges. Keen competition in the Group's major markets brought pressure from our customers for us to offer them ever more competitive prices. The rise in prices of raw materials, including the prices of plastic materials (due mainly to buoyant petroleum price), copper and certain electronic components resulted in pressure on our costs and margins. The prolonged problem of labour shortage and power failure in the Guangdong Province has led to a further rise in costs and the minimum wages, hence, increasing our production costs. Furthermore, as a result of the appreciation of the Renminbi against the US dollars, our production costs in the PRC have increased in terms of Hong Kong dollars. With mounting pressure from the US government, further appreciation of the Renminbi seems imminent which, if materializes, will further increase our operating costs. In order to alleviate such pressures, the management has continued to implement measures in streamlining and improving the production efficiency and keeping overheads under control. We have also devoted considerable efforts to further strengthening our product research and development capabilities. These efforts have been successful as we continue to gain market share by delivering quality products to meet our customers' needs at effective costs.

### Manufacturing of plastic and electronic components

We manufacture plastic and electronic components mainly for internal use in our telecom and electronic products businesses. During the period under review, the component business was still affected by the increase in prices of raw materials especially plastic and metals resulting in a decrease of profit margin. In order to counter such challenges, the management has devoted considerable efforts in streamlining the operation, improving production efficiency and cutting production overheads.

### Baby products business

In the first half of 2006, keen competition and the increase in operating costs continued to be the challenges faced by the management of the baby product business. Despite a difficult environment, the baby product business still reported a profit of HK$8 million. The management has devoted additional efforts to expanding the product range in order to offer customers with more quality products at effective cost. We believe that this strategy will provide growth in the future.

### Provision of e-commerce services

During the first half of the year, we increased our shareholding interest in Tradeeasy Holdings Limited ("Tradeeasy"), a company listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), from 22.18% to 66.26%. As a result, Tradeeasy has become a subsidiary of the Company. Tradeeasy is engaged in the provision of e-commerce services. Its operations currently represent an insignificant part of the Group. However, we believe that the business of Tradeeasy has good potential to grow and we expect that the contribution of Tradeeasy to the Group will increase in the future.

### Investment in properties and securities

During the period under review, the Group realized a gain of HK$316 million arising from the disposal of 3,926,774,819 ordinary shares of Haier Electronics, representing all the remaining equity interests in Haier Electronics held by the Group. The net sale proceeds amounted to approximately HK$551 million had been received, which further strengthened our financial position and provided significant cash resource for future investment and expansion.

During the period, we made further investments in the luxury residential properties and acquired two properties located in the prime luxury residential areas in the Hong Kong Island. We are optimistic towards the luxury property market in Hong Kong and believe that the properties acquired will produce satisfactory recurrent rental income and potential good long-term capital gain in the future.

In order to enhance yield on our surplus funds, we have placed funds in high yield deposits linked with certain H-shares listed by Chinese enterprises on the Stock Exchange. We have also acquired certain H-shares and Hang Seng Index constituent stocks and intend to hold these investments for long term purposes. We believe the companies that we invested will benefit from appreciation of Renminbi and/or high oil price. We believe that these investments will bring yields and long term capital gains to the Group and this will serve as an effective proxy hedge against further rise in oil price and appreciation of Renminbi.

## SALE OF CCT TECH SHARES AND RESTORATION OF PUBLIC FLOAT OF CCT TECH

In the first half of the year, the Company completed the sale of the 13.8 billion CCT Tech shares to Deutsche Bank and three other independent investors and, as a result, the public float of the CCT Tech has been restored. The proceeds from the sale of the CCT Tech shares were paid to Deutsche Bank as the initial exchange amount which serves as an effective collateral for the put options granted to Deutsche Bank and will only be paid back to the Company upon unwind of the put options. If the put options are exercised by Deutsche Bank on the expiration date of the put options, the sale proceeds for the shares will not be paid back to the Company but will be used to buy back the 13.8 billion CCT Tech shares. The sale of the CCT Tech shares has offered a good opportunity for the Company to realize part of its interests in CCT Tech into cash if the put options are unwound and the effective collateral is released, whilst maintaining CCT Tech as our principal and major listed subsidiary.

