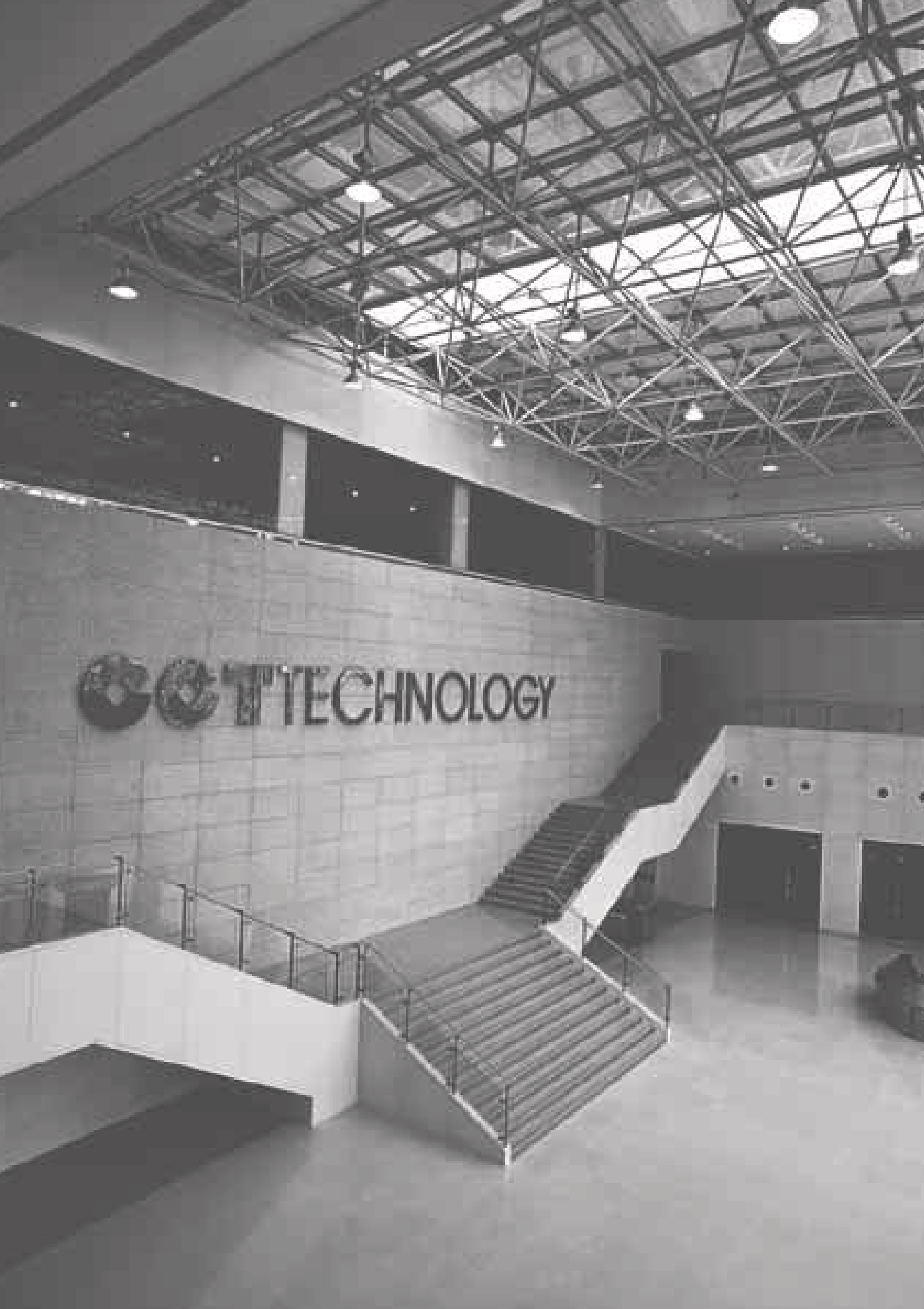
二〇〇五年中期報告

中建科技國際有限公司

CCT TECH

2005 interim report


TECHNOLOGY

chairman's letter

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
HK$ million	2005 (Unaudited)	2004 (Unaudited)	% increase/ (decrease)
		(Restated)	
Turnover	1,737	1,783	(2.6%)
Operating profit	103	92	12.0%
Net profit attributable to shareholders of the Company	68	56	21.4%

I am pleased to announce the interim results of CCT Tech International 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$1,737 million, operating profit of HK$103 million and net profit attributable to shareholders of the Company of HK$68 million.

Turnover of the Group slightly decreased by approximately 2.6% as compared to the corresponding period as a result of slight delays in certain shipments of goods that was caused by the shortage of labour in the Guangdong Province (where our factories are located) throughout the period.

