二〇〇五年中期報告

中建電訊集團有限公司

CCT TELECOM

2005 interim report


TECHNOLOGY

chairman's letter

FINANCIAL HIGHLIGHTS

HK$ million	Six months ended 30 June 2005 (Unaudited)	2004 (Unaudited) (Restated)	% increase/ (decrease)
Key Financial Results Highlights			
Turnover	1,800	1,880	(4.3%)
Operating profit	70	102	(31.4%)
Profit from disposal and deemed disposal of 19.6% interest in Haier Electronics	109	—	
Net profit attributable to shareholders of the Company	142	74	91.9%
Per Share Data			
Earnings per share	HK$0.335	HK$0.175	91.4%
Dividend per share			
— Special interim dividend	HK$0.68	HK$0.100	
— Proposed interim dividend	—	HK$0.010	
	HK$0.68	HK$0.110	

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 2005. During the reporting period, the Company achieved turnover of HK$1,800 million, operating profit of HK$70 million and net profit attributable to shareholders of the Company of HK$142 million.

Despite a tough business environment during the period, the Group was able to maintain its leading market position and sustain orders. Our factories were, however, operating below the optimum production capacity due to a growing shortage of labour in the Guangdong Province which is where our factories are located. This led to a slight delay for some shipments of goods resulting in a slight decrease of 4.3% in turnover during the period as compared to the corresponding period.

Operating profit decreased by approximately 31.4% to HK$70 million. The decrease was attributable to the increase in the operating costs due to the rising costs of certain materials and wages.

Net profit attributable to shareholders of the Company for the period under review amounted to HK$142 million, up from HK$74 million in the corresponding period, representing a sharp increase of 91.9%. This satisfactory result was mainly attributable to an exceptional gain of HK$109 million arising from the disposal and deemed disposal of a total of 19.6% interest in Haier Electronics Group Co., Ltd. ("Haier Electronics").

INTERIM DIVIDEND

As a sign of our gratitude towards the support from our shareholders throughout the years, the Company declared an exceptional special interim dividend of HK$0.68 per share on 16 June 2005 out of the capital reserves of the Company, with an option for the shareholders to receive such dividend, in whole or in part, in the form of allotment of new shares of the Company in lieu of cash (30 June 2004: special interim dividend of HK$0.10 per share). The special interim dividend amounted to HK$318,789,883 was paid on 19 August 2005, of which 110,725,719 new shares had been allotted as fully paid at HK$0.966 per share and the balance of HK$211,828,838 was paid in cash.

In view of the special interim dividend paid in August 2005, the board of directors of the Company do not recommend payment of a further interim dividend for the six months ended 30 June 2005 (30 June 2004: HK$0.01 per share).

ADOPTION OF NEW ACCOUNTING STANDARDS

Shareholders should note that the Company has adopted the new financial reporting standards which came into effect on 1 January 2005. The effect of the adoption of these financial reporting standards are detailed in note 2 of the financial statements.

REVIEW OF OPERATIONS

The principal businesses of the Group are the manufacture and sale of telecom products (mainly comprised of cordless phones) and electronic products through the CCT Tech Group and the manufacture and sale of plastic products, electronic components and baby products through the CCT Industrial Group. Our customers are well-known multinational companies and owners of renowned global household brands. In recent years and during the period under review, we were able to expand this customer base to a number of worldwide distributors of telecom products.

During the period, the United States of America ("US") remained our principal market. Sales to the US continued to grow in a tough business environment. On one hand, we experienced price pressure from customers due to keen competition. On the other hand, costs of certain raw materials and components escalated significantly including the costs of plastic materials (due to buoyant petroleum price), copper and certain electronic components due to rising demand and unstable supply in the global market. The shortage of labour in the Guangdong Province and the rising cost of wages for staff and workers in Hong Kong and the PRC also increased our operating costs. The labour shortage problem became even more apparent when certain shipments of our products were delayed during the period. In order to overcome these challenges, we have actively improved our operational efficiencies in all aspects, implemented effective cost control measures and enhanced our advantages on economies of scale.

The new R&D centre of CCT Tech in Singapore that commenced operation earlier this year has enhanced our research and development capability by attracting many skilled and experienced engineers from the region. Together with our strong team of our engineers in Hong Kong and Shenzhen, the CCT Tech Group is positioned to develop and deliver the technology and products the market wants ahead of other market players. The new products that we launched during the period under review (such as 5.8 GHz digital cordless phones and DECT phones with advanced features) is a case in point.

In terms of business territories, our strategy of geographical diversification has proven to be successful. Apart from telecom products, we have also diversified into advanced consumer wireless electronic products. The orders received for these products are encouraging. These new products have broadened our product range. This new business may become the major driver behind our business growth in the future.

INCREASE OF SHAREHOLDING IN CCT TECH INTERNATIONAL LIMITED

As I previously reported, general offers were made by the Group relating to CCT Tech International Limited ("CCT Tech"), the principal listed subsidiary of the Company, on 31 January 2005. The offers closed on 6 May 2005. Upon completion of the offers, the Group increased its shareholding in CCT Tech from 34.51% to 84.12%. In order to restore the public float of CCT Tech, the Company sold 1,500 million shares of CCT Tech on 22 July 2005 to a third party with a six-month put option granted to the purchaser. After such sale and as at the date of this letter, the Company had a 74.71% controlling interest in CCT Tech.

The increase in the Company's shareholding in CCT Tech has resulted in a simplified shareholding structure of CCT Tech, the enhancement of the Company's shareholding control over CCT Tech, and more importantly, an increase in the Company's share of profit in CCT Tech which contributed most of the operating profits to the Group.

DECREASE IN THE INTEREST IN HAIER ELECTRONICS

The acquisition of the washing machine business from Haier Group and the exercise of the call option to acquire the 35.5% of the mobile handset business (the "Asset Injection") by Haier Electronics were successfully completed on 28 January 2005.

Upon completion of the Asset Injection, all the directors nominated by the Group to the board of Haier Electronics resigned as directors of Haier Electronics and the Group's interest in Haier Electronics has decreased from approximately 43.6% to approximately 24.0% whilst the Haier Group's interest in Haier Electronics has increased to approximately 50.2%.

The restructuring and the reduction of the Group's interest in Haier Electronics gave rise to a significant gain of approximately HK$109 million to the Group during the period under review. Since completion of the Asset Injection, Haier Electronics has ceased to be our associate and we no longer share its results as from this year.

The Haier Group, being a renowned international white goods manufacturer, has indicated its intention to further inject quality white goods assets into Haier Electronics in order to transform Haier Electronics as the listed flagship of the Haier Group's white goods business. As one of its substantial shareholders, we are keen to see the strengthening of Haier Electronics' asset and revenue base and look forward to increasing the value of our investment in Haier Electronics.

PROPOSED SALE OF A PROPERTY

On 22 September 2005, the Company announced that it proposed to seek prior shareholders' approval to approve the possible sale of part or whole of the property currently owned by the Group, which is currently used as the Group's corporate office in Hong Kong. The Company intends to relocate its corporate office by leasing smaller premises. The proposed sale and office relocation is because the existing property exceeds the Group's requirements for a corporate office premises and the proposed sale and office relocation may result in a realisation of a good value of the property (due to the recent prosperous property market) and may possibly result in a gain on disposal and net savings in administrative costs and finance cost. Further announcement will be made if the sale is materialised. Please refer to the announcement of the Company dated 22 September 2005 for details.

PROPOSED CHANGE OF DOMICILE

On 22 September 2005, the board of the Company announced that it proposed to change the domicile of the Company from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda, in order to simplify the procedures and allow flexibility for any future possible capital reorganisation. The proposed change of domicile will not affect the continuity and listing status, as well as the underlying assets, business operations, management or financial position of the Company, nor will it have any impact on the rights and obligations of the shareholders. The proposed change of domicile is conditional upon the approval of the shareholders and the compliance of the relevant procedures and requirements under the applicable laws of the Cayman Islands and Bermuda and the Listing Rules of Hong Kong. Please refer to the announcement of the Company dated 22 September 2005 for details.