## OUTLOOK

The second half of the year will remain challenging for the Group's manufacturing business. Shortage of labour and power failure in the Guangdong Province, price competition, unstable prices of raw materials, potential further appreciation of Renminbi remain key challenges that will affect our manufacturing operations. To deal with the labour shortage and power failure problem, we have decided to establish additional manufacturing facilities in the Liaoning Province, in North Eastern China, where we can tap into the abundant supply of workers at costs cheaper than in the Guangdong Province. The operating costs of the new factory in terms of labor and energy costs are much cheaper than the factories in the Guangdong Province. Furthermore, the new factory in the Liaoning Province will be entitled to certain preferential treatments in terms of costs and fees which are not available in the Guangdong Province. The new factory in the Liaoning Province is expected to commence production in the third quarter of next year. We believe the new factory will deliver significant savings in costs and will further improve our competitiveness and profit margins.

Research and development ("R&D") capability has always been the core strength of the Group. Our R&D effort has consistently produced innovative and desirable products that meet consumers' expectation and needs. Our product roadmap ahead will be very promising. We are optimistic that the new products will provide considerable opportunities for the growth of our manufacturing business.

We will continue to pursue our strategy to broaden our markets and customer base. We have decided to establish trading companies worldwide in order to explore new markets and solicit new customers for consumer electronic products. We believe that this new trading business will further enhance our presence in the worldwide markets for consumer electronic products and will enable the Group to solicit new customers and to diversify into new business and new products. We are optimistic about this new business and are confident that it will generate substantial additional revenue to the Group. We will also continue to invest our surplus cash in investments that will generate satisfactory returns and gains to the Group.

## ACKNOWLEDGEMENTS

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

**Mak Shiu Tong, Clement**
*Chairman*

Hong Kong, 20 September 2006

## INTERIM RESULTS

The Board of the Company is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2006 together with the comparative figures for the corresponding period in 2005 as follows:

**Condensed Consolidated Income Statement**
*For the six months ended 30 June 2006*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2006** | 2005 |
| **HK$ million** | *Notes* | **(Unaudited)** | (Unaudited) |
| **REVENUE** | 3 | **1,982** | 1,800 |
| Cost of sales | | **(1,765)** | (1,570) |
| Gross profit | | **217** | 230 |
| Other income and gains | | **363** | 125 |
| Selling and distribution costs | | **(27)** | (25) |
| Administrative expenses | | **(150)** | (147) |
| Other expenses | | **(40)** | (4) |
| Finance costs | | **(13)** | (7) |
| **PROFIT BEFORE TAX** | 4 | **350** | 172 |
| Tax | 5 | **(12)** | (10) |
| **PROFIT FOR THE PERIOD** | | **338** | 162 |
| **Attributable to:** | | | |
| Equity holders of the parent | | **332** | 142 |
| Minority interests | | **6** | 20 |
| | | **338** | 162 |
| **DIVIDENDS** | 6 | | |
| Special interim | | **—** | 319 |
| Proposed interim | | **16** | — |
| | | **16** | 319 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | 7 | | |
| Basic | | **HK$0.484** | HK$0.335 |
| Diluted | | **HK$0.403** | HK$0.295 |

**Condensed Consolidated Balance Sheet**
*30 June 2006*

| HK$ million | Notes | 30 June 2006 (Unaudited) | 31 December 2005 (Audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **1,255** | 1,253 |
| Investment properties | | **434** | 257 |
| Prepaid land lease payments | | **208** | 220 |
| Other intangible assets | | **54** | 45 |
| Goodwill | | **109** | 110 |
| Long term receivable | | **304** | — |
| Available-for-sale financial assets | | **10** | 18 |
| Held-to-maturity financial assets | | **2** | 18 |
| Financial assets at fair value through profit or loss | | **85** | 37 |
| Deferred tax assets | | **4** | 3 |
| Total non-current assets | | **2,465** | 1,961 |
| **CURRENT ASSETS** | | | |
| Inventories | | **358** | 294 |
| Trade and bills receivables | 9 | **943** | 838 |
| Prepayment, deposits and other receivables | | **39** | 50 |
| Available-for-sale financial assets | | **—** | 551 |
| Financial assets at fair value through profit or loss | | **49** | 24 |
| Forward currency contracts | | **—** | 1 |
| Pledged time deposits | | **71** | 71 |
| Cash and cash equivalents | | **794** | 528 |
| Total current assets | | **2,254** | 2,357 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 10 | **995** | 988 |
| Tax payable | | **32** | 26 |
| Other payables and accruals | | **130** | 139 |
| Forward currency contracts | | **—** | 1 |
| Interest-bearing bank loans and other borrowings | | **138** | 158 |
| Total current liabilities | | **1,295** | 1,312 |
| **NET CURRENT ASSETS** | | **959** | 1,045 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **3,424** | 3,006 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank loans and other borrowings | | **301** | 216 |
| Convertible bonds | | **48** | 77 |
| Long term payable | | **314** | — |
| Deferred tax liabilities | | **3** | 3 |
| Total non-current liabilities | | **666** | 296 |
| Net assets | | **2,758** | 2,710 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Issued capital | | **78** | 65 |
| Reserves | | **2,624** | 2,564 |
| Proposed interim/final dividend | | **—** | 13 |
| Shareholders' funds | | **2,702** | 2,642 |
| **Minority interests** | | **56** | 68 |
| Total equity | | **2,758** | 2,710 |

