NOTES TO FINANCIAL STATEMENTS

31 December 2003

1. Corporate Information

During the year, the Group was engaged in the business of manufacture and sale of telecom products and accessories.

In June 2003, the Group acquired the entire 100% interest in Empire Success Holdings Limited ("ESH") and its subsidiaries (collectively referred to as the "ESH Group") from CCT Telecom Holdings Limited ("CCT Telecom"), details of which are set out in notes 33(b) and 38 to the financial statements. The principal activities of ESH Group are the manufacture and sale of telecom products and accessories.

In the opinion of the directors, the ultimate holding company of the Company is CCT Telecom, which is incorporated in the Cayman Islands with limited liability and is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to the restructuring agreements entered into between Wireless InterNetworks Limited ("WIN"), WIN's then receivers, Standard Chartered Bank, CCT Telecom and Dongguan Defa Investment Limited, an independent third party, on 10 August 2001 (the "Group Restructuring"), a substantial portion of the defaulted indebtedness owed by WIN and its then subsidiaries as of that date was fully discharged. In addition, all material loss-making WIN group subsidiaries were carved out from WIN. The Group Restructuring was completed on 17 May 2002. The name of WIN was subsequently changed to CCT Technology Holdings Limited ("CCT Technology") on 22 May 2002.

On 5 July 2002, CCT Technology announced its proposal for a group reorganisation (the "Group Reorganisation"), which involved the introduction of the Company. As a result of the Group Reorganisation, CCT Technology became a wholly-owned subsidiary of the Company and the then shareholders of CCT Technology then became the shareholders of the Company with the shares exchanged on a one-to-one basis, each with the same respective interest as they were previously interested in CCT Technology (further details of the share exchange are set out in note 30 to the financial statements).

The listing of the shares of CCT Technology on the Stock Exchange was withdrawn on 6 November 2002. The shares of the Company were listed on the Stock Exchange by way of introduction and the dealing of which commenced on 7 November 2002.

Further details of the Group Restructuring and the Group Reorganisation are set out in WIN's circular and CCT Technology's circular dated 31 March 2002 and 20 September 2002, respectively.

2. Impact of New and Revised Statements of Standard Accounting Practice ("SSAP")

The following revised SSAP is effective for the first time for the current year's financial statements and has had a significant impact thereon:

- SSAP 12 (Revised): "Income taxes"

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

2. Impact of New and Revised Statements of Standard Accounting Practice ("SSAP") (Cont'd)

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and

- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 11 and 29 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes arising from them are included in the accounting policy for deferred tax in note 3 and in note 29 to the financial statements.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

3. Summary of Significant Accounting Policies (Cont'd)

Basis of consolidation (Cont'd)

The Group Reorganisation, which was completed on 4 November 2002, involved companies under common control. The consolidated financial statements of the Group for the period ended 31 December 2002 have been prepared using the merger basis of accounting in accordance with SSAP 27 "Accounting for group reconstructions". On this basis, the consolidated financial statements of the Group have been prepared as if the Company had been the holding company of its subsidiaries acquired since their respective dates of incorporation/registration, rather than from the completion date of the Group Reorganisation. Accordingly, the consolidated results and cash flows of the Group for the period ended 31 December 2002 included the results and cash flows of the Company and its subsidiaries with effect from 1 October 2001 or since their respective dates of incorporation/registration, where this is a shorter period. In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results, cashflows and state of affairs of the Group as a whole.

Subsidiaries

A subsidiary is a company 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 profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

3. Summary of Significant Accounting Policies (Cont'd)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an 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 an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 the fixed assets, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land	2% — 6%
Buildings	5% — 6%
Plant and machinery	10% — 20%
Tools, moulds and equipment	10% — 20%
Furniture and office equipment	10% — 20%
Motor vehicles	15% — 30%

Freehold land is not depreciated.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

3. Summary of Significant Accounting Policies (Cont'd)

Intangible assets

Deferred development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. 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.

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.

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.

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

3. Summary of Significant Accounting Policies (Cont'd)

Income tax (Cont'd)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets 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 assets 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 and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

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.

Leased assets

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 fixed assets 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 profit and loss account 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 profit and loss account 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 profit and loss account on the straight-line basis over the lease terms.

3. Summary of Significant Accounting Policies (Cont'd)

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.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of the share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the 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. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding shares.

3. Summary of Significant Accounting Policies (Cont'd)

Employee benefits (Cont'd)

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for its employees. Contributions are made based on a percentage of the employees' relevant income and are charged to the profit and loss account 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 accumulated in the previous retirement scheme before 1 December 2000, 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 were eligible to participate in this scheme. This scheme operates in a similar way to the MPF Scheme, except that the contributions are made based on a percentage of the employees' basic salary and when an employee leaves this scheme before his/her interest in the Group's employer contributions has vested fully, the ongoing contributions payable by the Group are reduced by the relevant amount of the forfeited employer contributions.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated to Hong Kong dollars at the weighted average exchange rates for the year and their balance sheets are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to 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 to 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 sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3. Summary of Significant Accounting Policies (Cont'd)

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; and

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the capital and reserves 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

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

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 they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

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

(b) the corporate segment includes 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 (Cont'd)

(a) Business segments

The following table presents revenue and profit/(loss) for the Group's business segments.