OUTLOOK

The second half of the year will continue to be challenging. Rising petroleum prices and cost of materials, price pressure from customers, shortage of labour in the Guangdong Province as well as the recent appreciation in the Renminbi, are major hurdles to overcome. However, as the US economy remains strong as a result of the continuous growth in retail sales, sales levels to our principal US market will likely be sustained in the second half of the year. We also expect that sales to Europe and the rest of the world will improve in the second half of the year due to increasing orders from new and existing customers. The management is optimistic about our new advance wireless electronic products operations as orders received for these products continue to gain momentum.

On the cost side, we shall continue to improve operational efficiency and cost control. To deal with the labour shortage and related operational issues, we will continue to implement measures to improve labour efficiency to control costs and to use resources effectively. In the long run, to combat the difficulties caused by labour shortages and the appreciation of the Renminbi, we will explore the possibility of establishing additional manufacturing facilities in locations outside the Guangdong

Province or outside of China. We firmly believe that these combined measures will enable the Group to deal with the challenges and seize the business opportunities that may lie ahead.

On a final note, 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.

Mak Shiu Tong, Clement
Chairman

Hong Kong, 23 September 2005

financial review

SUMMARY OF PERFORMANCE

HK$ million	Six months ended 30 June 2005 (Unaudited)	2004 (Unaudited) (Restated)	% increase/ (decrease)
Highlights on Financial Results			
Turnover	1,800	1,880	(4.3%)
Operating profit	70	102	(31.4%)
Profit from disposal and deemed disposal of 19.6% interest in Haier Electronics	109	—	
Finance cost	(7)	(3)	
Share of profit of Haier Electronics	—	26	
Tax	(10)	(13)	
Minority interests	(20)	(38)	
Net profit attributable to shareholders of the Company	142	74	91.9%
	30 June 2005 (Unaudited)	31 December 2004 (Audited) (Restated)	
Highlights on Financial Position and Major Balance Sheet Items			
Properties, plant and equipment	1,312	1,269	3.4%
Investment properties	98	101	(3.0%)
Land lease payments	231	234	(1.3%)
Goodwill	116	28	314.3%
Interest in an associate	—	222	N/A
Available-for-sale financial assets	790	—	N/A
Held-to-maturity financial assets	17	—	N/A
Financial assets at fair value through profit or loss (non-current assets)	39	—	N/A
Other non-current assets	42	48	(12.5%)
Total non-current assets	2,645	1,902	39.1%
Financial assets at fair value through profit or loss (current assets)	27	—	N/A
Cash and cash equivalents	661	832	(20.6%)
Net current assets	337	694	(51.4%)
Non-current liabilities	307	189	62.4%
Shareholders' funds	2,614	2,211	18.2%

ADOPTION OF NEW ACCOUNTING STANDARDS

During the period, the Company has adopted the new financial reporting standards which came into effect on 1 January 2005. The effect of the adoption of these financial reporting standards are detailed in note 2 of the financial statements.

DISCUSSION ON FINANCIAL RESULTS

The Group recorded a turnover of HK$1,800 million during the period under review, which represents a decrease of 4.3% over the corresponding period. The decrease is attributable to the delay in certain shipment of goods of our factories arisen from the labour shortage in the Guangdong Province.

Operating profit (before profit from disposal and deemed disposal of Haier Electronics, finance cost, taxation and minority interest) amounted to HK$70 million which represents a decrease of approximately 31.4% to that of the corresponding period. The decrease in the operating profit was a result of the increase in the operating costs as a result of increase in the cost of certain materials and components as well as the rising costs of wages.

The Group's shareholding interest in Haier Electronics was reduced from approximately 43.6% to approximately 24% upon completion of the Asset Injection. As a result, a gain of HK$109 million was derived by the Group from the disposal and deemed disposal of 19.6% interest in Haier Electronics which contributed to the increase in earnings during the period.

During the current period, the Group did not have any share of the result of an associate because Haier Electronics is no longer an associate of the Group. However, Haier Electronics was still classified as an associate of the Group in the corresponding period. Under the HKFRS 3, the Asset Injection in Haier Electronics is accounted for as a reverse acquisition and it is understood that the consolidated financial statements of Haier Electronics have been restated retrospectively by adopting the reverse acquisition accounting method. As such, the Group's share of result of an associate in the corresponding period was restated and a profit of HK$26 million was derived from the share of profit of Haier Electronics in the corresponding period as a result of the adoption of the new financial reporting standards.

Profit shared by minority interest decreased because the Group increased its shareholding in CCT Tech in May this year.

Net profit attributable to shareholders of the Company for the period under review amounted to HK$142 million, up 91.9% from the corresponding period, attributable mainly to an exceptional gain of HK$109 million derived from the disposal and deemed disposal of a total of 19.6% interest in Haier Electronics.

ANALYSIS BY BUSINESS SEGMENT

	Six months ended 30 June 2005		Six months ended 30 June 2004	
HK$ million	Turnover (Unaudited)	Operating profit (Unaudited)	Turnover (Unaudited)	Operating profit (Unaudited)
Telecom and electronic products	1,730	110	1,806	125
Baby products	66	2	71	9
Corporate and others	4	(42)	3	(32)
Total	1,800	70	1,880	102

During the period under review, telecom and electronic product business continued to be the principal business of the Group, accounting for approximately 96% (corresponding period: 96%) of the Group's total turnover. The remaining turnover was contributed by the baby product business, which accounted for approximately 4% (corresponding period: 4%) of the total turnover.

The telecom and electronic product business contributed HK$110 million in operating profit in the first half of the year, down 12% from the corresponding period. The decrease was due to the decrease in turnover and the increase in costs. The decrease of the operating profit of the baby product business from HK$9 million in the corresponding period to HK$2 million in the current period was attributable to keen competition and rising operating costs. Corporate segment represented head office administrative expenses incurred for the period under review.

ANALYSIS BY GEOGRAPHICAL SEGMENT

	Six months ended 30 June 2005		Six months ended 30 June 2004	
HK$ million	Turnover (Unaudited)	Relative %	Turnover (Unaudited)	Relative %
United States of America ("US")	1,129	63%	1,097	58%
PRC, including Hong Kong	394	22%	379	20%
European Union and others	277	15%	404	22%
Total	1,800	100%	1,880	100%

The US remained the major market of the Group accounting for approximately 63% (corresponding period: 58%) of the total turnover for the period under review. PRC (including Hong Kong) continued to be the second largest market of the Group that accounted for 22% (corresponding period: 20%) of the Group's total turnover.

The European and Asia Pacific markets, on the other hand, accounted for approximately 15% (corresponding period: 22%) of the Group's total turnover during the period.

DISCUSSION ON FINANCIAL POSITION AND MAJOR BALANCE SHEET ITEMS

The properties, plant and equipment represent fixed assets held by the Group for its own use and were stated at cost less accumulated depreciation and impairment losses. The increase in their net book value in the current period was attributable to additions to fixed assets to cope with the needs of production.

Investment properties in the amount of HK$98 million at the balance sheet date (31 December 2004: HK$101 million) represents the fair value of properties and its related land lease payments held for rental and investment purposes.

With effect from 1 January 2005, the Group has adopted the new financial reporting standard HKAS 17 under which interest in leasehold land has been stated at cost less accumulated amortisation and has been accounted for as land lease payments in the balance sheet. Retrospective adjustment was also made to the prior years' comparative amounts.

Goodwill increased by approximately 314.3% due to the increase in shareholdings in CCT Tech arising from the general offers made during the period.

Available-for-sale financial assets as at 30 June 2005 in the amount of HK$790 million represents the fair value of the Group's interest in Haier Electronics and other unlisted investments. Upon completion of the Asset Injection, Haier Electronics ceased to be an associate of the Group. Accordingly, the Group's interest in Haier Electronics has been classified as available-for-sale financial assets in the current period in accordance with the new financial reporting standard HKAS 39. The investment in Haier Electronics was recognised at fair value as at 30 June 2005 in the amount of HK$774 million, determined with reference to the share price of Haier Electronics as at 30 June 2005. Such investments was however accounted for as interest in an associate in prior years and was stated in the prior years' balance sheets at the Group's share of net assets under the equity method of accounting, as restated by adoption of the new financial reporting standards.

An adjustment of HK$539 million was credited to the revaluation reserve during the current period, as a result of the adjustment of the value of the investment in Haier Electronics from book value to its fair value.