*NOTES*

**1. BASIS OF PREPARATION**

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

The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited annual financial statements of the Group for the year ended 31 December 2005.

**2. PRINCIPAL ACCOUNTING POLICIES**

The accounting policies adopted are consistent with those of the consolidated financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations which are relevant to its operations are mandatory for financial year ending 31 December 2006.

| | |
|---|---|
| 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 Amendment | Financial Guarantee Contracts |
| HK(IFRIC)-Int 4 | Determining whether an Arrangement contains a Lease |

The adoption of new/revised HKAS 19 Amendment, HKAS 21 Amendment, HKAS 39 Amendment, HKFRS 4 Amendment and HK(IFRIC)-Int 4 did not result in substantial changes to the Group's accounting policies.

The following new standards, amendments to standards and interpretations relevant to the Group's operations have been issued but are not effective for 2006 and have not been early adopted:

| | |
|---|---|
| HKAS 1 Amendment | Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economics |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives |

**3. SEGMENT INFORMATION**

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

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

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

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

(c) the e-commerce segment engages in the provision of e-commerce services;

(d) the investment segment engages in investment in securities and properties; and

(e) the corporate and others segment comprises corporate income and expenses items.

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

**(a) Business segments**

The following tables present revenue and profit/(loss) regarding the Group's business segments for the period ended 30 June 2006 and 2005.

| 2006 HK$ million | Telecom and electronic products (Unaudited) | Baby products (Unaudited) | E-commerce (Unaudited) | Investment (Unaudited) | Corporate and others (Unaudited) | Total (Unaudited) |
|---|---|---|---|---|---|---|
| Segment revenue: | | | | | | |
| Sales to external customers | **1,896** | **64** | **11** | **1** | **—** | **1,972** |
| Other revenue | **11** | **2** | **—** | **316** | **34** | **363** |
| Total revenue | **1,907** | **66** | **11** | **317** | **34** | **2,335** |
| Segment results | **99** | **8** | **—** | **316** | **(70)** | **353** |
| Interest income | | | | | | **10** |
| Finance costs | | | | | | **(13)** |
| Profit before tax | | | | | | **350** |
| Tax | | | | | | **(12)** |
| Profit for the period | | | | | | **338** |

| 2005 HK$ million | Telecom and electronic products (Unaudited) | Baby products (Unaudited) | E-commerce (Unaudited) | Investment (Unaudited) (Restated) | Corporate and others (Unaudited) (Restated) | Total (Unaudited) (Restated) |
|---|---|---|---|---|---|---|
| Segment revenue: | | | | | | |
| Sales to external customers | 1,730 | 66 | — | — | — | 1,796 |
| Other revenue | 11 | — | — | 1 | 4 | 16 |
| Total revenue | 1,741 | 66 | — | 1 | 4 | 1,812 |
| Segment results | 110 | 2 | — | 112 | (49) | 175 |
| Interest income | | | | | | 4 |
| Finance costs | | | | | | (7) |
| Profit before tax | | | | | | 172 |
| Tax | | | | | | (10) |
| Profit for the period | | | | | | 162 |

**(b) Geographical segments**

The following tables present revenue information regarding the Group's geographical segments for the period ended 30 June 2006 and 2005.

| 2006 HK$ million | United States of America (Unaudited) | PRC, including HK (Unaudited) | European Union (Unaudited) | Others (Unaudited) | Total (Unaudited) |
|---|---|---|---|---|---|
| Segment revenue: | | | | | |
| Sales to external customers | **1,105** | **480** | **362** | **25** | **1,972** |
| Other revenue | **—** | **363** | **—** | **—** | **363** |
| Total revenue | **1,105** | **843** | **362** | **25** | **2,335** |

| 2005 HK$ million | United States of America (Unaudited) | PRC, including HK (Unaudited) | European Union (Unaudited) | Others (Unaudited) | Total (Unaudited) |
|---|---|---|---|---|---|
| Segment revenue: | | | | | |
| Sales to external customers | 1,129 | 390 | 92 | 185 | 1,796 |
| Other revenue | — | 16 | — | — | 16 |
| Total revenue | 1,129 | 406 | 92 | 185 | 1,812 |