Group

	Telecom products		Corporate		Total	
	Year ended 31 December 2003 HK$'000	Period from 1 October 2001 to 31 December 2002 HK$'000	Year ended 31 December 2003 HK$'000	Period from 1 October 2001 to 31 December 2002 HK$'000	Year ended 31 December 2003 HK$'000	Period from 1 October 2001 to 31 December 2002 HK$'000
Segment revenue:						
Sales to external customers	1,924,988	106,020	—	—	1,924,988	106,020
Other revenue	12,161	—	—	2,760	12,161	2,760
Total revenue	1,937,149	106,020	—	2,760	1,937,149	108,780
Segment results	119,073	6,991	(8,963)	(24,042)	110,110	(17,051)
Interest income					1,270	365
Net gain attributable to the Group Restructuring					—	119,472
Finance costs					(29,020)	(3,093)
Profit before tax					82,360	99,693
Tax					(9,666)	(1,000)
Profit before minority interests					72,694	98,693
Minority interests					48	(535)
Net profit from ordinary activities attributable to shareholders					72,742	98,158

No analysis of the assets, liabilities and other segment information regarding the Group's business segments for the year ended 31 December 2003 and the period ended 31 December 2002 has been presented as over 90% of the Group's revenue is derived from the telecom products segment.

4. Segment Information (Cont'd)

(b) Geographical segments

The following table presents revenue information for the Group's geographical segments. Over 90% of the Group's assets are located in the People's Republic of China ("PRC") including Hong Kong. Accordingly, no analysis of the assets and capital expenditures by geographical segments is presented.

Group	United States of America		PRC, including Hong Kong		European Union		Others		Consolidated	
	Year ended 31 December 2003 HK$'000	Period from 1 October 2001 to 31 December 2002 HK$'000	Year ended 31 December 2003 HK$'000	Period from 1 October 2001 to 31 December 2002 HK$'000	Year ended 31 December 2003 HK$'000	Period from 1 October 2001 to 31 December 2002 HK$'000	Year ended 31 December 2003 HK$'000	Period from 1 October 2001 to 31 December 2002 HK$'000	Year ended 31 December 2003 HK$'000	Period from 1 October 2001 to 31 December 2002 HK$'000
Segment revenue:										
Sales to external customers	1,244,344	—	342,617	106,020	64,996	—	273,031	—	1,924,988	106,020
Other revenue	—	—	12,161	2,760	—	—	—	—	12,161	2,760
Total revenue	1,244,344	—	354,778	108,780	64,996	—	273,031	—	1,937,149	108,780

5. Turnover

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

Revenue from the following activities has been included in turnover:

	Year ended 31 December 2003 HK$'000	Period from 1 October 2001 to 31 December 2002 HK$'000
Manufacture and sale of telecom products and accessories	1,924,988	106,020
Interest income	1,270	365
	1,926,258	106,385

6. Profit/(Loss) from Operating Activities

The Group's profit/(loss) from operating activities is arrived at after charging:

	Notes	Year ended 31 December 2003 HK$'000	Period from 1 October 2001 to 31 December 2002 HK$'000
Depreciation	15	42,749	3,808
Less: Amount capitalised in deferred development costs		(1,728)	—
		41,021	3,808
Minimum lease payments under operating leases in respect of land and buildings		6,124	1,465
Research and development costs			
Deferred expenditure amortised*	16	20,103	99
Current year/period expenditure	16	18,750	172
Amortisation of goodwill**	17	2,290	1,100
Staff costs (excluding directors' remuneration — note 9)***		128,976	11,310
Pension scheme contributions		1,866	218
Less: Amount capitalised in deferred development costs		(11,053)	—
		119,789	11,528
Auditors' remuneration		2,500	650
Bad and doubtful debt provisions on trade receivables		369	380
Loss on disposal of fixed assets, net		—	116
Write off of fixed assets		17,893	1,007
Write off of deferred development costs**	16	7,270	—
Provision for slow-moving and obsolete stocks*		7,684	—
and after crediting:			
Net rental income		3,000	—
Gain on disposal of fixed assets, net		8	—

* The amortisation of deferred development costs and provision for slow-moving and obsolete stocks are included in "Cost of sales" on the face of the consolidated profit and loss account.

** The amortisation of goodwill and write off of deferred development costs for the year/period are included in "Other operating expenses" on the face of the consolidated profit and loss account.

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

7. Net Gain Attributable to the Group Restructuring

	Group	
	Year ended 31 December 2003 HK$'000	Period from 1 October 2001 to 31 December 2002 HK$'000
Waiver of secured and unsecured financial obligations by banks, noteholders and creditors	—	46,842
Reversal of reserves upon the Group Restructuring	—	82,526
	—	129,368
Less: Expenses incurred in connection with the Group Restructuring	—	(9,896)
	—	119,472

8. Finance Costs

	Group	
	Year ended 31 December 2003 HK$'000	Period from 1 October 2001 to 31 December 2002 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	1,059	401
Interest on convertible notes	27,907	482
Interest on finance leases	54	31
Amortisation of premium payable upon the final redemption of the convertible notes	—	2,179
	29,020	3,093

9. Directors' Remuneration

Directors' remuneration for the year/period, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	Year ended 31 December 2003 HK$'000	Period from 1 October 2001 to 31 December 2002 HK$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	300	150
	300	150
Executive directors' other emoluments:		
Salaries, allowances and benefits in kind	5,629	—
Pension scheme contributions	309	—
	5,938	—
	6,238	150

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	Year ended 31 December 2003	Period from 1 October 2001 to 31 December 2002
Nil — HK$1,000,000	4	6
HK$1,000,001 — HK$1,500,000	1	—
HK$1,500,001 — HK$2,000,000	1	—
HK$2,000,001 — HK$2,500,000	1	—

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

During the year, 366,000,000 share options were granted to the directors in respect of their services to the Group, for the details of which are set out in note 31 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

10. Five Highest Paid Employees

The five highest paid employees during the year included three (period ended 31 December 2002: Nil) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2002: five) non-director, highest paid employees for the year are as follows:

	Group	
	Year ended 31 December 2003 HK$'000	Period from 1 October 2001 to 31 December 2002 HK$'000
Salaries, allowances and benefits in kind	1,223	1,336
Performance related bonuses	216	—
Pension scheme contributions	79	92
	1,518	1,428

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

	Number of employees	
	Year ended 31 December 2003	Period from 1 October 2001 to 31 December 2002
Nil — HK$1,000,000	2	5

During the year, 78,000,000 share options were granted to a non-director, highest paid employee in respect of his service to the Group, further details of which are included in the disclosures in note 31 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

11. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (period ended 31 December 2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. 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.