As a result of the adoption of the new financial reporting standards, certain cash deposits previously classified as cash and cash equivalents have been reclassified in the current period and categorised with reference to the purpose and terms for which they are held. These deposits were reclassified in accordance with HKAS 32 and HKAS 39 and accounted for in the current balance sheet separately as held-to-maturity financial assets at amortised cost of HK$17 million, financial assets at fair value through profit or loss in the amount of HK$39 million (included in non-current assets) and financial assets at fair value through profit or loss in the amount of HK$21 million (included in current assets). However, retrospective reclassification is not required and they were accounted for as cash and cash equivalents under the current assets in the prior years.

Cash and cash equivalents decreased by 20.6%, partly due to the use of cash in the amount of approximately HK$144 million for the general offers related to CCT Tech. The decrease in cash and cash equivalents was also attributable to the reclassification of certain deposits in the current period as elaborated above but the retrospective reclassification was not required to be made to the comparative amounts.

Net current assets decreased by 51.4%, partly due to the amount accrued for the special interim dividend of approximately HK$319 million and partly due to the decrease in cash and cash equivalents as explained above. The financial position of the Group remains healthy and strong even after the payment of the special interim dividend.

The increase in non-current liabilities of approximately 62.4% was mainly due to the issuance of convertible bonds of approximately HK$155 million pursuant to the offers relating to CCT Tech to holders who accepted the offers and elected for convertible bonds, of which HK$151 million remained outstanding as at 30 June 2005 (in which HK$107 million was recorded as liability component and HK$44 million was recorded as equity component in accordance with HKAS 32).

The increase in shareholders' funds of approximately 18.2% was mainly due to the profit for the period and the inclusion of the revaluation reserve attributable to the investment in Haier Electronics less the accrued special interim dividend.

CAPITAL STRUCTURE AND GEARING RATIO

The Group's gearing ratio, calculated on the basis of the Group's total borrowings (including bank and other borrowings, convertible notes and finance lease payables) of approximately HK$416 million over total capital employed (total shareholders' funds plus total borrowings) of approximately HK$3,030 million, was approximately 14% as at 30 June 2005 as compared with that of 15% (as restated) as at 31 December 2004. The low gearing ratio reflects a healthy financial position and the prudent financial policy of the Group.

Outstanding bank borrowings amounted to HK$295 million at 30 June 2005 (31 December 2004: HK$321 million). Approximately 38% 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 62% of the bank borrowings was of long-term nature, principally comprised of mortgage loans on properties used by the Group.

As a result of the offers made by the Company relating to CCT Tech during the period, the Company issued convertible bonds, which are interest free and due in 2010, in an aggregate principal amount of approximately HK$155 million, among which convertible bonds with total principal amounts of approximately HK$5 million have been converted into shares of the Company during the period. As at the balance sheet date, the total outstanding principal amount of the convertible bonds issued by the Company amounted to HK$150 million (including HK$107 million accounted for as a liability in accordance with HKAS 32).

Acquisition of certain of the Group's assets were financed by way of finance leases and the total outstanding finance lease payables for the Group as at 30 June 2005 amounted to approximately HK$14 million (31 December 2004: HK$13 million).

As at 30 June 2005, the maturity profile of the bank and other borrowings and convertible notes of the Group falling due within one year, in the second to the fifth year and in the sixth to the tenth year amounted to HK$115 million, HK$239 million and HK$62 million, respectively (31 December 2004: HK$195 million, HK$113 million and HK$71 million, respectively). There was no material effect of seasonality on the Group's borrowing requirements.

LIQUIDITY AND FINANCIAL RESOURCES

Current ratio (a ratio of current assets over current liabilities) as at 30 June 2005 was 122% (31 December 2004: 154%). The strong liquid position was attributable to strong cash flow from the operations and the effective financial management of the Group.

As at 30 June 2005, the Group maintained a total cash balance of HK$728 million (31 December 2004: HK$949 million), among which HK$67 million (31 December 2004: HK$117 million) was pledged for general banking facilities. Out of the total cash balance as at 30 June 2005, approximately HK$212 million was paid on 19 August 2005 to those shareholders who elected to receive the special interim dividend in cash.

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

CAPITAL EXPENDITURE AND COMMITMENTS

During the period under review, the Group incurred capital expenditure amounted to approximately HK$134 million, which was mainly related to the core manufacturing businesses of the Group.

The Group had authorised and contracted capital commitments of approximately HK$38 million (31 December 2004: HK$33 million) as at 30 June 2005, which was mainly related to capital expenditure for the expansion of the manufacturing business of the Group and all of which will be financed by internal resources.

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 and some in European currencies. As at 30 June 2005, the Group's borrowings were mainly denominated in Hong Kong dollars and US dollars. As at 30 June 2005, other than the convertible bonds in an aggregate principal amount of approximately HK$150 million which is interest-free, the Group's borrowings were principally made on a floating rate basis.

The objective of the Group's treasury policies is to minimise risks and exposures due to the fluctuations in foreign currency exchange rates and interest rates. The Group does not have any significant interest rate risk, as both the borrowings of the Group and the interest rates currently remain at low levels. In terms of foreign exchange exposures, the Group is principally exposed to two major currencies, namely the US dollar in terms of receipts and the Renminbi in terms of the production costs (including mainly wages and overhead) in China. For US dollar exposure, since the

Hong Kong dollar remains pegged to the US dollar, the exchange fluctuation is not expected to be significant. The recent introduction of the refinements to the operation of the Linked Exchange Rate System by the Hong Kong Monetary Authority, which limits the fluctuation between the two currencies, further reinforces the stability of exchange rates between Hong Kong dollar and US dollar. Above all, as most of the Group's purchases are also made in US dollars, which are to be paid out of our sales receipts in US dollars, the management considers that the foreign exchange exposure risk for the US dollar is not material.

For Renminbi exposure, the Group entered into forward exchange contracts with banks in China to cover a significant part of our Renminbi expenses for the period up to mid 2006. Our exposure to any Renminbi fluctuation has, therefore, been partly hedged against such risks for the period up to mid 2006 although the recent appreciation of the Renminbi by 2% has increased forward rates which has made hedging more costly. 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.

ACQUISITION AND DISPOSAL OF MATERIAL SUBSIDIARIES AND ASSOCIATES

The Asset Injection for Haier Electronics was successfully completed on 28 January 2005. Following the Asset Injection and after the placing of shares to restore the public float of Haier Electronics in January this year, the Company's interest in Haier Electronics was reduced from 43.6% to 24.0% and this gave rise to a gain of approximately HK$109 million during the period under review. Since then, Haier Electronics ceased to be an associate of the Group and became an investment held by the Group.

SIGNIFICANT INVESTMENT

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 2005, certain of the Group's assets with a net book value of HK$691 million (31 December 2004: HK$254 million) and time deposits of HK$67 million (31 December 2004: HK$117 million) were pledged to secure the general banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 30 June 2005, the Group had guarantees in lieu of property rental of HK$45 million (31 December 2004: HK$48 million) and 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$2 million (31 December 2004: HK$9 million). Save as aforesaid, the Group did not have any other significant contingent liabilities as at 30 June 2005.

EMPLOYEES AND REMUNERATION POLICY

The total number of employees of the Group as at 30 June 2005 was 20,465 (31 December 2004: 18,477). Remuneration packages are normally reviewed on an annual basis. Apart from salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group. At 30 June 2005, there were outstanding share options of approximately 34 million issued by the Company.

interim results

The board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2005 together with the comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the six months ended 30 June 2005

		Six months ended 30 June	
HK$ million	Notes	2005 (Unaudited)	2004 (Unaudited)
			(Restated)
TURNOVER	3	1,800	1,880
Cost of sales		(1,570)	(1,626)
Gross profit		230	254
Other revenue	3	16	12
Selling and distribution costs		(25)	(24)
Administrative expenses		(147)	(131)
Other operating expenses		(4)	(9)
PROFIT FROM OPERATING ACTIVITIES BEFORE GAIN ON DISPOSAL AND DEEMED DISPOSAL OF AN ASSOCIATE		70	102
Gain on disposal and deemed disposal of an associate	4	109	—
PROFIT FROM OPERATING ACTIVITIES	3, 5	179	102
Finance costs		(7)	(3)
Share of profit of an associate		—	26
PROFIT BEFORE TAX		172	125
Tax	6	(10)	(13)
PROFIT FOR THE PERIOD		162	112
ATTRIBUTABLE TO:			
Equity holders of the Company		142	74
Minority interests		20	38
		162	112
DIVIDENDS	7		
Special interim dividend		319	42
Proposed interim dividend		—	4
		319	46
EARNINGS PER SHARE	8		
— Basic		HK$0.335	HK$0.175
— Diluted		HK$0.295	HK$0.169