**4. PROFIT BEFORE TAX**

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

| HK$ million | Six months ended 30 June 2006 (Unaudited) | 2005 (Unaudited) |
|---|---|---|
| Cost of inventories sold | **1,768** | 1,734 |
| Depreciation | **64** | 63 |
| Amortisation of prepaid land lease payments | **3** | 3 |
| Amortisation of deferred development costs | **22** | 13 |
| Write off of deferred development costs | **8** | 4 |
| and after crediting: | | |
| Gain on disposal of available-for-sale financial assets | **316** | — |
| Gain on disposal and deemed disposal of interest in an associate | **—** | 109 |

**5. TAX**

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

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

| HK$ million | Six months ended 30 June 2006 (Unaudited) | 2005 (Unaudited) |
|---|---|---|
| Current — Hong Kong | **8** | 7 |
| Current — Elsewhere | **5** | 2 |
| Deferred tax | **(1)** | 1 |
| Total tax charge for the period | **12** | 10 |

**6. DIVIDENDS**

| HK$ million | Six months ended 30 June 2006 (Unaudited) | 2005 (Unaudited) |
|---|---|---|
| Special interim dividend — Nil (30 June 2005: HK$0.68) per ordinary share | **—** | 319 |
| Proposed interim dividend — HK$0.02 (30 June 2005: Nil) per ordinary share | **16** | — |
| Total | **16** | 319 |

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

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

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

| HK$ million | Six months ended 30 June 2006 (Unaudited) | 2005 (Unaudited) |
|---|---|---|
| **Earnings** | | |
| Net profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | **332** | 142 |
| Interest on convertible bonds | **2** | 1 |
| Net profit attributable to ordinary equity holders of the parent before interest on convertible bonds | **334** | 143 |
| **Shares** | Number of shares | |
| Weighted average number of ordinary shares in issue during the period used in basic earnings per share calculation | **685,192,777** | 423,995,545 |
| Effect of dilution — weighted average number of ordinary shares: | | |
| Share options | **—** | 17,608,132 |
| Convertible bonds | **142,906,215** | 43,656,435 |
| | **828,098,992** | 485,260,112 |

**8. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2006, the Group acquired fixed assets of HK$78 million (six months ended 30 June 2005: HK$105 million) and disposed fixed assets of HK$4 million (six months ended 30 June 2005: HK$4 million).

**9. TRADE AND BILLS RECEIVABLES**

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

| | 30 June 2006 (Unaudited) | | 31 December 2005 (Audited) | |
|---|---|---|---|---|
| **HK$ million** | **Balance** | **Percentage** | Balance | Percentage |
| Current to 30 days | **326** | **34** | 286 | 34 |
| 31 to 60 days | **272** | **29** | 259 | 31 |
| 61 to 90 days | **252** | **27** | 239 | 29 |
| Over 90 days | **93** | **10** | 54 | 6 |
| | **943** | **100** | 838 | 100 |

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

**10. TRADE AND BILLS PAYABLES**

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

| | 30 June 2006 (Unaudited) | | 31 December 2005 (Audited) | |
|---|---|---|---|---|
| **HK$ million** | **Balance** | **Percentage** | Balance | Percentage |
| Current to 30 days | **298** | **30** | 290 | 29 |
| 31 to 60 days | **290** | **29** | 243 | 25 |
| 61 to 90 days | **193** | **19** | 167 | 17 |
| Over 90 days | **214** | **22** | 288 | 29 |
| | **995** | **100** | 988 | 100 |

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

## FINANCIAL REVIEW

**Highlights on Financial Results**

| | Six months ended 30 June | | |
|---|---|---|---|
| **HK$ million** | **2006 (Unaudited)** | 2005 (Unaudited) | % increase/ (decrease) |
| Revenue | **1,982** | 1,800 | 10.1% |
| Profit before tax | **350** | 172 | 103.5% |
| Tax | **(12)** | (10) | 20.0% |
| Minority interests | **(6)** | (20) | (70.0%) |
| Profit for the period attributable to equity holders of the Company | **332** | 142 | 133.8% |
| Basic earnings per share | **HK$0.484** | HK$0.335 | 44.5% |

*Discussion on Financial Results*

The Group reported a revenue of HK$1,982 million during the period under review, which represents an increase of 10.1% over the corresponding period. The increase was mainly due to our satisfactory performance in our key markets in the U.S., Europe and the Asian Pacific markets.