11. Tax (Cont'd)

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

	Year ended 31 December 2003 HK$'000	Period from 1 October 2001 to 31 December 2002 HK$'000
Group:		
Current — Hong Kong		
Charge for the year	8,207	1,000
Overprovision in prior years	(860)	—
Current — Elsewhere	2,130	—
Deferred — note 29	189	—
	9,666	1,000
Total tax charge for the year/period	9,666	1,000

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

Group — 2003

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	8,526		73,834		82,360	
Tax at the statutory or applicable tax rate	1,492	17.5	17,720	24.0	19,212	23.3
Lower tax rate for specific provinces or local authority	—	—	463	0.6	463	0.6
Effect on opening deferred tax of increase in rates	92	1.1	—	—	92	0.1
Tax exemption	—	—	(2,104)	(2.8)	(2,104)	(2.6)
Income not subject to tax	(154)	(1.8)	(16,845)	(22.8)	(16,999)	(20.6)
Expenses not deductible for tax	6,107	71.6	2,895	3.9	9,002	10.9
Tax charge at the Group's effective rate	7,537	88.4	2,129	2.9	9,666	11.7

11. Tax (Cont'd)

Group — 2002

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	91,973		7,720		99,693	
Tax at the statutory or applicable tax rate	14,716	16.0	1,853	24.0	16,569	16.6
Income not subject to tax	(19,557)	(21.3)	(1,853)	(24.0)	(21,410)	(21.5)
Expenses not deductible for tax	5,841	6.4	—	—	5,841	5.9
Tax charge at the Group's effective rate	1,000	1.1	—	—	1,000	1.0

12. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was approximately HK$867,000 (period ended 31 December 2002: net loss of HK$11,093,000) (note 32(b)).

13. Dividend

No dividends have been paid or declared by the Company for the year ended 31 December 2003 (period ended 31 December 2002: Nil).

14. Earnings Per Share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year ended 31 December 2003 of HK$72,742,000 (period ended 31 December 2002: HK$98,158,000), and the weighted average number of 12,066,769,981 ordinary shares (period ended 31 December 2002: 5,617,923,213) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK$100,676,000 (period ended 31 December 2002: HK$98,564,000), after adjustment for interest saved upon deemed exercise of all convertible notes during the year. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is 46,453,485,820 (period ended 31 December 2002: 8,592,814,043) which includes the weighted average number of 12,066,769,981 (period ended 31 December 2002: 5,617,923,213) shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 34,263,463,796 (period ended 31 December 2002: 2,974,890,830) ordinary shares assumed to have been issued on the deemed exercise of all convertible notes during the year; and the weighted average of 123,252,043 (period ended 31 December 2002: Nil) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

15. Fixed Assets

Group	Freehold land and buildings outside Hong Kong HK$'000	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Tools, moulds and equipment HK$'000	Furniture and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:							
At 1 January 2003	14,754	—	16,356	4,861	5,339	2,750	44,060
Additions	—	2,153	9,683	14,572	3,229	1,957	31,594
Acquisition of subsidiaries	—	547,768	187,013	84,056	62,912	12,049	893,798
Disposals	(14,754)	—	—	(71)	(110)	(1,696)	(16,631)
Write off	—	(18,835)	—	—	—	—	(18,835)
At 31 December 2003	—	531,086	213,052	103,418	71,370	15,060	933,986
Accumulated depreciation and impairment:							
At 1 January 2003	9,985	—	11,128	2,773	2,404	1,636	27,926
Depreciation provided during the year	—	14,440	14,034	8,243	4,681	1,351	42,749
Acquisition of subsidiaries	—	36,660	77,973	39,527	32,703	7,195	194,058
Disposals	(9,985)	—	—	(66)	(69)	(813)	(10,933)
Write off	—	(942)	—	—	—	—	(942)
At 31 December 2003	—	50,158	103,135	50,477	39,719	9,369	252,858
Net book value:							
At 31 December 2003	—	480,928	109,917	52,941	31,651	5,691	681,128
At 31 December 2002	4,769	—	5,228	2,088	2,935	1,114	16,134

The net book value of the fixed assets of the Group held under finance leases included in the total amounts of furniture and office equipment and motor vehicles as at 31 December 2003, amounted to HK$132,000 (2002: Nil) and HK$1,503,000 (2002: Nil), respectively.

The Group's leasehold land and buildings included above are situated in the PRC and are held under medium term leases.

16. Intangible Assets

Group

	Deferred development costs HK$'000
Cost:	
At 1 January 2003	762
Acquisition of subsidiaries	90,330
Additions	18,750
Write off	(25,157)
At 31 December 2003	84,685
Accumulated amortisation:	
At 1 January 2003	266
Acquisition of subsidiaries	59,278
Amortisation provided during the year	20,103
Write back	(17,887)
At 31 December 2003	61,760
Net book value:	
At 31 December 2003	22,925
At 31 December 2002	496

17. Goodwill

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

Group

	HK$'000
Cost:	
At 1 January 2003	33,397
Acquisition of subsidiaries (note 33(b))	25,059
At 31 December 2003	58,456
Accumulated amortisation:	
At 1 January 2003	1,100
Amortisation provided during the year	2,290
At 31 December 2003	3,390
Net book value:	
At 31 December 2003	55,066
At 31 December 2002	32,297