CONDENSED CONSOLIDATED BALANCE SHEET
At 30 June 2005

HK$ million	Notes	30 June 2005 (Unaudited)	31 December 2004 (Audited)
			(Restated)
NON-CURRENT ASSETS			
Properties, plant and equipment		1,312	1,269
Investment properties		98	101
Land lease payments		231	234
Intangible assets		38	28
Goodwill		116	28
Interest in an associate		—	222
Available-for-sale financial assets		790	—
Held-to-maturity financial assets		17	—
Financial assets at fair value through profit or loss		39	—
Other assets		—	12
Long term investments		—	4
Deferred tax assets		4	4
		2,645	1,902
CURRENT ASSETS			
Short term investments		—	3
Inventories		272	215
Trade and bills receivables	10	793	794
Prepayment, deposits and other receivables		20	26
Financial assets at fair value through profit or loss		27	—
Forward currency contracts		3	—
Pledged time deposits		67	117
Cash and cash equivalents		661	832
		1,843	1,987
CURRENT LIABILITIES			
Trade and bills payables	11	885	897
Tax payable		29	23
Other payables and accruals		157	178
Forward currency contracts		1	—
Dividend payable		319	—
Interest-bearing bank loans and other borrowings		115	150
Convertible notes	12	—	45
		1,506	1,293
NET CURRENT ASSETS		337	694
TOTAL ASSETS LESS CURRENT LIABILITIES		2,982	2,596

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)
At 30 June 2005

HK$ million	Notes	30 June 2005 (Unaudited)	31 December 2004 (Audited)
			(Restated)
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		184	176
Finance lease payables		10	8
Convertible notes	12	107	—
Deferred tax liabilities		6	5
		307	189
		2,675	2,407
TOTAL EQUITY			
Issued capital	13	43	42
Reserves		2,571	2,161
Proposed final dividend		—	8
Shareholders' funds		2,614	2,211
Minority interests		61	196
		2,675	2,407

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2005

	Attributable to equity holders of the Company									
HK$ million	Issued capital (Unaudited)	Share premium account (Unaudited)	Capital reserve (Unaudited)	Revaluation reserve (Unaudited)	Equity component of convertible notes (Unaudited)	Accumulated losses (Unaudited)	Proposed interim/final dividend (Unaudited)	Total (Unaudited)	Minority interests (Unaudited)	Total equity (Unaudited)
At 31 December 2004, as previously reported	42	1,250	1,060	—	—	(61)	8	2,299	196	2,495
Effect of changes in accounting policies (note 2)	—	—	—	—	—	(94)	—	(94)	10	(84)
At 1 January 2005, as restated	42	1,250	1,060	—	—	(155)	8	2,205	206	2,411
Acquisition of minority interests	—	—	—	—	—	—	—	—	(165)	(165)
Exercise of share option	1	5	—	—	—	—	—	6	—	6
Equity component of convertible notes	—	—	—	—	46	—	—	46	—	46
Issue of new shares upon conversion of convertible notes	—	5	—	—	(2)	—	—	3	—	3
Change in fair values of available-for-sale financial assets	—	—	—	539	—	—	—	539	—	539
Profit for the period	—	—	—	—	—	142	—	142	20	162
2004 final dividend	—	—	—	—	—	—	(8)	(8)	—	(8)
2005 special interim dividend	—	—	(319)	—	—	—	—	(319)	—	(319)
At 30 June 2005	43	1,260	741	539	44	(13)	—	2,614	61	2,675

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2005

	Attributable to equity holders of the Company									
HK$ million	Issued capital (Unaudited)	Share premium account (Unaudited)	Capital reserve (Unaudited)	Revaluation reserve (Unaudited)	Equity component of convertible notes (Unaudited)	Accumulated losses (Unaudited)	Proposed interim/final dividend (Unaudited)	Total (Unaudited)	Minority interests (Unaudited)	Total equity (Unaudited)
At 31 December 2003, as previously reported	42	1,250	1,114	—	—	(117)	6	2,295	101	2,396
Effect of changes in accounting policies (note 2)	—	—	—	—	—	(138)	—	(138)	2	(136)
At 1 January 2004, as restated	42	1,250	1,114	—	—	(255)	6	2,157	103	2,260
Disposal of subsidiaries	—	—	—	—	—	—	—	—	(1)	(1)
Profit for the period	—	—	—	—	—	74	—	74	38	112
2003 final dividend	—	—	—	—	—	—	(6)	(6)	—	(6)
2004 special interim dividend	—	—	(42)	—	—	—	—	(42)	—	(42)
2004 proposed interim dividend	—	—	(4)	—	—	—	4	—	—	—
At 30 June 2004	42	1,250	1,068	—	—	(181)	4	2,183	140	2,323

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

HK$ million	Six months ended 30 June 2005 (Unaudited)	2004 (Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	61	90
INVESTING ACTIVITIES	(140)	(61)
FINANCING ACTIVITIES	(31)	5
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(110)	34
Cash and cash equivalents at beginning of period	771	873
CASH AND CASH EQUIVALENTS AT END OF PERIOD	661	907
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	323	482
Time deposits with original maturity of less than three months when acquired	338	425
	661	907

NOTES

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" and other relevant HKASs and Interpretations, the Hong Kong Financial Reporting Standard ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The interim results for the six months ended 30 June 2005 were not audited but have been reviewed by the Group's Audit Committee.

The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2004.

The accounting policies and method of computation used in the preparation of the condensed consolidated interim financial statements are consistent with those used in the annual financial statements of the Group for the year ended 31 December 2004, except for the adoption of new HKFRSs and HKASs as disclosed in note 2 below.

2. IMPACT OF NEW/REVISED HKFRS AND HKAS

The HKICPA has issued a number of new HKFRSs, HKASs and Interpretations, which are effective for the accounting periods commencing on or after 1 January 2005. The Group has adopted the following HKFRSs and HKASs issued up to 30 June 2005 which are pertinent to its operations and relevant to these interim financial statements.

HKAS 1	Presentation of Financial Statements
HKAS 17	Leases
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

These HKFRSs and HKASs prescribe new accounting measurement and disclosure practices. All relevant changes in the accounting policies have been made in accordance with the provisions of the respective standards, which require retrospective application to prior year comparatives, other than HKFRS 3, HKAS 39 and HKAS 40 which are adopted prospectively as of 1 January 2005. The major and significant effects of the adoption of these HKFRSs and HKASs on the Group's accounting policies and on amounts disclosed in the interim financial statements are summarised as follows:

(a) The adoption of HKAS 1 has affected the presentation of minority interests and other disclosures.

2. IMPACT OF NEW/REVISED HKFRS AND HKAS (Continued)

(b) The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at cost less accumulated depreciation and any impairment losses. In accordance with the provisions of HKAS 17, a lease of land and buildings should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The land lease payments is stated at cost and amortised over the period of the lease whereas the leasehold building is stated at cost less accumulated depreciation.

However, in the opinion of the directors, as the lease payments regarding some of the Group's leasehold land and buildings cannot be allocated reliably between the land and buildings elements, the entire land leases payments in respect of those leasehold land and buildings are all classified as finance leases and included in the cost of the land and buildings in the properties, plant and equipment in accordance with the provisions of HKAS 17.

(c) The adoption of HKFRS 3 and HKAS 36 has resulted in a change in the accounting policy for goodwill. Prior to this, goodwill arising on acquisitions prior to 1 January 2001 was eliminated against consolidated retained profits in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business. Goodwill arising on acquisition on or after 1 January 2001 was capitalised and amortised on a straight-line basis over its estimated useful life of 20 years and assessed for impairment at each balance sheet date.

2. IMPACT OF NEW/REVISED HKFRS AND HKAS (Continued)

In accordance with the provision of HKFRS 3 and HKAS 36, the Group ceased amortisation of goodwill from 1 January 2005 and the accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill. Goodwill previously eliminated against consolidated retained profits remains eliminated against consolidated retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired. Further, from the year ended 31 December 2004 onwards, goodwill is assessed annually for impairment, as well as when there are indications of impairment.