Profit before tax amounted to HK$350 million representing an increase of 103.5% as compared with the previous corresponding period, attributable mainly to the realized gain of HK$316 million arising from our disposal of 3,926,774,819 ordinary shares of Haier Electronics in January 2006.

Profit shared by minority interests declined as a result of the increase of the Group's shareholding interest in CCT Tech due to the general offers made last year and the full conversion of the convertible bonds during the first half of the year.

Profit for the period attributable to equity holders of the Company rose to HK$332 million to set a new record, up 133.8% as compared with the corresponding period, attributable mainly to the realised gain of HK$316 million derived from the disposal of our remaining interest in Haier Electronics. The net profit for the previous corresponding period also included a gain of HK$109 million arising from the disposal and deemed disposal of 19.6% interest in Haier Electronics in January 2005.

Basic earnings per share increased 44.5%. The percentage increase was lower than that of the net profit because of the increase in the share capital due to the conversion of the convertible bonds and exercise of share options during the year ended 30 June 2006.

**Analysis by Business Segment**

| | Turnover (excluding other income and gains) Six months ended 30 June | | | | |
|---|---|---|---|---|---|
| | 2006 | | 2005 | | |
| **HK$ million** | **Amount (Unaudited)** | **Relative %** | Amount (Unaudited) | Relative % | % increase/ (decrease) |
| Telecom and electronic products | **1,896** | **95.7%** | 1,730 | 96.1% | 9.6% |
| Baby products | **64** | **3.2%** | 66 | 3.7% | (3.0%) |
| E-commerce | **11** | **0.6%** | — | — | N/A |
| Investments | **1** | **—** | — | — | N/A |
| Corporate and others | **10** | **0.5%** | 4 | 0.2% | 150% |
| Total | **1,982** | **100.0%** | 1,800 | 100.0% | 10.1% |

| | Operating profit/(loss) (before finance costs and tax) | | |
|---|---|---|---|
| **HK$ million** | **2006 (Unaudited)** | 2005 (Unaudited) | % increase/ (decrease) |
| Telecom and electronic products | **99** | 110 | (10.0%) |
| Baby products | **8** | 2 | 300.0% |
| E-commerce | **—** | — | N/A |
| Investments | **316** | 112 | 182.1% |
| Corporate and others | **(60)** | (45) | 33.3% |
| Total | **363** | 179 | 102.8% |

During the period under review, telecom and electronic products business continued to be the principal business of the Group, accounting for approximately 96% (corresponding period: 96%) of the Group's total revenue. The baby product business accounted for approximately 3% (corresponding period: 4%) of the total turnover. In April 2006, we increased our interest in Tradeeasy to 66.26% and since then have consolidated its results. Tradeeasy is engaged in the provision of e-commerce services and contributed 0.6% of the total turnover in the first half of the year. The turnover of the corporate and others segment represents interest income.

The telecom and electronic products business contributed HK$99 million in operating profit in the first half of the year, down 10.0% from the corresponding period. The decrease was mainly due to the reduction in average selling prices driven by keen competition and increase in operating costs due to escalating raw material prices and rise of salaries and wages. Despite a difficult environment, the baby product business reported an operating profit of HK$8 million.

The investment business delivered excellent results during the first half of the year. Consequently, the decline in our manufacturing profit has been more than offset by our investment gains derived primarily from the disposal of our shares in Haier Electronics. The corporate segment represents primarily head office administrative expenses incurred that could not be allocated specifically to any other business segments.

**Analysis by geographical segment**

| | Turnover (excluding other income and gains) Six months ended 30 June | | | | |
|---|---|---|---|---|---|
| | 2006 | | 2005 | | |
| **HK$ million** | **Amount (Unaudited)** | **Relative %** | Amount (Unaudited) | Relative % | % increase/ (decrease) |
| U.S. | **1,105** | **55.8%** | 1,129 | 62.7% | (2.1%) |
| PRC, including Hong Kong | **490** | **24.7%** | 394 | 21.9% | 24.4% |
| European Union | **362** | **18.3%** | 92 | 5.1% | 293.5% |
| Others | **25** | **1.2%** | 185 | 10.3% | (86.5%) |
| Total | **1,982** | **100.0%** | 1,800 | 100.0% | 10.1% |

The U.S. remained the major market of the Group accounting for approximately 55.8% (corresponding period: 62.7%) of the total revenue for the period under review. The PRC (including Hong Kong) market ranked second contributed 24.7% (2005: 21.9%) of the total turnover, up 24.4%. The European Union market ranked third contributed 18.3% (2005: 5.1%) of the Group's turnover, representing an excellent growth rate of 293.5% from the corresponding period.