Operating profit and net profit increased by approximately 12.0% and 21.4%, respectively, due to efforts on the part of the management in continuously improving efficiencies, successful product diversification and differentiation, meeting consumer preferences and implementing effective cost control measures.

INTERIM DIVIDEND

The directors do not recommend payment of an interim dividend for the six months ended 30 June 2005 (30 June 2004: nil).

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 Group has maintained its position as one of the world's leading telecom product manufacturers engaged in the production of cordless phones and hi-tech wireless electronic products on an original design manufacturing basis and contract manufacturing basis for a number of leading internationally renowned brands. In recent years and during the period under review, the Group broadened its customer base with the addition of a number of worldwide distributors of telecom products.

As always, our Group is frequently faced with many business challenges and the period under review was no exception. Keen competition in the Group's major markets brought pressure from our customers for us to offer them ever more competitive prices. The continuous rise in cost of raw materials, including the costs of plastic materials (due mainly to buoyant petroleum price), copper and certain electronic components due to rising demand and unstable supply in the global market, resulted in pressure on our cost and margins. Shortage of labour in the Guangdong Province and the rising cost of wages for staff and workers in Hong Kong and the PRC also contributed to an increase in our operating costs. The labour shortage problem became even more apparent when some shipments of our products to customers during the period were delayed slightly.

Nevertheless, I am pleased to report that we managed to tackle most of these challenges head-on and minimise their potential impact on our operations by further improving our operational efficiencies in all respects, boosting our economies of scale and adopting effective cost control measures. Our R&D centre in Singapore that commenced operation earlier this year has enhanced the Group's research and development capability and has attracted many skilled and experienced engineers from the region. Together with the strong team of our engineers in Hong Kong and

Shenzhen, we have been able to develop and launch innovative and highly advance telecom products ahead of market expectations which has helped us increase our competitive edge and maintain our margin. New products such as 5.8 GHz digital cordless phones and a number of new DECT with advanced features were launched during the period. Through the effort of the management, we have been able to report a 21.4% increase in net profit under the difficult and competitive business environment.

Given our world-class R&D team, we commenced production of hi-tech wireless electronic products during the period under review. We believe that demands in hi-tech wireless electronic products will be ever-increasing in today's world of technology and the potential of this business should be very promising.

CCT TELECOM INCREASE ITS SHAREHOLDING IN THE COMPANY

As I previously reported, CCT Telecom Holdings Limited ("CCT Telecom"), being the ultimate holding company of the Company, made general offers to the shareholders, holders of the share options and holders of the convertible notes of the Company on 31 January 2005. The offers closed on 6 May 2005. Upon completion of the offers, CCT Telecom increased its shareholding in the Company from 34.51% to 84.12%. In order to restore the public float of the Company, CCT Telecom sold 1,500 million existing issued shares of the Company 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, CCT Telecom had a 74.71% controlling interest in the Company.

CCT Telecom has, since then, allow the business operations of the Company to continue its course while at the same time giving its full support to the Company in its capacity as its major shareholder.

OUTLOOK

The second half of the year will remain challenging for the Group. We expect competition in our major market to continue, thereby, imposing pressure on the prices offer to our customers. Shortage of labour in the Guangdong Province remains an operating issue for the Group while the continuous increase in petroleum price, cost of certain raw materials and components creates pressure on our operating margin. Appreciation of the Renminbi will also have impact on the operating cost of the Group. All these factors will no doubt have repercussions on the business of the Group.

Despite the above business uncertainties and risks, we expect the US economy to remain strong in the second half of the year because of the continuous growth in retail sales. Sales to Europe and the rest of the world are also expected to improve due to increasing orders from new and existing customers. We are also very optimistic about our new hi-tech wireless electronic products business as orders received for these products continue to gain momentum.

To deal with the labour shortage and other operational problems, we will continue to implement measures to improve labour efficiency, to control costs and to effectively use resources. 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 behalf of the Board, I would like to take this opportunity to express our appreciation and gratitude to the senior management and all staff for their support, hard work and dedication over the years. We would also like to express our sincere thanks to our shareholders, bankers, investors, customers and suppliers for their continued encouragement and strong support to the Group.

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	1,737	1,783	(2.6%)
Operating profit	103	92	12.0%
Net profit attributable to shareholders of the Company	68	56	21.4%
	30 June 2005 (Unaudited)	31 December 2004 (Audited) (Restated)	
Highlights on Financial Position and Major Balance Sheet Items			
Properties, plant and equipment	512	607	(15.7%)
Land lease payments	52	85	(38.8%)
Investment property	178	—	N/A
Other non-current assets	63	54	16.7%
Total non-current assets	805	746	7.9%
Net current assets	277	194	42.8%
Non-current liabilities	699	640	9.2%
Shareholders' funds	383	300	27.7%

ADOPTION OF NEW ACCOUNTING STANDARDS

During the period, the Company adopted the new financial reporting standards which became effective 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

Turnover of the Group for the six months ended 30 June 2005 amounted to HK$1,737 million which represents a decrease of approximately 2.6% as compared to the corresponding period. The decrease is mainly attributable to the labour shortage in the Guangdong Province which affected the Group's shipment schedule during the period.