(d) The adoption of HKAS 40 has resulted in a change in the accounting policy for the Group's investment properties. Changes in valuation of the investment properties were previously dealt with in the investment property revaluation reserve. Following the adoption of HKAS 40, all changes in valuation of the investment properties would be recognised in the profit and loss account.

(e) The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement and disclosure of financial instruments.

In accordance with the provisions of HKAS 39, the investments have been classified into available-for-sale financial assets, held-to-maturity financial assets and financial assets at fair value through profit or loss (which include bank deposits and cash and cash equivalents). The classification depends on the purpose for which the investments were held.

2. IMPACT OF NEW/REVISED HKFRS AND HKAS (Continued)

All non-trading investments are classified as available-for-sale equity securities and carried at fair value. Changes in fair value are recognised in equity, unless there is objective evidence that an individual investment has been impaired. If there is objective evidence that an individual investment has been impaired, any amount held in the fair value reserve in respect of the investment is transferred to the profit and loss account for period in which the impairment is identified. Any subsequent increase in the fair value of available-for-sale equity securities is recognised directly in equity.

The Group uses forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

Convertible notes issued are split into liability and equity components at initial recognition. The fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost using effective interest method until extinguished on conversion or redemption. The remainder of the proceeds is recognised as equity component in the shareholders' equity and not remeasured in subsequent years.

2. IMPACT OF NEW/REVISED HKFRS AND HKAS (Continued)

(f) The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options. Prior to this, the provision of share options to employees did not result in a charge to profit and loss account. Following the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods to the profit and loss account.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2, except that pursuant to the transitional provisions set out in paragraph 53 of HKFRS 2, the new recognition and measurement policies have not been applied to the following grants of share options:

- all share options granted to employees on or before 7 November 2002; and

- all share options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

2. IMPACT OF NEW/REVISED HKFRS AND HKAS (Continued)

(g) Effect of changes in the above accounting policies on the condensed consolidated balance sheet is as follows:

HK$ million	Previous accounting policies	Effect of adopting: HKAS 17*	HKAS 8*	HKAS 32* and HKAS 39#	HKFRS 3#	Total effect on adoption of HKFRSs and HKASs	Adoption of HKFRSs and HKASs
At 1 January 2005 (Audited and restated)							
Assets:							
Fixed assets	1,621	(1,621)	—	—	—	(1,621)	—
Properties, plant and equipment	—	1,269	—	—	—	1,269	1,269
Investment properties	—	101	—	—	—	101	101
Land lease payments	—	234	—	—	—	234	234
Interest in an associate	293	—	(71)	—	—	(71)	222
Held-to-maturity financial assets	—	—	—	17	—	17	17
Financial assets at fair value through profit or loss	—	—	—	44	—	44	44
Cash and cash equivalents	832	—	—	(61)	—	(61)	771
Forward currency contracts	—	—	—	4	—	4	4
Total equity:							
Share capital	42	—	—	—	—	—	42
Share premium	1,250	—	—	—	—	—	1,250
Capital reserve	1,060	—	—	—	—	—	1,060
Accumulated losses	(61)	(17)	(71)	2	(8)	(94)	(155)
Proposed final dividend	8	—	—	—	—	—	8
Minority interests	196	—	—	2	8	10	206
	2,495	(17)	(71)	4	—	(84)	2,411

* *adjustments which take effect retrospectively*

\# *adjustments which take effect prospectively from 1 January 2005*

2. IMPACT OF NEW/REVISED HKFRS AND HKAS (Continued)

(g) Effect of changes in the above accounting policies on the condensed consolidated balance sheet is as follows (Continued):

HK$ million	Previous accounting policies	Effect of adopting HKAS 17*	HKAS 8*	HKAS 32* and HKAS 39#	HKFRS 3#	Total effect on adoption of HKFRSs and HKASs	Adoption of HKFRSs and HKASs
At 30 June 2005 (Unaudited)							
Assets:							
Fixed assets	1,660	(1,660)	—	—	—	(1,660)	—
Properties, plant and equipment	—	1,312	—	—	—	1,312	1,312
Investment properties	—	98	—	—	—	98	98
Land lease payments	—	231	—	—	—	231	231
Goodwill	124	—	—	—	(8)	(8)	116
Available-for-sale financial assets	—	—	—	790	—	790	790
Held-to-maturity financial assets	—	—	—	17	—	17	17
Financial assets at fair value through profit or loss	—	—	—	66	—	66	66
Other assets	12	—	—	(12)	—	(12)	—
Long term investments	348	—	(109)	(239)	—	(348)	—
Short term investments	3	—	—	(3)	—	(3)	—
Cash and cash equivalents	738	—	—	(77)	—	(77)	661
Forward currency contracts	—	—	—	3	—	3	3
Liabilities:							
Convertible notes	150	—	—	(43)	—	(43)	107
Forward currency contracts	—	—	—	1	—	1	1
Total equity:							
Share capital	43	—	—	—	—	—	43
Share premium	1,260	—	—	—	—	—	1,260
Capital reserve	741	—	—	—	—	—	741
Revaluation reserve	—	—	—	539	—	539	539
Equity component of convertible notes	—	—	—	44	—	44	44
Retained profits	122	(19)	(109)	2	(9)	(135)	(13)
Minority interests	58	—	—	2	1	3	61
	2,224	(19)	(109)	587	(8)	451	2,675

* *adjustments which take effect retrospectively*

\# *adjustments which take effect prospectively from 1 January 2005*

2. IMPACT OF NEW/REVISED HKFRS AND HKAS (Continued)

(h) Effect of changes in the above accounting policies on the condensed consolidated profit and loss account is as follows:

	Effect of adopting			
HK$ million	HKAS 17*	HKAS 8*	HKAS 32* and HKAS 39#	Total effect on adoption of HKFRSs and HKASs
For the six months ended 30 June 2005 (Unaudited)				
Decrease in depreciation	1	—	—	1
Increase in amortisation of land lease payments	(3)	—	—	(3)
Decrease in gain on disposal and deemed disposal of an associate	—	(38)	—	(38)
Increase in finance costs	—	—	(1)	(1)
Decrease on forward currency contracts	—	—	(2)	(2)
Total decrease in profit	(2)	(38)	(3)	(43)
Decrease in basic earnings per share (HK$)	(0.005)	(0.090)	(0.007)	(0.102)
For the six months ended 30 June 2004 (Unaudited)				
Decrease in depreciation	1	—	—	1
Increase in amortisation of land lease payments	(3)	—	—	(3)
Increase in share of profit of an associate	—	26	—	26
Increase in share of tax attributable to an associate	—	(6)	—	(6)
Total increase/(decrease) in profit	(2)	20	—	18
Increase/(decrease) in basic earnings per share (HK$)	(0.005)	0.047	—	0.042

* *adjustments which take effect retrospectively*

adjustments which take effect prospectively from 1 January 2005

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 that they each 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 and health care products segment engages in the manufacture and sale of baby products; and

(c) 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.

3. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue and profit/(loss) regarding the Group's business segments for the period ended 30 June 2005 and 2004.

2005

HK$ million	Telecom and electronic products (Unaudited)	Baby and health care products (Unaudited)	Corporate and others (Unaudited)	Total (Unaudited)
Segment revenue:				
Sales to external customers	1,730	66	—	1,796
Other revenue	11	—	5	16
Total revenue	1,741	66	5	1,812
Segment results	110	2	(46)	66
Interest income				4
Profit from operating activities				70
Unallocated revenue				109
Finance costs				(7)
Profit before tax				172
Tax				(10)
Profit for the period				162

3. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

2004

HK$ million	Telecom and electronic products (Unaudited)	Baby and health care products (Unaudited)	Corporate and others (Unaudited)	Total (Unaudited)
	(Restated)	(Restated)	(Restated)	(Restated)
Segment revenue:				
Sales to external customers	1,806	71	—	1,877
Other revenue	10	—	2	12
Total revenue	1,816	71	2	1,889
Segment results	125	9	(35)	99
Interest income				3
Profit from operating activities				102
Finance costs				(3)
Share of profit of an associate				26
Profit before tax				125
Tax				(13)
Profit for the period				112

3. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following tables present revenue information regarding the Group's geographical segments for the period ended 30 June 2005 and 30 June 2004.