18. Interests in Subsidiaries

	Company	
	2003 HK$'000	2002 HK$'000
Unlisted shares, at cost	308,294	52,635
Due from subsidiaries	594,721	28,900
Due to subsidiaries	(6,493)	(443)
	896,522	81,092
Provision for impairment	(10,000)	(10,000)
	886,522	71,092

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

18. Interests in Subsidiaries (Cont'd)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Empire Success Holdings Limited	British Virgin Islands	US$1 Ordinary	—	100	Investment holding
CCT Marketing Limited	British Virgin Islands/Hong Kong	US$1 Ordinary	—	100	Trading of telecom products
CCT Telecom (HK) Limited	Hong Kong	HK$2,600,000 Ordinary	—	100	Sourcing of telecom products
Electronic Sales Limited	Hong Kong	HK$5,948,000 Ordinary	—	100	Sale of telecom products
東莞易訊電子製品有限公司	People's Republic of China	HK$60,000,000 Registered *	—	100	Manufacture of telecom products
Huiyang CCT Telecommunications Products Co., Ltd.	People's Republic of China	HK$80,000,000 Registered *	—	100	Manufacture of telecom products

* Registered as a wholly foreign-owned enterprises under the PRC laws.

During the year, the Group acquired ESH Group, including Huiyang CCT Telecommunications Products Co., Ltd., CCT Marketing Limited and CCT Telecom (HK) Limited. Further details of the acquisition are included in note 33(b) to the financial statements.

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.

S. Meggatel Sdn. Bhd., a 70%-owned subsidiary of the Group in Malaysia, had incomplete books and records. However, the net assets and results of S. Meggatel Sdn. Bhd. as at 31 December 2003 and for the year then ended are not material to the current year's financial statements of the Group.

19. Other Assets

	Group 2003 HK$'000	Group 2002 HK$'000
Club memberships, at cost	350	—

20. Inventories

	Group 2003 HK$'000	Group 2002 HK$'000
Raw materials	33,121	193
Work in progress	43,846	98
Finished goods	78,161	1,558
	155,128	1,849

The carrying amount of inventories carried at net realisable value included in the above balance was nil (2002: Nil) as at the balance sheet date.

21. Trade and Bills Receivables

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

	Group			
	2003		2002	
	HK$'000	Percentage	HK$'000	Percentage
Current to 30 days	251,586	42	28,259	95
31 to 60 days	184,463	31	1,464	5
61 to 90 days	154,085	26	99	—
Over 90 days	3,789	1	45	—
	593,923	100	29,867	100

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

22. Prepayments, Deposits and Other Receivables

	Group		Company	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Prepayments	498	804	130	740
Deposits and other receivables	7,004	986	—	—
	7,502	1,790	130	740

23. Cash and Cash Equivalents and Pledged Time Deposits

	Group		Company	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Cash and bank balances	316,620	27,718	1,498	507
Time deposits	233,196	40,258	9,639	35,215
	549,816	67,976	11,137	35,722
Less: Time deposits pledged for bank borrowings	(100,161)	(5,043)	—	—
	449,655	62,933	11,137	35,722

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$11,561,000 (2002: HK$159,000). 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.

24. Trade and Bills Payables

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

Group	2003		2002	
	HK$'000	Percentage	HK$'000	Percentage
Current to 30 days	209,485	24	18,995	74
31 to 60 days	230,149	27	4,118	16
61 to 90 days	174,772	20	2,386	9
Over 90 days	244,850	29	183	1
	859,256	100	25,682	100

Included in the above balance is a trade payable of approximately HK$95,487,000 (2002: HK$5,794,000) to Neptune Holding Limited ("Neptune"), a wholly-owned subsidiary of CCT Telecom, which is repayable within 120 days.

25. Other Payables and Accruals

	Group		Company	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Other payables	30,218	326	—	—
Accruals	82,833	6,688	1,380	1,012
	113,051	7,014	1,380	1,012

26. Interest-bearing Bank and Other Borrowings

		Group	
	Note	2003 HK$'000	2002 HK$'000
Current portion of bank loans, secured		111,181	2,578
Current portion of finance lease payables	27	499	—
		111,680	2,578

27. Finance Lease Payables

The Group leases certain of its motor vehicles and furniture and office equipment for business use. These leases are classified as financial leases and have remaining lease terms ranging from one to two years.

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

Group

	Minimum lease payments 2003 HK$'000	Minimum lease payments 2002 HK$'000	Present value of minimum lease payments 2003 HK$'000	Present value of minimum lease payments 2002 HK$'000
Amounts payable:				
Within one year	548	—	499	—
In the second year	378	—	336	—
In the third to fifth years, inclusive	495	—	439	—
Total minimum finance lease payments	1,421	—	1,274	—
Future finance charges	(147)	—		
Total net finance lease payables	1,274	—		
Portion classified as current liabilities — note 26	(499)	—		
Non-current portion	775	—		

28. Convertible Notes

	Group		Company	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
2004 Convertible notes — note (a)	8,000	20,000	8,000	20,000
2005 Convertible notes — note (b)	45,000	45,000	45,000	45,000
2005 Convertible notes — note (c)	10,000	—	10,000	—
2008 Convertible notes — note (d)	768,000	—	768,000	—
	831,000	65,000	831,000	65,000
Portion classified as current liabilities	(8,000)	—	(8,000)	—
Non-current portion	823,000	65,000	823,000	65,000

Notes:

(a) On 19 July 2002, CCT Technology issued convertible notes with aggregate principal amounts of HK$20 million through a placing agent to an independent third party and which were subsequently replaced by the convertible notes issued by the Company on 4 November 2002 pursuant to the Group Reorganisation. The convertible notes provide the holder option right to convert the principal amount into ordinary shares of HK$0.01 each of the Company on any business day being five business days prior to the maturity of the convertible notes at a conversion price of HK$0.01 per share.