Despite the 2.6% decrease in turnover during the period under review, net profit of the Group increased 21.4% to HK$68 million as compared to the corresponding period, due to improved efficiency and effective cost control.

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	1,737	114	1,783	101
Corporate and others	—	(11)	—	(9)
Total	1,737	103	1,783	92

During the period under review, the Group continued to focus on the manufacturing of telecom and electronic products as its principal source of revenue which accounted for 100% of the turnover and operating profit of the Group during the period under review.

The ratio of the net operating profit (before finance costs and taxation) as a percentage of turnover was approximately 5.9% in the period under review, which was slightly improved from that of 5.2% in the corresponding period. 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	
	Turnover	Relative	Turnover	Relative
HK$ million	(Unaudited)	%	(Unaudited)	%
United States of America ("US")	1,090	63%	1,031	58%
PRC, including Hong Kong	372	21%	353	20%
European Union and others	275	16%	399	22%
Total	1,737	100%	1,783	100%

The Group is one of the world's major manufacturers and suppliers of cordless telecom products. The Group's turnover was primarily derived from the export of telecom products to its worldwide customers.

The United States remained the primary market of the Group, accounting for approximately 63% (corresponding period: 58%) of the Group's turnover for the period under review. The PRC (including Hong Kong), European Union and others accounted for approximately 21% (corresponding period: 20%) and approximately 16% (corresponding period: 22%) respectively of the Group's turnover. The geographical mix maintained similar pattern as last period.

DISCUSSION ON FINANCIAL POSITION AND MAJOR BALANCE SHEET ITEMS

The properties, plant and equipment represent fixed assets held for own use and were stated at cost less accumulated depreciation. Additional fixed assets in the amount of HK$74 million were acquired during the current period to cope with the needs of production. However, the net book value of these fixed assets at balance sheet date decreased by 15.7% compared with the comparative amount mainly due to depreciation for the period and reclassification of the investment properties in the current period but not in the corresponding period in accordance with the new financial reporting standard HKAS40.

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

Investment property represents the factory premises leased by the Group to a subsidiary of CCT Telecom for the production of plastic components which are mainly supplied to the Group for production of telecom products. According to the new financial reporting standard of HKAS 40, with effect from 1 January 2005, the factory building held for investment and the related land lease payments have been stated at fair value and have been accounted for as investment property in the current period. However, retrospective adjustment is not required for the comparative amounts in the prior period in which the owner-occupied properties and the investment property were grouped together and stated at cost less accumulated depreciation and impairment losses.

Total non-current assets increased by approximately 7.9% during the period, mainly attributable to the additions of factory building and plant and equipment and intangible assets to cope with the needs of production.

Net current assets increased by approximately 42.8%, mainly due to (i) the increase of inventories in order to prepare for the peak sales season in the second half of the year; and (ii) the reclassification of convertible notes in the principal amount of HK$45 million to non-current liabilities due to the extension of the maturity date of the convertible notes.

The increase in non-current liabilities of approximately 9.2% was mainly due to increase of secured bank loans to fund the construction of additional factory building and the inclusion of the liability component of the convertible notes as mentioned in the above paragraph.

Shareholders' funds increased by 27.7% due mainly to net profit earned during the period.

CAPITAL STRUCTURE AND GEARING RATIO

The Group's gearing ratio, calculated on the basis of the Group's total borrowings (including bank borrowings, convertible notes and finance lease payables) of approximately HK$790 million over total capital employed (total shareholders' funds plus total borrowings) of approximately HK$1,173 million, decreased to approximately 67% as at 30 June 2005 (31 December 2004: 73%).

The Group's outstanding bank borrowings amounted to approximately HK$132 million as at 30 June 2005 (31 December 2004: HK$137 million). Amongst the total outstanding bank borrowings of HK$132 million, HK$40 million is repayable within two to five years. The balance of HK$92 million was arranged on a short-term basis for ordinary business operations and is repayable within one year.

As at the balance sheet date, principal amount of the total outstanding convertible notes issued by the Company amounted to HK$660 million (31 December 2004: HK$660 million) which comprised:

(i) HK$45 million zero coupon convertible notes due 2007 (originally due on 17 May 2005, which was extended to 31 December 2007 during the period) to a wholly-owned subsidiary of CCT Telecom, with a conversion price of HK$0.01 per share; and

(ii) HK$615 million at best lending rate plus 2% per annum convertible notes due 2008 to a wholly-owned subsidiary of CCT Telecom, with a conversion price of HK$0.014 per share.