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

2004

HK$ million	United States of America (Unaudited)	PRC, including HK (Unaudited)	European Union (Unaudited)	Others (Unaudited)	Total (Unaudited)
Segment revenue:					
Sales to external customers	1,097	376	88	316	1,877
Other revenue	—	12	—	—	12
Total revenue	1,097	388	88	316	1,889

4. GAIN ON DISPOSAL AND DEEMED DISPOSAL OF AN ASSOCIATE

To maintain the minimum public float of Haier Electronics upon the completion of the Asset Injection, the Company and a wholly-owned subsidiary of the Company entered into a placing agreement on 19 January 2005 for a placement of 419,997,667 ordinary shares of HK$0.10 each in Haier Electronics at a price of HK$0.24 per share to independent investors (the "Placement"). The Placement was completed on 24 January 2005.

The Asset Injection was completed on 28 January 2005. Upon completion of the Asset Injection and the Placement, the equity interests of the Group in Haier Electronics was reduced from 43.6% to 24.0% and Mr. Mak Shiu Tong, Clement, the chairman and a director of the Company, and Mr. Tam Ngai Hung, Terry, a director of the Company, resigned from the board of directors of Haier Electronics and Haier Electronics was ceased to be accounted for as the Group's associated company as the Group is not in a position to exercise significant influence over Haier Electronics.

The effect of the Asset Injection and the Placement resulted in the disposal and deemed disposal of approximately 19.6% equity interests in Haier Electronics and the Group recorded a gain of approximately HK$109 million.

Under HKFRS 3, the Asset Injection in Haier Electronics is accounted for as a reverse acquisition and the consolidated financial statements of Haier Electronics have been restated retrospectively by adopting the reverse acquisition accounting method. As such, the interest in Haier Electronics in the Group's financial statements in previous years are restated accordingly.

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

HK$ million	Six months ended 30 June 2005 (Unaudited)	2004 (Unaudited) (Restated)
Cost of inventories sold	1,734	1,764
Depreciation	63	60
Amortisation of land lease payments	3	3
Amortisation of deferred development costs	13	15
Write off of deferred development costs	4	8

6. TAX

HK$ million	Six months ended 30 June 2005 (Unaudited)	2004 (Unaudited) (Restated)
Current — Hong Kong:		
Charge for the period	7	7
Overprovision in prior years	—	(2)
Current — Elsewhere	2	1
Deferred	1	1
	10	7
Share of tax attributable to an associate	—	6
Total tax charge for the period	10	13

6. TAX (Continued)

The Company is exempted from tax in the Cayman Islands until 2010. Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the 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 the first profit-making year following by a 50% reduction for the next three years.

7. DIVIDENDS

	Six months ended 30 June	
HK$ million	2005 (Unaudited)	2004 (Unaudited)
Special interim dividend — HK$0.68 (30 June 2004: HK$0.10) per ordinary share	319	42
Proposed interim dividend — Nil (30 June 2004: HK$0.01) per ordinary share	—	4
Total	319	46

7. DIVIDENDS (Continued)

A special interim dividend of HK$0.68 per share was declared on 16 June 2005 out of the capital reserves of the Company. The amount of special interim dividend for the six months ended 30 June 2005 is calculated based on 468,808,652 shares in issue as at 7 July 2005 being the book close date for entitlement of special interim dividend, comprising 434,588,652 shares in issue as at 30 June 2005 and additional 34,220,000 shares issued on 4 July 2005. The special interim dividend for the six months ended 30 June 2005 was paid on 19 August 2005.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

HK$ million	Six months ended 30 June 2005 (Unaudited)	2004 (Unaudited)
		(Restated)
Earnings		
Net profit for calculation of basic earnings per share	142	74
Adjustment for effective interest saving on convertible notes added back on deemed conversion of the notes	1	—
Net profit for calculation of diluted earnings per share	143	74
Shares	Number of shares	
Weighted average number of ordinary shares for calculation of basic earnings per share	423,995,545	422,105,230
Effect of dilutive convertible notes	43,656,435	—
Effect of dilutive share options	17,608,132	16,299,836
Weighted average number of ordinary shares for calculation of diluted earnings per share	485,260,112	438,405,066

9. FIXED ASSETS

During the six months ended 30 June 2005, the Group acquired fixed assets of HK$105 million (six months ended 30 June 2004: HK$128 million) and disposed fixed assets of HK$4 million (six months ended 30 June 2004: HK$84 million).

10. TRADE AND BILLS RECEIVABLES

The Group offers an average credit period of 30–90 days to its trade customers. The aged analysis of the trade and bills receivables is as follows:

	30 June 2005 (Unaudited)		31 December 2004 (Audited)	
	HK$ million	Percentage	HK$ million	Percentage
Current to 30 days	382	48	302	38
31 to 60 days	211	27	264	33
61 to 90 days	178	22	216	27
Over 90 days	22	3	12	2
Total	793	100	794	100

11. TRADE AND BILLS PAYABLES

The aged analysis of the trade and bills payable is as follows:

	30 June 2005 (Unaudited)		31 December 2004 (Audited)	
	HK$ million	Percentage	HK$ million	Percentage
Current to 30 days	350	40	249	28
31 to 60 days	186	21	179	20
61 to 90 days	150	17	196	22
Over 90 days	199	22	273	30
Total	885	100	897	100

12. CONVERTIBLE NOTES

HK$ million	30 June 2005 (Unaudited)	31 December 2004 (Audited)
2010 Convertible Notes — note (a)	107	—
2007 Convertible Note — note (b)	—	45
	107	45
Portion classified as current liabilities	—	(45)
Non-current portion	107	—

12. CONVERTIBLE NOTES (Continued)

(a) The 2010 Convertible Notes represent the outstanding convertible notes issued by the Company during the period to those CCT Tech's shareholders and the holder of the CCT Tech 2007 Convertible Note (see note 12(b) below) who accepted the general offers on CCT Tech ("General Offers") made by Jade Assets Company Limited ("Jade Assets"), a subsidiary of the Company, on CCT Tech and who opted for the 2010 Convertible Notes.

The 2010 Convertible Notes are interest-free and have a maturity date on the fifth anniversary of the date of their issue.

According to HKAS 32, any convertible note is required to be separated into liability and equity components on its initial recognition and the liability component is carried at amortised cost using effective interest method. Accordingly, the liability component of the outstanding 2010 Convertible Notes was stated at amortised in the amount of HK$107 million as at 30 June 2005. The equity component of the outstanding 2010 Convertible Notes was included in the shareholders' equity.

(b) The 2007 Convertible Note as at 31 December 2004 represents the zero coupon convertible note issued by CCT Tech and was previously held by New Capital Industrial Limited ("New Capital"), a company controlled by Mr. Mak Shiu Tong, Clement, the chairman and a director of the Company, and his family members. The 2007 Convertible Note was transferred by New Capital to Jade Assets during the period pursuant to the terms of the General Offers and was therefore eliminated on consolidation as at 30 June 2005. The original due date of the 2007 Convertible Note was 17 May 2005 and was subsequently extended to 31 December 2007 in May 2005.

13. SHARE CAPITAL

HK$ million	30 June 2005 (Unaudited)	31 December 2004 (Audited)
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	200	200
Issued and fully paid:		
434,588,652 (31 December 2004: 422,525,230) ordinary shares of HK$0.10 each	43	42

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

	Number of ordinary shares of HK$0.10 each	Issued share capital HK$ million
At 1 January 2005	422,525,230	42
Exercise of share options	7,560,000	1
Conversion of convertible notes	4,503,422	—
At 30 June 2005	434,588,652	43

14. CONTINGENT LIABILITIES

As at 30 June 2005, the Group has given guarantee to an independent third party in respect of a rental agreement amounting to approximately HK$45 million (31 December 2004: HK$48 million).

The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$2 million as at 30 June 2005 (31 December 2004: HK$9 million). The contingent liability has arisen as a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

15. PLEDGE OF ASSETS

At 30 June 2005, the Group's bank borrowings were secured by:

(i) pledge of the Group's fixed deposits amounting to approximately HK$67 million (31 December 2004: HK$117 million); and

(ii) fixed charges over certain of the Group's leasehold land and buildings with an aggregate net book value amounting to approximately HK$691 million (31 December 2004: HK$254 million).

16. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for an average term of two years.

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

HK$ million	30 June 2005 (Unaudited)	31 December 2004 (Audited)
Within one year	3	3
In the second to the fifth year, inclusive	2	3
	5	6

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

HK$ million	30 June 2005 (Unaudited)	31 December 2004 (Audited)
Within one year	2	2
In the second to the fifth year, inclusive	9	9
After five years	113	114
	124	125

17. COMMITMENTS

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

HK$ million	30 June 2005 (Unaudited)	31 December 2004 (Audited)
Contracted, but not provided for:		
Construction in progress	27	28
Purchases of motor vehicles	—	4
Purchases of plant and machinery and equipment	11	1
	38	33

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

HK$ million	31 December 2004 (Audited)
	(Restated)
Contracted, but not provided for	7
Authorised, but not contracted for	—
	7

18. RELATED PARTY TRANSACTIONS

(a) Pursuant to the General Offers, the 2007 Convertible Note due by CCT Tech was transferred by New Capital to Jade Assets at a consideration of approximately HK$103 million during the period in return for the issue of the Company's 2010 Convertible Notes in the amount of approximately HK$103 million to New Capital. The transaction was approved by the independent shareholders of the Company in the extraordinary general meeting held on 18 April 2005 and was completed on 25 April 2005. Further details of the transaction were set out in the circular of the Company dated 31 March 2005.

(b) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
HK$ million	2005 (Unaudited)	2004 (Unaudited)
Short term employee benefits	22	19
Post-employment benefits	—	—
Total compensation paid to key management personnel	22	19

19. POST BALANCE SHEET EVENTS

(a) In order to restore the public float of CCT Tech, the Company, Jade Assets and a third party (the "Purchaser") entered into a sale and purchase agreement on 22 July 2005 for the sale of 1,500,000,000 shares of CCT Tech owned by Jade Assets to the funds under management by the Purchaser at a price of HK$0.02 per share of CCT Tech with a six-month put option granted to the Purchaser. After such sale, the Company had a 74.71% controlling interest in CCT Tech. Further details are set out in the Company's announcement dated 22 July 2005.

(b) On 22 September 2005, the Company announced that it proposed to seek prior shareholders' approval to approve the possible sale of part or whole of the property currently owned by the Group, which is currently used as the Group's corporate office in Hong Kong. The Company intends to relocate its corporate office by leasing smaller premises. The proposed sale and office relocation is because the existing property exceeds the Group's requirements for a corporate office premises and the proposed sale and office relocation may result in a realisation of a good value of the property (due to the recent prosperous property market) and may possibly result in a gain on disposal and net savings in administrative costs and finance cost. Further announcement will be made if the sale is materialised. Please refer to the announcement of the Company dated 22 September 2005 for details.

(c) On 22 September 2005, the board of the Company announced that it proposed to change the domicile of the Company from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda, in order to simplify the procedures and allow flexibility for any future possible capital reorganisation. The proposed change of domicile will not affect the continuity and listing status, as well as the underlying assets, business operations, management or financial position of the Company, nor will it have any impact on the rights and obligations of the shareholders. The proposed change of domicile is conditional upon the approval of the shareholders and the compliance of the relevant procedures and requirements under the applicable laws of the Cayman Islands and Bermuda and the Listing Rules of Hong Kong. Please refer to the announcement of the Company dated 22 September 2005 for details.

20. COMPARATIVE FIGURES

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

disclosure of interests

DIRECTORS' INTERESTS

As at 30 June 2005, the directors and the chief executive of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules:

(a) Interests and short positions in the shares, underlying shares and debentures of the Company

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

Name of director	Notes	Personal	Number of shares beneficially held and nature of interest Family	Corporate	Total	Approximate percentage of total shareholding
						(%)
Mak Shiu Tong, Clement	(a)	—	—	86,261,941	86,261,941	19.85
Cheng Yuk Ching, Flora	(b)	9,876,713	120,000	—	9,996,713	2.30
Tam Ngai Hung, Terry		4,200,000	—	—	4,200,000	0.97
William Donald Putt		591,500	—	—	591,500	0.14
Samuel Olenick	(c)	—	—	125,000	125,000	0.03
Lau Ho Man, Edward		170,000	—	—	170,000	0.04

Notes:

(a) The shares were held by Capital Force International Limited and Capital Interest Limited, which are corporations controlled by Mr. Mak Shiu Tong, Clement whose interest in the shares has also been disclosed under the section headed "Substantial Shareholders' Interests" below.

(b) 120,000 shares were held by the spouse of Ms. Cheng Yuk Ching, Flora who was deemed to be interested in such shares under the provisions of Part XV of the SFO.

(c) Mr. Samuel Olenick was deemed to be interested in 125,000 shares under the provisions of Part XV of the SFO.

(ii) *Long positions in the underlying shares of equity derivatives of the Company:*

(1) *Share options:*

Name of director	Date of grant of share options	Exercise period of share options	Exercise price per share	Number of share options outstanding	Number of total underlying shares	Approximate percentage of total shareholding
			HK$			(%)
Mak Shiu Tong, Clement	17/3/2003	17/3/2003 – 16/3/2008	0.75	420,000	420,000	0.10
Cheng Yuk Ching, Flora	17/3/2003	17/3/2003 – 16/3/2008	0.75	4,200,000	4,200,000	0.97
Samuel Olenick	17/3/2003	17/3/2003 – 16/3/2008	0.75	420,000	420,000	0.10

(2) *Convertible bonds due 2010:*

Name of director	Number of total underlying shares	Approximate percentage of total shareholding
		(%)
Mak Shiu Tong, Clement (Note)	83,065,810	19.11

Note: The convertible bonds were issued by the Company to New Capital Industrial Limited on 25 April 2005, with an outstanding principal amount of HK$103,500,000.00 as at 30 June 2005. The convertible bonds are interest free, convertible into the shares of the Company at a conversion price of HK$1.246 per share (subject to adjustments) as at 30 June 2005 and due on 25 April 2010. This interest in the underlying shares has also been disclosed under the section headed “Substantial Shareholders’ Interests” below.

(b) Interests and short positions in the shares, underlying shares and debentures of associated corporations

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

Name of director	Notes	Number of shares beneficially held and nature of interest: Personal	Corporate	Approximate percentage of total shareholding
				(%)
Mak Shiu Tong, Clement	(a)	—	30,717,334	0.188
Cheng Yuk Ching, Flora		20,812,498	—	0.127
William Donald Putt		179,112	—	0.001
Samuel Olenick	(b)	—	130,548	0.001

Notes:

(a) The shares were held by Capital Interest Limited, which is a corporation controlled by Mr. Mak Shiu Tong, Clement.

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

(ii) *Long positions in the underlying shares of equity derivatives of Haier Electronics — Share options:*

Name of director	Date of grant of share options	Exercise period of share options	Exercise price per share	Number of share options outstanding	Number of total underlying shares	Approximate percentage of total shareholding
			HK$			(%)
Mak Shiu Tong, Clement	16/8/2002	16/8/2003 – 15/8/2007	0.156	89,000,000	89,000,000	0.54
Cheng Yuk Ching, Flora	16/8/2002	16/8/2003 – 15/8/2007	0.156	74,000,000	74,000,000	0.45
Tam Ngai Hung, Terry	16/8/2002	16/8/2003 – 15/8/2007	0.156	84,000,000	84,000,000	0.51
William Donald Putt	16/8/2002	16/8/2003 – 15/8/2007	0.156	5,000,000	5,000,000	0.03

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

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

Save as disclosed above, as at 30 June 2005, none of the directors and the chief executive of the Company and/or any of their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2005, the following persons (other than the directors or the chief executive of the Company) had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

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

Name of shareholder	Number of shares held	Approximate percentage of total shareholding
		(%)
Capital Force International Limited (Note)	56,850,093	13.08
Capital Interest Limited (Note)	29,411,848	6.77
	86,261,941	19.85

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

(ii) **Long positions in the underlying shares of equity derivatives of the Company — Convertible bonds due 2010:**

Name of holder of equity derivatives	Notes	Amount of the convertible bonds due 2010	Number of total underlying shares	Approximate percentage of total shareholding
		HK$		(%)
New Capital Industrial Limited	(a)	103,500,000.00	83,065,810	19.11
Kwong Cheong Trading Limited	(b)	46,000,000.00	36,918,138	8.49
Yang Shao Wu	(c)	46,000,000.00	36,918,138	8.49

Notes:

(a) The convertible bonds were issued by the Company to New Capital Industrial Limited on 25 April 2005, with an outstanding principal amount of HK$103,500,000.00 as at 30 June 2005. The convertible bonds are interest free, convertible into the shares of the Company at a conversion price of HK$1.246 per share (subject to adjustments) as at 30 June 2005 and due on 25 April 2010. This interest in the underlying shares has also been disclosed under the section headed "Directors' Interests" above.