The principal amounts of the convertible notes bear interest at 5% per annum and the convertible notes will mature on the second anniversary of the date of their issue.

On 24 June 2003, the principal amounts of HK$12 million were converted into 1,200,000,000 shares of the Company of HK$0.01 each at conversion price of HK$0.01 per share.

(b) On 17 May 2002, CCT Technology issued convertible notes with aggregate principal amounts of HK$45 million to CCT Emporium International Limited, an indirect wholly-owned subsidiary of CCT Telecom which were subsequently replaced by the convertible notes issued by the Company on 4 November 2002 pursuant to the Group Reorganisation. The convertible notes were issued as part of the consideration for the acquisition of a 100% interest in ESL from an indirect wholly-owned subsidiary of CCT Telecom, details of which are set out in note 33(b) to the financial statements. The convertible notes provide the holder option right to convert the principal amount into ordinary shares of HK$0.01 each of the Company on any business day being five business days prior to the maturity of the convertible notes at a conversion price of HK$0.01 per share.

The principal amounts of the convertible notes are interest-free and will mature on the third anniversary of the date of their issue.

28. Convertible Notes (Cont'd)

Notes: (Cont'd)

(c) On 14 May 2003, the Company issued convertible notes with aggregate principal amounts of HK$21 million through a placing agent to several independent parties. The convertible notes provide the holders option right to convert the principal amount into the Company's ordinary shares of HK$0.01 each on any business day being five business days prior to the maturity of the convertible notes at a conversion price of HK$0.01 per share.

The principal amounts of the convertible notes bear interest at 2% per annum and the convertible notes will mature on the second anniversary of the date of their issue.

In June 2003, the principal amounts of HK$11 million have been converted into 1,100,000,000 shares of the Company of HK$0.01 each at a conversion price of HK$0.01 per share.

(d) On 30 June 2003, the Company issued convertible notes with aggregate principal amounts of HK$768 million to an indirect wholly-owned subsidiary of CCT Telecom as the consideration for the acquisition of the entire interest in ESH from an indirect wholly-owned subsidiary of CCT Telecom, details of which are set out in note 33(b) to the financial statements. The convertible notes provide the holder option right to convert the principal amount into the Company's ordinary shares of HK$0.01 each on any business day being five business days prior to the maturity of the convertible notes at a conversion price of HK$0.014 per share. The convertible notes bear interest at prime or best lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollar loans plus 2% per annum and will mature on the fifth anniversary of the date of their issue.

29. Deferred Tax

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

Deferred tax liabilities

Group	2003 Accelerated tax depreciation HK$'000
At 1 January 2003	
As previously reported	985
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	—
As restated	985
Deferred tax credited to the profit and loss account during the year	(1,161)
Acquisition of subsidiaries — note 33(b)	3,107
Gross deferred tax liabilities at 31 December 2003	2,931

29. Deferred Tax (Cont'd)

Deferred tax assets

Group	2003 Losses available for offset against future taxable profit HK$'000
At 1 January 2003	
As previously reported	—
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	—
As restated	—
Deferred tax charged to the profit and loss account during the year	(1,350)
Acquisition of subsidiaries — note 33(b)	10,161
Gross deferred tax assets at 31 December 2003	8,811
Net deferred tax assets at 31 December 2003	5,880

Deferred tax liabilities

Group	2002 Accelerated tax depreciation HK$'000
At 1 October 2001	
As previously reported	—
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	—
As restated	—
Deferred tax charged to the profit and loss account	—
Acquisition of subsidiaries — note 33(b)	985
Gross deferred tax liabilities at 31 December 2002	985

29. Deferred Tax (Cont'd)

Deferred tax assets (Cont'd)

Group	2002 Losses available for offset against future taxable profit HK$'000
At 1 October 2001	
As previously reported	—
Prior year adjustment:	
SSAP 12 - restatement of deferred tax	—
As restated	—
Deferred tax credited to the profit and loss account	—
Gross deferred tax assets at 31 December 2002	—
Net deferred tax liabilities at 31 December 2002	985

The Group has tax losses arising in Hong Kong of HK$23,966,000 (2002: Nil) 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 2003, there is no significant unrecognised deferred tax liability (2002: 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.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in a decrease in the Group's deferred tax liabilities as at 31 December 2003 and 2002 by HK$1,161,000 and Nil, respectively, and a decrease in the Group's deferred tax assets as at 31 December 2003 and 2002 by HK$1,350,000 and Nil, respectively. As a consequence, the consolidated net profit attributable to shareholders for the year ended 31 December 2003 and period ended 31 December 2002 have been decreased by HK$189,000 and Nil, respectively.

30. Share Capital

Shares	2003 HK$'000	2002 HK$'000
Authorised:		
120,000,000,000 (2002: 30,000,000,000) ordinary shares of HK$0.01 each	1,200,000	300,000
Issued and fully paid:		
13,138,422,562 (2002: 10,838,403,562) ordinary shares of HK$0.01 each	131,384	108,384

Pursuant to an ordinary resolution passed on 27 June 2003, the authorised shared capital of the Company was increased from HK$300,000,000 to HK$1,200,000,000 by the creation of 90,000,000,000 additional shares of HK$0.01 each, ranking pari passu in all respects with the existing issued shares of the Company.