**Highlights on Financial Position and Major Balance Sheet Items**

| **HK$ million** | **30 June 2006 (Unaudited)** | 31 December 2005 (Audited) | %increase/ (decrease) |
|---|---|---|---|
| **Financial Position Highlights** | | | |
| Property, plant and equipment | **1,255** | 1,253 | 0.2% |
| Investment properties | **434** | 257 | 68.9% |
| Long term receivable | **304** | — | N/A |
| Available-for-sale financial assets (non-current assets) | **10** | 18 | (44.4%) |
| Held-to-maturity financial assets | **2** | 18 | (88.9%) |
| Financial assets at fair value through profit or loss (non-current assets) | **85** | 37 | 129.7% |
| Available-for-sale financial assets (current assets) | **—** | 551 | (100.0%) |
| Financial assets at fair value through profit or loss (current assets) | **49** | 24 | 104.2% |
| Cash and cash equivalents | **794** | 528 | 50.4% |
| Long term payable | **314** | — | N/A |
| Minority interests | **56** | 68 | (17.6%) |
| Equity attributable to shareholders of the Company | **2,702** | 2,642 | 2.3% |

*Discussion on Financial Position and Major Balance Sheet Items*

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

The investment properties rose to HK$434 million, attributable to the acquisition of two luxury properties in the southern side of the Hong Kong Island during the first half of the year.

The long term receivable of HK$304 million represents the consideration for the sale of 13.8 billion shares in CCT Tech and was paid to Deutsche Bank as the initial exchange amount to effectively secure the put options granted to Deutsche Bank. The amount is classified as long term receivable in the balance sheet as it will only be repaid to the Company upon unwind of the put options which will expire on 9 May, 2008. The long term receivable may or may not be payable to the Company depending on whether or not the put options are exercised. If the put options are exercised in full by the Deutsche Bank upon the expiry date of the put options, the receivable will be used to buy back the CCT Tech shares from Deutsche Bank and will be offset against the long term payable classified under the non-current liabilities.

The decrease in non-current available-for-sale financial assets was mainly due to the disposal of a club membership during the first half of the year.

The decrease in held-to-maturity financial assets was due to the unwind of a structural deposit with a bank during the first half of the year and the funds were re-invested into certain other yield enhancement deposits.

The non-current financial assets at fair value through profit or loss as at 30 June 2006 represent our investment in certain shares listed on the Stock Exchange. The amount as at 31 December 2005 represent a structural deposit which was unwound in the first half of the year and the funds therefrom were used for other investments.

Available-for-sale financial assets classified under the current assets as at 31 December 2005 in the amount of HK$551 million represent the fair value of the Group's interest in Haier Electronics. The entire Group's interest in Haier Electronics was disposed of during the first half of the year and hence the Group did not hold any such asset as at 30 June 2006.

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

Cash and cash equivalents increased by 50.4% mainly due to the receipt of the proceeds from disposal of the remaining interest in Haier Electronics in January 2006 offset by the dividend payment made and funds utilized in investment in properties and securities in the first half of the year.

The long term payable of HK$314 million represents the amount due to Deutsche Bank if the put options in relation to 13.8 million CCT Tech shares are exercised in full without early unwind on the expiration date of the put options. The long term payable is effectively secured by the long term receivable of HK$304 million.

The minority interests represent the share of interest by the minority shareholders in the net assets of CCT Tech. The amount decreased in the first half of the year because of the conversion of the convertible bonds which has increased the Group's interest in CCT Tech.

**Capital Structure and Gearing Ratio**

| | 30 June 2006 | | 31 December 2005 | |
|---|---|---|---|---|
| **HK$ million** | **Amount (Unaudited)** | **Relative %** | Amount (Audited) | Relative % |
| Bank loans | **431** | **13.5%** | 364 | 11.8% |
| Convertible bonds (liability component) | **48** | **1.5%** | 77 | 2.5% |
| Finance lease payable | **8** | **0.3%** | 10 | 0.3% |
| Total borrowings | **487** | **15.3%** | 451 | 14.6% |
| Equity | **2,702** | **84.7%** | 2,642 | 85.4% |
| Total capital employed | **3,189** | **100.0%** | 3,093 | 100.0% |

The Group's gearing ratio, calculated on the basis of the Group's total borrowings (including bank and other borrowings, convertible bonds and finance lease payables) of approximately HK$487 million over total capital employed (total shareholders' fund plus total borrowings) of approximately HK$3,189 million, was approximately 15.3% as at 30 June 2006 (31 December 2005: 14.6%). The change of gearing ratio was attributable to the combined effect as a result of the borrowing of new mortgage loans for the financing of the newly acquired luxury properties and the conversion of convertible bonds during the period under review. The gearing ratio maintained at low level which reflects a healthy financial position and the prudent financial policy of the Group. Taking into account the cash on hand, the Group in fact did not have any net borrowings.