Pursuant to HKAS 32, an amount of HK$654 million (including an accrued effective interest of approximately HK$1 million) of the convertible note was classified as liability component and the balance of HK$7 million was classified as equity component.

The convertible notes do not impose any immediate repayment pressure on funding as all of the convertible notes are due to wholly-owned subsidiaries of CCT Telecom and are attached with a relatively long maturity period of redemption.

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$4 million (31 December 2004: HK$2 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 and in the second to the fifth year amounted to HK$93 million and HK$697 million, respectively (31 December 2004 as restated: HK$160 million and HK$638 million, respectively). There is 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 about 123% (31 December 2004: about 116%), reflected a healthy and strong financial position of the Group.

As at 30 June 2005, the Group maintained a cash balance of HK$450 million (31 December 2004: HK$517 million), among which HK$60 million (31 December 2004: HK$95 million) was pledged for general banking facilities. Almost all of the Group's cash was placed on deposits with licensed banks in Hong Kong. The strong cash balance plus the cash generated from the Group's operations and funds available from the bank facilities are expected to be sufficient to cover all cash requirements, including working capital and capital expenditure needs.

CAPITAL EXPENDITURES AND COMMITMENTS

During the period under review, the Group incurred capital expenditure amounted to approximately HK$74 million, including the expenditure of approximately HK$44 million for expansion of production facilities in the PRC and approximately HK$22 million for purchase of tools, moulds, plant and machinery and furniture and office equipment of the Group.

As at 30 June 2005, there were outstanding capital commitment contracted by the Group but not yet provided for in the accounts amounted to approximately HK$37 million (31 December 2004: HK$20 million), which was mainly related to the expansion of the production facilities in the PRC and all of which would be financed internally.

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 denominated in Hong Kong dollars and US dollars. Other than the convertible notes in a principal amount of HK$45 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 the Renminbi in future will be of concern to all manufacturers with manufacturing facilities in China and to their respective customers.

ACQUISITIONS AND DISPOSALS OF MATERIAL SUBSIDIARIES AND ASSOCIATES

The Group did not acquire or dispose of any material subsidiaries and associates during the period under review.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investment as at 30 June 2005 (31 December 2004: Nil).

PLEDGE OF ASSETS

As at 30 June 2005, certain of the Group's assets with net book value of HK$443 million (31 December 2004: Nil) and time deposits of approximately HK$60 million (31 December 2004: HK$95 million) were pledged to secure general banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 30 June 2005, the Group had contingent liability in respect of possible future long service payments to employees amounted to approximately HK$1 million (31 December 2004: HK$6 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 15,171 (31 December 2004: 13,170). 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. During the period under review, all outstanding share options were cancelled pursuant to the terms of the voluntary conditional cash offer made by CCT Telecom. Accordingly, there were no outstanding share options (31 December 2004: 1,083 million) issued by the Company as at 30 June 2005.

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	1,737	1,783
Cost of sales		(1,553)	(1,619)
Gross profit		184	164
Other revenue	3	21	13
Selling and distribution costs		(22)	(21)
Administrative expenses		(76)	(55)
Other operating expenses		(4)	(9)
PROFIT FROM OPERATING ACTIVITIES	3, 4	103	92
Finance costs		(26)	(29)
PROFIT BEFORE TAX		77	63
Tax	5	(9)	(7)
PROFIT FOR THE PERIOD		68	56
EARNINGS PER SHARE	7		
— Basic		0.43 cents	0.42 cents
— Diluted		0.13 cents	0.11 cents

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		512	607
Land lease payments		52	85
Investment property		178	—
Intangible assets		38	28
Goodwill		22	22
Deferred tax assets		3	4
		805	746
CURRENT ASSETS			
Inventories		235	168
Trade and bills receivables	9	774	736
Prepayments, deposits and other receivables		14	11
Forward currency contracts		1	—
Pledged time deposits		60	95
Cash and cash equivalents		390	422
		1,474	1,432
CURRENT LIABILITIES			
Trade and bills payables	10	980	963
Tax payable		15	10
Other payables and accruals		108	105
Interest-bearing bank and other borrowings		93	116
Forward currency contracts		1	—
Convertible notes	11	—	44
		1,197	1,238
NET CURRENT ASSETS		277	194
TOTAL ASSETS LESS CURRENT LIABILITIES		1,082	940
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, secured		40	22
Finance lease payables		3	1
Convertible notes	11	654	615
Deferred tax liabilities		2	2
		699	640
		383	300
TOTAL EQUITY			
Issued capital	12	159	159
Reserves		224	141
		383	300