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

	Notes	Number of ordinary shares of HK$0.02 each	Number of ordinary shares of HK$0.01 each	Issued capital HK$'000
At 1 October 2001		6,384,035,621	—	127,681
Capital reduction and share consolidation	(a)(i) & (ii)	(6,384,035,621)	638,403,562	(121,297)
Issue of shares to settle unsecured indebtedness	(a)(iii)	—	100,000,000	1,000
Issue of shares	(a)(iv)	—	4,000,000,000	40,000
Issue of shares in respect of acquisition of ESL	(a)(v)	—	2,500,000,000	25,000
Issue of shares to noteholders	(a)(vi)	—	1,820,000,000	18,200
Placement of shares	(b)	—	1,780,000,000	17,800
Cancellation of shares	(c)	—	(10,838,403,562)	(108,384)
Issue of shares in exchange for shares in CCT Technology	(c)	—	10,838,403,562	108,384
At 31 December 2002 and 1 January 2003		—	10,838,403,562	108,384
Exercise of share options	(d)	—	19,000	—
Conversion on convertible notes	(e)	—	2,300,000,000	23,000
At 31 December 2003		—	13,138,422,562	131,384

30. Share Capital (Cont'd)

Notes:

(a) The Group Restructuring, which was completed on 17 May 2002, involved the following steps and had effects on CCT Technology's and the Company's share capital account:

(i) the nominal value of each of the then issued share of CCT Technology were reduced from HK$0.02 to HK$0.001 and the credit balance of HK$121,297,000 arising from the capital reduction was applied to write off part of the brought forward accumulated losses of CCT Technology. Each of the then unissued shares of the CCT Technology share capital was sub-divided into 20 shares of HK$0.001 each;

(ii) every 10 shares of HK$0.001 each, following the capital reduction mentioned in (i), were consolidated into one share of HK$0.01 each;

(iii) pursuant to an asset transfer agreement dated 21 September 2001 entered into between CCT Technology and S. Megga Telecom, 100,000,000 new shares were issued to S. Megga Telecom as part of the consideration for the hive-down of certain assets of S. Megga Telecom to another subsidiary of CCT Technology;

(iv) pursuant to the terms of the Restructuring Agreements, CCT Telecom and Dongguan Defa each subscribed for 2,000,000,000 new shares of HK$0.01 each for an aggregate consideration of HK$40 million in cash;

(v) CCT Technology issued 2,500,000,000 new shares to CCT telecom at HK$0.01 each as part of the consideration for the transfer of the entire share capital of ESL and its subsidiaries from an indirect wholly-owned subsidiary of CCT Telecom to the Group; and

(vi) CCT Technology issued 1,820,000,000 new shares at HK$0.01 each to the noteholders of the convertible notes due 2003 and due 2007 issued in prior years pursuant to the terms of the Restructuring Agreements.

(b) In June 2002, CCT Technology allotted and issued 1,780,000,000 new shares at HK$0.01 each to an indirect wholly-owned subsidiary of CCT Telecom pursuant to the subscription agreement dated 5 June 2002.

(c) On 4 November 2002, pursuant to the Group Reorganisation, the entire 10,838,403,562 shares of CCT Technology were cancelled and the Company (i) repurchased 10,000,000 shares and (ii) allotted and issued 10,838,403,562 new shares of HK$0.01 each credited as fully paid to the then existing qualifying shareholders of CCT Technology in the proportion of one share for every one existing share then held. All shares issued pari passu with the existing issued shares of the Company in all respects.

(d) The subscription rights attaching to 19,000 share options were exercised at the subscription price of HK$0.014 per share (note 31), resulting in the issue of 19,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$266.

(e) During the year, HK$23 million worth of convertible notes were converted into 2,300,000,000 shares of the Company of HK$0.01 each. Further details relating to these convertible notes are set out in note 28 to these financial statements.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 31 to the financial statements.

31. Share Option Scheme

A share option scheme (the "Share Option Scheme") was conditionally adopted by the then shareholder of the Company and the shareholders of CCT Technology Holdings Limited, the then holding company of the Company, on 17 September 2002 and 15 October 2002 respectively to comply with the new amendments to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Share Option Scheme became effective on 7 November 2002. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from that date. As at 31 December 2003, there were 1,082,781,000 share options outstanding under the Share Option Scheme. Based on these outstanding share options, the total number of shares available for issue is 1,082,781,000, which represents approximately 8.06% of the existing issued share capital of the Company as at the date of this report.

The purpose of the Share Option Scheme is to provide incentives and rewards to the eligible participants who contribute to the success of the operations 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 of directors of the Company (the "Board"), will contribute or has contributed to the Group.

Pursuant to the Share Option Scheme, the maximum number of shares in respect of which share options may be granted under the Share Option Scheme is such number of shares, when aggregated with shares subject to any other share option scheme(s) of the Company, must not exceed 10% of the issued share capital of the Company upon the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 if required, the holding company) and the shareholders' approval of the Company (and if required, the approval of the shareholders of the holding 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 (and if required, the approval of the independent non-executive directors of the holding company), excluding the independent non-executive director(s) of the Company and the holding 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 shares of the Company 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 if required, the holding company) and the shareholders' approval of the Company (and if required, the approval of the shareholders of the holding 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.

31. Share Option Scheme (Cont'd)

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

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

Name or category of participant	Number of share options: Outstanding as at 1 January 2003	Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year	Outstanding as at 31 December 2003	Date of grant of share options	Exercise period of share options	Exercise price per share (Note 1) HK$	Price of the shares of the Company: At grant date of share options (Note 2) HK$	At exercise date of share options (Note 3) HK$
Executive directors										
Mak Shiu Tong, Clement	—	100,000,000	—	—	100,000,000	30/4/2003	30/4/2003 — 29/4/2008	0.014	0.014	—
Cheng Yuk Ching, Flora	—	100,000,000	—	—	100,000,000	30/4/2003	30/4/2003 — 29/4/2008	0.014	0.014	—
Tam Ngai Hung, Terry	—	100,000,000	—	—	100,000,000	30/4/2003	30/4/2003 — 29/4/2008	0.014	0.014	—
Tong Chi Hoi	—	50,000,000	—	—	50,000,000	30/4/2003	30/4/2003 — 29/4/2008	0.014	0.014	—
	—	350,000,000	—	—	350,000,000					
Independent non-executive directors										
Chow Siu Ngor	—	8,000,000	—	—	8,000,000	30/4/2003	30/4/2003 — 29/4/2008	0.014	0.014	—
Lau Ho Kit, Ivan	—	8,000,000	—	—	8,000,000	30/4/2003	30/4/2003 — 29/4/2008	0.014	0.014	—
	—	16,000,000	—	—	16,000,000					
Other employees										
In aggregate	—	716,800,000	(19,000)	—	716,781,000	30/4/2003	30/4/2003 — 29/4/2008	0.014	0.014	0.022
	—	716,800,000	(19,000)	—	716,781,000					
	—	1,082,800,000	(19,000)	—	1,082,781,000					