Outstanding bank borrowings amounted to HK$431 million at 30 June 2006 (31 December 2005: HK$364 million). Approximately 30.6% 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 69.4% of the bank borrowings was of long-term nature, principally comprised of mortgage loans on properties used by the Group.

Acquisition of certain of the Group's assets was financed by way of finance leases and the total outstanding finance lease payables for the Group as at 30 June 2006 amounted to approximately HK$8 million (31 December 2005: HK$10 million).

As at 30 June 2006, the maturity profile of the bank and other borrowings and convertible bonds of the Group falling due within one year, in the second to the fifth year and in the sixth to the tenth year amounted to HK$138 million, HK$242 million and HK$107 million, respectively (31 December 2005: HK$158 million, HK$240 million and HK$53 million, respectively). There was no material effect of seasonality on the Group's borrowing requirements.

**Liquidity and Financial Resources**

Current ratio (a ratio of current assets over current liabilities) as at 30 June 2006 was 174% (31 December 2005: 180%). The strong liquid position was attributable to the effective financial management of the Group.

As at 30 June 2006, the Group's total cash balance amounted to HK$865 million (31 December 2005: HK$599 million), of which HK$71 million (31 December 2005: HK$71 million) was pledged for general banking facilities.

Almost all of the Group's cash was placed on deposits with licensed banks in Hong Kong. The strong cash balance plus the funds available from the bank facilities are expected to be sufficient to cover all cash requirements, including working capital and capital expenditure needs.

**Capital Expenditure and Commitments**

During the period under review, the Group incurred capital expenditure amounted to approximately HK$255 million, which was mainly related to the acquisition of investment properties in the amount of HK$177 million and additions to fixed assets in the amount of HK$78 million for the core manufacturing businesses of the Group.

The Group's capital commitments amounted to approximately HK$8 million (31 December 2005: HK$7 million) as at 30 June 2006, which was mainly related to capital expenditure for the manufacturing business of the Group and all of which will be financed by internal resources.

**Treasury Management**

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

During the period under review, the Group's receipts were mainly denominated in US dollars, with some in Hong Kong dollars and the 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. As at 30 June 2006, the Group's borrowings were mainly denominated in Hong Kong dollars and US dollars. As at 30 June 2006, other than the convertible bonds in an aggregate principal amount of approximately HK$59 million which is interest-free, the Group's borrowings were principally made on a floating rate basis.

The objective of the Group's treasury policies is to minimise risks and exposures due to the fluctuations in foreign currency exchange rates and interest rates. The Group does not have any significant interest rate risk, as both the borrowings of the Group and the interest rates currently remain at low levels. In terms of foreign exchange exposures, the Group is principally exposed to two major currencies, namely the US dollar in terms of receipts and the Renminbi in terms of the production costs (including mainly wages and overhead) in China. For US dollar exposure, since the Hong Kong dollar remains pegged to the US dollar, the exchange fluctuation is not expected to be significant. Above all, as most of the Group's purchases are also made in US dollars, which are to be paid out of our sales receipts in US dollars, the management considers that the foreign exchange exposure risk for the US dollar is not material.

For Renminbi exposure, the Group entered into forward exchange contracts with banks in China to cover a significant part of our Renminbi expenses for the period up to mid 2006. Our exposure to any Renminbi fluctuation has, therefore, been partly hedged against for the period up to mid 2006. Our future production costs will no doubt be increased by the recent 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. We have invested some of our surplus funds on investments that we believe will benefit from appreciation of Renminbi. We hope that the returns and gains that we may derive from these investment will hedge partly against the potential appreciation of the Renminbi.