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)	Equity component of convertible notes (Unaudited)	Accumulated losses (Unaudited)	Total (Unaudited)
At 31 December 2004, as previously reported	159	4	733	—	(597)	299
Effect of changes in accounting policies (note 2)	—	—	—	7	9	16
At 1 January 2005, as restated	159	4	733	7	(588)	315
Net profit for the period	—	—	—	—	68	68
At 30 June 2005	159	4	733	7	(520)	383
At 31 December 2003, as previously reported	131	—	733	—	(722)	142
Effect of changes in accounting policies (note 2)	—	—	—	7	(4)	3
At 1 January 2004, as restated	131	—	733	7	(726)	145
Issue of new shares upon conversion of convertible notes	10	2	—	—	—	12
Net profit for the period	—	—	—	—	56	56
At 30 June 2004	141	2	733	7	(670)	213

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	Six months ended 30 June	
HK$ million	2005 (Unaudited)	2004 (Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	38	70
INVESTING ACTIVITIES	(63)	(88)
FINANCING ACTIVITIES	(7)	19
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(32)	1
Cash and cash equivalents at beginning of period	422	450
CASH AND CASH EQUIVALENTS AT END OF PERIOD	390	451
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	306	438
Time deposits with original maturity of less than three months when acquired	84	13
	390	451

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 Standards ("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.

(c) The adoption of HKFRS 3 and HKAS 36 has resulted in a change in the accounting policy for goodwill. Prior to this, goodwill was amortised on a straight-line basis over its estimated useful life of 20 years and assessed for impairment at each balance sheet date.

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. Further, from the year ended 31 December 2004 onwards, goodwill is assessed annually for impairment, as well as when there are indications of impairment. Any impairment loss recognised for goodwill is not reversed in subsequent periods.

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

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

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. Previously, convertible notes were classified as liabilities on the balance sheet. Because HKAS 32 requires retrospective application, comparative figures have been restated. Comparative profit for 2004 has been restated in order to reflect the increase in effective interest on the liability component.

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

(e) HKAS 40 requires the gains or losses arising from changes in the fair values of investment properties are included in the profit and loss account in the period in which they arise. In addition, if the premises comprises a portion that held for rental and this portion could be sold separately, an entity should account for such portions as an investment property separately.

The Group has taken advantage of the transitional provisions of HKAS 40 to adjust the effect of adopting the standard to the opening balance of retained earnings rather than restating the comparative amounts to reflect the changes retrospectively for the earlier period presented in the condensed consolidated financial statements. The effects of the above changes are summarised in note 2 to the condensed consolidated financial statements.

(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*	Effect of adopting HKAS 32* and HKAS 39#	Effect of adopting HKAS 40#	Effect of adopting HKFRS 3#	Total effect on adoption of HKFRSs and HKASs	Adoption of HKFRSs and HKASs
At 1 January 2005 (Audited & restated)							
Assets:							
Fixed assets	692	(53)	—	(165)	—	(218)	474
Land lease payments	—	53	—	—	—	53	53
Investment property	—	—	—	178	—	178	178
Forward currency contracts	—	—	2	—	—	2	2
Liabilities:							
Convertible notes	660	—	(1)	—	—	(1)	659
Total equity:							
Share capital	159	—	—	—	—	—	159
Share premium	4	—	—	—	—	—	4
Capital reserve	733	—	—	—	—	—	733
Equity component of convertible notes	—	—	7	—	—	7	7
Accumulated losses	(597)	—	(4)	13	—	9	(588)
	299	—	3	13	—	16	315
At 30 June 2005 (Unaudited)							
Assets:							
Fixed assets	724	(52)	—	(160)	—	(212)	512
Land lease payments	—	52	—	—	—	52	52
Investment property	—	—	—	178	—	178	178
Goodwill	21	—	—	—	1	1	22
Forward currency contracts	—	—	1	—	—	1	1
Liabilities:							
Forward currency contracts	—	—	1	—	—	1	1
Convertible notes	660	—	(6)	—	—	(6)	654
Total equity:							
Share capital	159	—	—	—	—	—	159
Share premium	4	—	—	—	—	—	4
Capital reserve	733	—	—	—	—	—	733
Equity component of convertible notes	—	—	7	—	—	7	7
Accumulated losses	(538)	—	(1)	18	1	18	(520)
	358	—	6	18	1	25	383

* *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 are as follows:

	Effect of adopting				
HK$ million	HKAS 17*	HKAS 32* and HKAS 39#	HKAS 40#	HKFRS 3#	Total effect on adoption of HKFRSs and HKASs
For the six months ended 30 June 2005 (Unaudited)					
Decrease in amortisation of goodwill	—	—	—	1	1
Decrease in depreciation	1	—	5	—	6
Increase in amortisation of land lease payments	(1)	—	—	—	(1)
Decrease in fair value of convertible notes	—	6	—	—	6
Increase in finance costs	—	(1)	—	—	(1)
Decrease in fair value of forward currency contracts	—	(2)	—	—	(2)
Total increase in profit	—	3	5	1	9
Increase in basic earnings per share (HK cents)	—	0.02	0.03	0.01	0.06
For the six months ended 30 June 2004 (Unaudited)					
Decrease in depreciation	—	—	—	—	—
Increase in amortisation of land lease payments	—	—	—	—	—
Increase in finance costs	—	(1)	—	—	(1)
Total decrease in profit	—	(1)	—	—	(1)
Decrease in basic earnings per share (HK cents)	—	(0.01)	—	—	(0.01)

* *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 they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of 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 and accessories; and

(b) the corporate segment includes corporate income and expenses items.