(b) The convertible bonds were issued by the Company to Kwong Cheong Trading Limited on 25 April 2005, with an outstanding principal amount of HK$46,000,000.00 as at 30 June 2005. The convertible bonds are interest free, convertible into the shares of the Company at a conversion price of HK$1.246 per share (subject to adjustments) as at 30 June 2005 and due on 25 April 2010.

(c) The interest disclosed represents the convertible bonds due 2010 with 36,918,138 underlying shares held by Kwong Cheong Trading Limited, which is a corporation wholly owned by Mr. Yang Shao Wu.

Save as disclosed above, as at 30 June 2005, there was no other person (other than the directors or the chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

share option scheme

A share option scheme (the "Share Option Scheme") was adopted by the Company on 28 February 2002 to comply with the new amendments to the Listing Rules in respect of the share option schemes of a listed company. As at 30 June 2005, there were 34,220,000 share options outstanding under the Share Option Scheme. Based on these outstanding share options, the total number of shares available for issue is 34,220,000, which represents approximately 5.22% of the issued share capital of the Company as at the date of the 2005 Interim Report. No share options has been granted under the Share Option Scheme during the period for the six months ended 30 June 2005.

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

	Number of share options								
Name or category of participant	Outstanding as at 1 January 2005	Granted during the period	Exercised during the period	Lapsed/ Cancelled during the period	Outstanding as at 30 June 2005	Date of grant of share options	Exercise period of share options	Exercise price per share (Note 1)	Price of the shares at exercise date of share options (Note 2)
								HK$	HK$
Executive directors									
Mak Shiu Tong, Clement	420,000	—	—	—	420,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	N/A
Cheng Yuk Ching, Flora	4,200,000	—	—	—	4,200,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	N/A
Tam Ngai Hung, Terry	4,200,000	—	(4,200,000)	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.74
William Donald Putt	420,000	—	(420,000)	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.74
	9,240,000	—	(4,620,000)	—	4,620,000				
Independent non-executive directors									
Samuel Olenick	420,000	—	—	—	420,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	N/A
Tam King Ching, Kenny	420,000	—	(420,000)	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.74
Lau Ho Man, Edward	420,000	—	(420,000)	—	—	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.74
	1,260,000	—	(840,000)	—	420,000				
Other employees									
In aggregate	31,280,000	—	(2,100,000)	—	29,180,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.74
	31,280,000	—	(2,100,000)	—	29,180,000				
	41,780,000	—	(7,560,000)	—	34,220,000				

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

DISCLOSURES PURSUANT TO RULE 13.20 OF THE LISTING RULES

The following disclosures in respect of advances to entities are made in accordance with the disclosure requirement of Rule 13.20 of the Listing Rules.

At 30 June 2005, the Group had accounts receivable due from three of its customers amounted to HK$644.8 million in aggregate, which individually exceeded 8% of the unaudited total assets as at 30 June 2005 and/or the market capitalisation of the Company (based on the Company's closing share price of the five trading days ended 30 June 2005) as follows:

	Unaudited balance at 30 June 2005	As a percentage to the unaudited total assets at 30 June 2005	As a percentage to the market capitalisation (based on five day's average price ended on 30 June 2005)
	HK$ million		
Customer A	524.6	11.7%	70.8%
Customer B	66.2	1.5%	8.9%
Customer C	54.0	1.2%	7.3%

The above trade receivables arose from the sale of telecom products by the Group in its usual and ordinary course of business and are governed by normal commercial terms agreed with each of the above customers on an arm's length basis. The above trade receivables are interest-free and unsecured. The repayment or credit terms of the above trade receivables are short term and granted in line with the Group's credit policy, as disclosed in the 2005 Interim Report and on normal commercial terms and on an arm's length basis.

To the best of the knowledge of the directors of the Company, each of the above customers is an independent third party that is not connected in any way with the directors, chief executive or substantial shareholders of the Company or its subsidiaries or associates.

The above three customers are companies of considerable size and reputation that are owners of internationally renowned brands. The above three customers are either an international conglomerate or a major subsidiary of an international conglomerate whose business operations cover a large number of countries and whose shares are listed on the New York Stock Exchange and/or other major stock exchanges in Europe and have been awarded credit ratings by Standard & Poor's ranging from BBB+/Stable to AAA/Stable. The primary scope of business of these three customers is the sale of a variety of telecom, electronic, multi-media and consumer products worldwide. All of the three customers had made payment to the Group in accordance with their agreed repayment terms and in a timely manner as agreed between the customers and the Group.

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 2005.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Listing Rules throughout the period for the six months ended 30 June 2005, except with the following deviations:

Code Provision A.2.1

There is no separation of the role of chairman and chief executive officer as set out in the code provision A.2.1. Mr. Mak Shiu Tong, Clement ("Mr. Mak") currently assumes the role of both the Chairman and Chief Executive Officer of the Company. Mr. Mak has substantial experience and a firmly established reputation in the telecom industry that is essential to fulfilling the role of the Chairman. At the same time, Mr. Mak has the appropriate management skills and business acumen that are the pre-requisites for assuming the role of the Chief Executive Officer in the day-to-day management of the Group. The Board is composed of four executive directors (including the

Chairman) and three independent non-executive directors with a balance of skills and experience appropriate for the requirements of the Group. Furthermore, the role of the managing directors and general managers of the Company's major operating subsidiaries are performed by other individuals. The Board believes that there is no need to segregate the roles of the Chairman and the Chief Executive Officer as the balance of power and authority is already ensured by the current structure.

Code Provision A.4.1

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

None of the existing independent non-executive directors of the Company are appointed for a specific term. However, all independent non-executive directors of the Company are subject to retirement by rotation and re-election at every annual general meeting of the Company in accordance with the articles of association of the Company.

Code Provision A.4.2

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

In accordance with the articles of association of the Company, any director appointed to fill a casual vacancy shall hold office only until the next following annual general meeting and shall then be eligible for re-election. The Board considers that such a deviation is not material as casual vacancy seldom happens and duration between appointment to fill casual vacancy and the immediate following annual general meeting is short.

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

REMUNERATION COMMITTEE

Pursuant to the requirements of the Listing Rules, the Company has established a remuneration committee (the "Remuneration Committee") with specific written terms of reference in line with the code provisions in the Code. The Remuneration Committee consists of five members comprising the three independent non-executive directors of the Company, namely Messrs. Tam King Ching, Kenny, Lau Ho Man, Edward and Samuel Olenick, and two executive directors of the Company, namely Messrs. Mak Shiu Tong, Clement and Tam Ngai Hung, Terry. The Remuneration Committee is chaired by an independent non-executive director of the Company. The first meeting of the Remuneration Committee was held on 30 June 2005.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules. Having made specific enquiries with 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 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of a sufficient number of independent non-executive directors ("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 2005. The Board comprises three INEDs, all of whom have accounting and financial expertise.

BOARD OF DIRECTORS

As at the date of the 2005 Interim Report, the executive directors of the Company are Mr. Mak Shiu Tong, Clement, Ms. Cheng Yuk Ching, Flora, Mr. Tam Ngai Hung, Terry and Mr. William Donald Putt and the independent non-executive directors of the Company are Mr. Samuel Olenick, Mr. Tam King Ching, Kenny and Mr. Lau Ho Man, Edward.

REVIEW BY AUDIT COMMITTEE

The 2005 Interim Report has been reviewed by the Company's Audit Committee which comprises three independent non-executive directors.

By Order of the Board
Mak Shiu Tong, Clement
Chairman

Hong Kong, 23 September 2005

中建電訊集團有限公司

CCT TELECOM