**Acquisition and Disposal of Material Subsidiaries and Associates**

During the period under review, we sold 13,800,000,000 ordinary shares in CCT Tech to Deutsche Bank and three other independent institutional investors for a total consideration of approximately HK$303.6 million. Put options have been granted to Deustche Bank which give Deutsche Bank the right to sell back the shares to us on the expiration date of the put options or upon ocurrance of certain events. The proceeds for the sale of CCT Tech shares were paid to Deutsche Bank to effectively secure the put options. After the disposal, the Group's shareholding interests in CCT Tech is approximately 74.63%. Deutsche Bank and the three independent institutional investors together held in total approximately 21.44% of the total issued share capital of CCT Tech.

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

**Significant Investment**

During the period under review, The Group further increased its property investment by acquiring two luxury residential properties for a total consideration of HK$177 million. In addition, the Group invested approximately HK$85 million in shares listed on the Stock Exchange. Save as disclosed, there was no significant investment unrelated to the core manufacturing businesses of the Group during the period under review.

**Pledge of Assets**

As at 30 June 2006, certain of the Group's assets with a net book value of HK$974 million (31 December 2005: HK$821 million) and time deposits of HK$71 million (31 December 2005: HK$71 million) were pledged to secure the general banking facilities granted to the Group.

**Contingent Liabilities**

As at 30 June 2006, the Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$1 million (31 December 2005: HK$1 million). Save as aforesaid, the Group did not have any other significant contingent liabilities as at 30 June 2006.

**Employees and Remuneration Policy**

The total number of employees of the Group as at 30 June 2006 was 21,659 (31 December 2005: 17,697). Remuneration packages are normally reviewed on an annual basis. Apart from salary payments, other staff benefits include provident fund contributions, medical insurance coverage and performance related bonuses. Share options may also be granted to eligible employees and persons of the Group. At 30 June 2006, there were no outstanding share options issued by the Company.

## 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 six months ended 30 June 2006.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

**Corporate Governance Practices**

In the opinion of the Board, the Company has complied with the code provisions under the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Listing Rules throughout the period for the six months ended 30 June 2006, except for the following deviations from the code provisions:

(1) A.2.1: the roles of chairman and chief executive officer should be separate;

(2) A.4.1: non-executive directors should be appointed for a specific term;

(3) A.4.2: all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director should be subject to retirement by rotation at least once every three years; and

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

The value of the connected transaction represents an insignificant percentage of the Group's net assets value and the representative of the independent financial adviser attended the general meeting for which the connected transaction was approved. No questions was raised by the independent shareholders during such general meeting.

Detailed information of such deviations and their respective considered reasons as well as other information on the corporate governance practices of the Company have been disclosed in the corporate governance report contained in the 2005 Annual Report of the Company issued in April 2006 and will be disclosed in the 2006 Interim Report of the Company, which will be despatched to the shareholders of the Company on or before 30 September 2006.

**Audit Committee**

The Company has established an audit committee (the "Audit Committee") with specific written terms of reference formulated in accordance with the requirements of the Listing Rules. The Audit Committee consists of three members comprising the three independent non-executive directors of the Company ("INED(s)"), namely Mr. Tam King Ching, Kenny, Mr. Lau Ho Man, Edward and Mr. Samuel Olenick, all of whom are qualified accountants and have extensive experience in accounting and financial matters. The Audit Committee is chaired by an INED who is subject to the rotation each year.

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2006.

**Remuneration Committee**

The Company has established a remuneration committee (the "Remuneration Committee") with specific written terms of reference in line with the code provisions under the CG Code. 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 of the Company, namely Mr. Mak Shiu Tong, Clement and Mr. Tam Ngai Hung, Terry. The Remuneration Committee is chaired by an INED who is subject to the rotation each year.

**Model Code for Securities Transactions by the Directors of the Company**

The Company has adopted its code of conduct regarding the securities transactions by the directors of the Company 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") contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors of the Company, they confirmed that they have complied with the required standard set out in the Model Code adopted by the Company throughout the period for the six months ended 30 June 2006.

**Independent Non-executive Directors of the Company**

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of a sufficient number of the INEDs and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise throughout the period for the six months ended 30 June 2006. The Board comprises the three INEDs, all of whom have accounting and financial expertise and bring strong independent judgement, knowledge and experience to the Board.

## PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND 2006 INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.cct.com.hk) and the Stock Exchange (www.hkex.com.hk). The 2006 Interim Report of the Company will be despatched to the shareholders of the Company in the manner as required by the Listing Rules and made available on the websites of the Company and the Stock Exchange in due course.

## BOARD OF DIRECTORS

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

By Order of the Board
**Mak Shiu Tong, Clement**
*Chairman*

Hong Kong, 20 September 2006