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

3. SEGMENT INFORMATION (Continued)

(a) Business segments

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

	Telecom and electronic products		Corporate		Total	
HK$ million	2005 (Unaudited)	2004 (Unaudited)	2005 (Unaudited)	2004 (Unaudited)	2005 (Unaudited)	2004 (Unaudited)
		(Restated)		(Restated)		(Restated)
Segment revenue:						
Sales to external customers	1,737	1,782	—	—	1,737	1,782
Other revenue	21	13	—	—	21	13
Total revenue	1,758	1,795	—	—	1,758	1,795
Segment results	114	101	(11)	(10)	103	91
Interest income					—	1
Finance costs					(26)	(29)
Profit before tax					77	63
Tax					(9)	(7)
Profit for the period					68	56

3. SEGMENT INFORMATION (Continued)

(b) Geographical segments

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

2005 HK$ million	United States of America (Unaudited)	PRC, including Hong Kong (Unaudited)	European Union (Unaudited)	Others (Unaudited)	Total (Unaudited)
Segment revenue:					
Sales to external customers	1,090	372	91	184	1,737
Other revenue	—	21	—	—	21
Total revenue	1,090	393	91	184	1,758

2004 HK$ million	United States of America (Unaudited)	PRC, including Hong Kong (Unaudited)	European Union (Unaudited)	Others (Unaudited)	Total (Unaudited)
Segment revenue:					
Sales to external customers	1,031	352	86	313	1,782
Other revenue	—	13	—	—	13
Total revenue	1,031	365	86	313	1,795

4. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
HK$ million	2005 (Unaudited)	2004 (Unaudited)
		(Restated)
Cost of inventories sold	1,553	1,606
Depreciation	36	41
Amortisation of land lease payments	1	1
Amortisation of goodwill	—	1
Amortisation of deferred development costs	14	15
Write off of deferred development costs	4	8

5. TAX

	Six months ended 30 June	
HK$ million	2005 (Unaudited)	2004 (Unaudited)
		(Restated)
Current — Hong Kong:		
Charge for the period	6	6
Overprovision in prior years	—	(2)
Current — Elsewhere	2	1
Deferred	1	2
Total tax charge for the period	9	7

5. TAX (Continued)

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, followed by a 50% reduction for the next three years.

6. DIVIDEND

The directors do not recommend payment of an interim dividend for the six months ended 30 June 2005 (30 June 2004: nil).

7. 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)	Six months ended 30 June 2004 (Unaudited)
		(Restated)
Earnings		
Net profit for calculation of basic earnings per share	68	56
Adjustment for effective interest saving on convertible notes added back on deemed conversion of the notes	23	28
Adjustment for decrease in fair value of convertible notes added back on deemed conversion of the notes	(6)	—
Net profit for calculation of diluted earnings per share	85	84

Shares	Number of shares 2005	Number of shares 2004
Weighted average number of ordinary shares for calculation of basic earnings per share	15,938,422,562	13,287,873,111
Assumed issued at no consideration on deemed exercise of all share options during the period	247,790,267	—
Assumed issued on deemed conversion of all convertible notes outstanding during the period	48,428,571,429	61,011,538,462
Weighted average number of ordinary shares for calculation of diluted earnings per share	64,614,784,258	74,299,411,573

8. FIXED ASSETS

During the six months ended 30 June 2005, the Group acquired fixed assets of approximately HK$74 million (six months ended 30 June 2004: approximately HK$64 million) and disposed fixed assets with costs of HK$4 million (six months ended 30 June 2004: approximately HK$1 million).

9. TRADE AND BILLS RECEIVABLES

The Group offers an average credit period of 30–90 days to its trade customers. The aged analysis of 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	377	49	283	39
31 to 60 days	207	27	242	33
61 to 90 days	175	23	202	27
Over 90 days	15	1	9	1
Total	774	100	736	100

10. TRADE AND BILLS PAYABLES

The aged analysis of trade and bills payables is as follows:

	30 June 2005 (Unaudited)		31 December 2004 (Audited)	
	HK$ million	Percentage	HK$ million	Percentage
Current to 30 days	356	36	249	26
31 to 60 days	202	21	181	19
61 to 90 days	171	17	204	21
Over 90 days	251	26	329	34
Total	980	100	963	100

Included in trade and bills payables are trade payables of HK$183 million (31 December 2004: HK$194 million) due to Neptune Holding Limited ("Neptune"), Electronic Sales Limited ("ESL") and Wiltec Industries Limited ("Wiltec"), being wholly-owned subsidiaries of CCT Telecom, which are repayable within 120 days from invoice date.