31. Share Option Scheme (Cont'd)

Notes:

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 grant of the share options is 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 granted.

3. 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 prices of the shares of the Company as listed on the Stock Exchange on the trading day immediately before the dates on which the share options were exercised.

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

The directors of the Company do not consider it appropriate to disclose a theoretical value of the share options granted to the directors and the employees of the Company during the year because a number of factors crucial for the valuation cannot be determined. Accordingly, any valuation of the share options based on various speculative assumptions would not be meaningful, but would be misleading to the shareholders of the Company.

32. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current year and prior period are presented in the consolidated statement of changes in equity on page 37 of the financial statements.

(b) Company

	Special reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
On date of incorporation	—	—	—
Special reserve arising from the Group Reorganisation	(55,749)	—	(55,749)
Loss for the period	—	(11,093)	(11,093)
At 31 December 2002 and beginning of year	(55,749)	(11,093)	(66,842)
Profit for the year	—	867	867
At 31 December 2003	(55,749)	(10,226)	(65,975)

The special reserve of the Company represents the difference between the fair values of the shares of the subsidiaries acquired pursuant to the Group Reorganisation and the nominal value of the Company's shares issued in exchange therefor.

33. Notes to the Consolidated Cash Flow Statement

(a) Major non-cash transactions

During the year, the Company issued a convertible note with a principal amount of HK$768 million to an indirect wholly-owned subsidiary of CCT Telecom as consideration for the acquisition of the entire interest in ESH.

(b) Acquisition of subsidiaries

	2003 HK$'000	2002 HK$'000
Net assets acquired:		
Fixed assets	699,740	11,819
Intangible assets	31,052	423
Other assets	350	—
Deferred tax assets	10,161	—
Cash and bank balances	137,480	15,058
Pledged time deposits	58,636	—
Inventories	189,161	3,295
Trade and bills receivables	499,707	32,024
Prepayments, deposits and other receivables	26,443	643
Trade and bills payables	(618,523)	(23,003)
Tax payable	(8,059)	(1,968)
Other payables and accruals	(75,140)	(671)
Interest bearing bank borrowings	(200,024)	—
Bank overdrafts	—	(32)
Finance lease payables	(2,388)	—
Deferred tax liabilities	(3,107)	(985)
	745,489	36,603
Goodwill on acquisition — note 17	25,059	33,397
	770,548	70,000
Satisfied by:		
Issue of consideration shares	—	25,000
Issue of convertible notes - note 28	768,000	45,000
Cash paid for incidental acquisition costs	2,548	—
	770,548	70,000

33. Notes to the Consolidated Cash Flow Statement (Cont'd)

(b) Acquisition of subsidiaries (Cont'd)

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

	2003 HK$'000	2002 HK$'000
Cash paid	(2,548)	—
Cash and bank balances acquired	137,480	15,058
Less: Bank overdrafts	—	(32)
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	134,932	15,026

The subsidiaries acquired during the year contributed approximately HK$1,865,553,000 to the Group's consolidated turnover and HK$96,768,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2003.

The subsidiary acquired in the prior year contributed approximately HK$106,020,000 to the Group's consolidated turnover and approximately HK$6,053,000 to the consolidated profits after tax before minority interests for the period ended 31 December 2002.

33. Notes to the Consolidated Cash Flow Statement (Cont'd)

(c) Disposal of subsidiaries and discharge of secured and unsecured financial obligations upon the Group Restructuring

	2003 HK$'000	2002 HK$'000
Net assets disposed of:		
Fixed assets	—	62,027
Other investments	—	368
Inventories	—	23,439
Cash and bank balances	—	2,974
Trade payables	—	(63,880)
Other payables and accruals	—	(28,622)
Finance lease payables	—	(314)
Bank loans and other borrowings	—	(12,480)
Convertible notes	—	(9,867)
Conversion option	—	(20,487)
	—	(46,842)
Reversal of reserves upon the Group Restructuring:		
Contributed surplus	—	(34,600)
Capital reserve	—	(47,926)
	—	(82,526)
	—	(129,368)
Expenses incurred in connection with the Group Restructuring	—	9,896
	—	(119,472)
Net gain attributable to the Group Restructuring	—	119,472
	—	—

33. Notes to the Consolidated Cash Flow Statement (Cont'd)

(c) Disposal of subsidiaries and discharge of secured and unsecured financial obligations upon the Group Restructuring (Cont'd)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries and discharge of secured and unsecured financial obligations is as follows:

	2003 HK$'000	2002 HK$'000
Cash consideration	—	—
Cash and bank balances disposed of	—	2,974
Expenses incurred in connection with the Group Restructuring	—	9,896
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries and discharge of secured and unsecured financial obligations	—	12,870

34. Contingent Liabilities

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

	Group		Company	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	—	—	346,000	—

As at 31 December 2003, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$183 million (2002: Nil).

(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 approximately HK$4,708,000 as at 31 December 2003 (2002: HK$215,000), as further explained in note 3 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, to the balance sheet date, 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.

35. Pledge of Assets

At the balance sheet date, the Group's bank borrowings were secured by pledge of the Group's fixed deposits amounting to approximately HK$100 million (2002: HK$5 million).

The bank loans as at 31 December 2002 were secured by the fixed charges over the Group's freehold land and buildings with a net book value amounting to approximately HK$4,769,000. The bank loans were fully repaid during the year and the related fixed charges over the Group's freehold land and buildings were released.

36. Operating Lease Arrangements

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

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

	Group	
	2003 HK$'000	2002 HK$'000
Within one year	4,443	600
In the second to fifth years, inclusive	1,440	—
	5,883	600

37. Commitments

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2003 HK$'000	2002 HK$'000
Contracted, but not provided for		
Purchases of plant, machinery and equipment	2,255	—
Leasehold improvements	94	—
	2,349	—

38. Related Party Transactions

(1) On 15 May 2003, the Company and CCT Telecom entered into a conditional agreement pursuant to which CCT Telecom has agreed (i) to dispose of the entire interest in ESH to the Company; and (ii) to assign its interest-free shareholder's loan due from ESH Group to the Company as at the completion date of this transaction, at a total consideration of HK$768 million. The consideration was satisfied by the issue of a convertible note with a principal amount of HK$768 million by the Company to an indirect wholly-owned subsidiary of CCT Telecom.

ESH Group is principally engaged in the design, manufacture and sale on ODM and OEM basis of home-use telecom products including cordless phones and family radio systems.

The transaction was completed on 30 June 2003 and further details of the acquisition are set out in the Company's circular dated 11 June 2003.

(2) For the period from 1 July 2003 to 31 December 2003, certain indirect wholly-owned subsidiaries of the Company had the following material transactions with CCT Telecom and its certain subsidiaries subsequent to the acquisition of ESH Group by the Company on 30 June 2003:

	Notes	2003 HK$'000
Purchases of plastic casings and components	(a)	132,353
Factory rental income	(b)	3,000
Factory rental expense	(c)	900
Office rental expenses	(d)	1,492
Management information system service fee	(e)	1,200

Notes:

(a) The plastic casings and components were purchased by CCT Telecom (HK) Limited ("CCT HK"), an indirect wholly-owned subsidiary of the Company, from Neptune Holding Limited ("Neptune"), an indirect wholly-owned subsidiary of CCT Telecom, in accordance with the terms and conditions set out in a manufacturing agreement entered into between CCT HK and Neptune on 15 May 2003.

The purchase prices were determined based on the direct material costs plus a mark-up of no more than 300%.

(b) The factory rental income was charged to Shine Best Developments Limited ("Shine Best"), an indirect wholly-owned subsidiary of CCT Telecom, by CCT Enterprise Limited ("CCT Ent"), an indirect wholly-owned subsidiary of the Company, 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.

(c) The factory rental expense was charged to CCT Investment Limited ("CCT Inv"), an indirect wholly-owned subsidiary of the Company, by CCT Properties (Dongguan) Limited ("CCT Prop"), an indirect wholly-owned subsidiary of CCT Telecom, for the provision of factory space in Dongguan, the PRC, at a rate determined in accordance with the terms and conditions set out in a tenancy agreement entered into between CCT Inv and CCT Prop on 15 May 2003.

38. Related Party Transactions

(2) (Cont'd)

Notes: (Cont'd)

(d) The office rental expenses were charged to CCT HK and CCT Telecom R&D Limited ("CCT R&D"), indirect wholly-owned subsidiaries of the Company, by Goldbay Investments Limited ("Goldbay"), an indirect wholly-owned subsidiary of CCT Telecom, for the provision of office spaces in Hong Kong, at rates determined in accordance with the terms and conditions set out in three tenancy agreements entered into between CCT HK and Goldbay on 21 November 2001 and 23 October 2002, and between CCT R&D and Goldbay on 20 January 2003, respectively.

(e) The management information system service fee was charged to CCT Telecom 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 CCT Telecom and CCT HK on 15 May 2003.

(3) During the year, Electronic Sales Limited ("ESL"), a wholly-owned subsidiary of the Company, had the following material transactions with certain subsidiaries of CCT Telecom:

	Notes	Year ended 31 December 2003 HK$'000	Period from 17 May 2002 to 31 December 2002 HK$'000
Rental expense	(a)	1,800	1,200
Purchase of materials	(b)	24,427	17,256

Notes:

(a) The rental expense was charged to ESL by CCT Prop for the provision of factory space in Dongguan, the PRC, at a rate determined in accordance with the terms and conditions set out in a rental agreement entered into between ESL and CCT Prop on 15 April 2003.

(b) The purchase of materials from Neptune, included plastic moulds and materials, and the prices of which were determined based on the direct costs of the materials plus a mark-up of up to 50% of such direct costs.

38. Related Party Transactions (Cont'd)

(3) (Cont'd)

In addition to the above, ESL had the following material transactions with CCT HK up to 30 June 2003, the date on which CCT HK became a wholly-owned subsidiary of the Group:

	Notes	Period from 1 January 2003 to 30 June 2003 HK$'000	Period from 17 May 2002 to 31 December 2002 HK$'000
Management fee expense	(c)	1,200	1,600
Sale of products	(d)	45,750	73,750

(c) The management fee expense was charged to ESL by CCT HK for the provision of general administration, management information system consultation and hardware maintenance services and was determined based on actual costs incurred.

(d) The sale of products to CCT HK included transformers, AC/DC adaptors and custom built-in power supply, and the prices of which were determined based on the direct material costs of the products plus a mark-up of up to 50% of such direct material costs.

39. Comparative Amounts

As further explained in note 2 to the financial statements, due to the adoption of certain revised SSAPs during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation.

40. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 23 April 2004.