11. CONVERTIBLE NOTES

HK$ million	30 June 2005 (Unaudited)	31 December 2004 (Audited)
		(Restated)
2007 Convertible Notes — note (a)	39	44
2008 Convertible Notes — note (b)	615	615
	654	659
Portion classified as current liabilities	—	(44)
Non-current portion	654	615

11. CONVERTIBLE NOTES (Continued)

Notes:

(a) On 17 May 2002, CCT Technology Holdings Limited, a direct wholly-owned subsidiary of the Company, issued convertible notes with the principal amount of HK$45 million to Emporium International Limited, an indirect wholly-owned subsidiary of CCT Telecom, which were subsequently replaced by the convertible notes ("2007 Convertible Notes") issued by the Company on 4 November 2002. The 2007 Convertible Notes provide the holder an option right to convert the principal amount into ordinary shares of HK$0.01 each of the Company on any business day prior to five business days prior to the maturity of the 2007 Convertible Notes at a conversion price of HK$0.01 per share (subject to adjustment according to the terms of the 2007 Convertible Notes).

On 26 April 2004, the 2007 Convertible Notes were disposed of in full by Emporium International Limited to New Capital Industrial Limited, a company controlled by Mr. Mak Shiu Tong, Clement, the Chairman and a director of the Company, and his family members for a cash consideration of HK$45 million.

On 25 April 2005, the legal title of the 2007 Convertible Notes was transferred to Jade Assets Company Limited, an indirect wholly-owned subsidiary of CCT Telecom, pursuant to the terms of the voluntary conditional cash offer made by CCT Telecom during the period.

The 2007 Convertible Notes are interest-free and with an original due date on 17 May 2005, which was subsequently extended to 31 December 2007.

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. According to HKAS 32, the liability component of the outstanding 2007 Convertible Notes stated at amortised cost amounted to HK$39 million as at 30 June 2005. The equity component of the 2007 convertible Notes was accounted for and included in the shareholders' fund.

(b) On 30 June 2003, the Company issued convertible notes ("2008 Convertible Notes") with a principal amount of HK$768 million to Noble Team Investments Limited, an indirect wholly-owned subsidiary of CCT Telecom, as the consideration for the acquisition of the entire interest in Empire Success Holdings Limited from an indirect wholly-owned subsidiary of CCT Telecom. The 2008 Convertible Notes provide the holder an option right to convert the principal amount into the Company's ordinary shares of HK$0.01 each on any business day prior to five business days prior to the maturity of the 2008 Convertible Notes at the conversion price of HK$0.014 (subject to adjustment according to the terms of the 2008 Convertible Note) per share. The 2008 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.

11. CONVERTIBLE NOTES (Continued)

In 2004, part of the 2008 Convertible Notes with the principal amount of HK$14 million was converted into 1,000,000,000 shares of the Company of HK$0.01 each at the conversion price of HK$0.014 per share. Furthermore, on 13 September 2004, part of the 2008 Convertible Notes with the principal amount of HK$139 million was cancelled for the purpose of satisfying the consideration receivable from CCT Telecom in respect of the disposal of the First Precision Holdings Limited and its subsidiaries and CCT Investment Limited, a subsidiary of CCT Telecom.

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. According to HKAS 32, the liability component of the outstanding 2008 Convertible Notes stated at amortised cost amounted to HK$615 million as at 30 June 2005.

12. SHARE CAPITAL

HK$ million	30 June 2005 (Unaudited)	31 December 2004 (Audited)
Authorised:		
120,000,000,000 ordinary shares of HK$0.01 each	1,200	1,200
Issued and fully paid:		
15,938,422,562 ordinary shares of HK$0.01 each	159	159

There were no changes to the carrying amount or the number of the ordinary shares in issue during the six months ended 30 June 2005.

13. CONTINGENT LIABILITIES

The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$1 million as at 30 June 2005 (31 December 2004: HK$6 million). The contingent liability have arisen because at the balance sheet date a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

14. PLEDGE OF ASSETS

At the balance sheet date, the Group's bank borrowings were secured by:

(i) pledge of the Group's fixed deposits amounted to approximately HK$60 million (31 December 2004: approximately HK$95 million); and

(ii) fixed charges over certain of the Group's leasehold land and buildings and investment property with an aggregate net book value amounting to approximately HK$443 million (31 December 2004: Nil).

15. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises under operating lease arrangements, with leases 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:

HK$ million	30 June 2005 (Unaudited)	31 December 2004 (Audited)
Within one year	4	5
In the second to the fifth year, inclusive	2	2
	6	7

16. COMMITMENTS

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

HK$ million	30 June 2005 (Unaudited)	31 December 2004 (Audited)
Contracted, but not provided for:		
Construction in progress	26	15
Purchase of a motor vehicle	—	4
Purchase of plant, machinery and equipment	11	1
	37	20

17. RELATED PARTY TRANSACTIONS

(a) During the current period, the Group had the following transactions with CCT Telecom and its subsidiaries other than the Group (the "CCT Telecom Remaining Group"):

HK$ million		Six months ended 30 June 2005 (Unaudited)	2004 (Unaudited)
Purchase of plastic casings and components	(i)	132	147
Purchases of materials	(ii)	—	13
Purchases of power supply components	(iii)	65	—
Factory rental income	(iv)	3	3
Factory rental expenses	(v)	3	4
Office rental expenses	(vi)	1	1
Management information system service fee	(vii)	2	1
Outsourcing of non-electronic baby products	(viii)	25	—

Notes:

(i) The transactions represent plastic casings and components purchased by CCT Telecom (HK) Limited ("CCT HK"), an indirect wholly-owned subsidiary of the Company, from Neptune and were previously made in accordance with the terms and conditions set out in the manufacturing agreement (the "First Manufacturing Agreement") entered into between CCT HK and Neptune on 15 May 2003. The First Manufacturing Agreement was terminated on 4 May 2004 and was replaced by the new manufacturing agreement (the "Second Manufacturing Agreement") entered into by the Company and CCT Telecom. Thereafter, the transactions were made pursuant to the Second Manufacturing Agreement under which CCT Telecom Remaining Group agree to manufacture for and supply to the Group certain plastic casings and components and toolings for telecom products and accessories and other products for the Group. The Second Manufacturing Agreement became effective on 15 June 2004.

17. RELATED PARTY TRANSACTIONS (Continued)

The purchase prices of the transactions during the period were determined based on the direct material costs plus a mark-up of no more than 300% in accordance with the Second Manufacturing Agreement.

(ii) The materials purchased by ESL (the then wholly owned subsidiary of CCT Tech) from Neptune. The purchase prices were determined based on the direct costs of the materials plus a mark-up of up to 50% of such direct costs in accordance with the terms and conditions set out in the manufacturing agreement (the "Third Manufacturing Agreement") entered into between Neptune and ESL on 23 July 2002. Both parties agreed to early terminate the Third Manufacturing Agreement on 4 May 2004. Thereafter the purchases were made in accordance with the Second Manufacturing Agreement, details of which have been set out in paragraph (i) above. There was no such related purchases in 2005 because purchases of material by ESL from Neptune no longer constitute related party transactions after ESL became a subsidiary of CCT Telecom instead of CCT Tech as a result of transaction set out in 17(c).

(iii) The purchases prices of the transactions were determined based on the direct material costs of the products plus a mark-up of up to 100% of such direct material costs pursuant to the power supply components manufacturing agreement entered into between the Company and CCT Telecom on 2 June 2004.

(iv) 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. Shine Best and its subsidiaries manufacture and supply the plastic components to the Group in accordance with the terms of the Second Manufacturing Agreement

(v) The factory rental expenses were charged to the Group by CCT Telecom, for the provision of factory spaces in Dongguan, the PRC, at the rates determined in accordance with the terms and conditions set out in tenancy agreement dated 14 January 2004 which was subsequently replaced by the tenancy agreement dated 13 September 2004.

17. RELATED PARTY TRANSACTIONS (Continued)

(vi) 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 the rate determined in accordance with the terms and conditions set out in the tenancy agreements entered into between CCT HK and Goldbay on 15 September 2003 and renewed on 17 September 2004, and between CCT R&D and Goldbay on 23 December 2003 and renewed on 17 December 2004, respectively.

(vii) 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 the agreement entered into between CCT Telecom and CCT HK on 15 May 2003.

(viii) The manufacturing of the non-electronic baby products and related components was outsourced by the Group to the CCT Telecom Remaining Group. The purchase prices were determined based on direct material costs plus a mark-up of no more than 300% of such material costs in accordance with the terms and conditions set out in the outsourcing agreement entered into between the Company and CCT Telecom on 29 November 2004 which came into effect on 1 January 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	16	8
Post-employment benefits	—	—
Total compensation paid to key management personnel	16	8

17. RELATED PARTY TRANSACTIONS (Continued)

(c) On 2 June 2004, the Company and CCT Telecom entered into a conditional agreement pursuant to which the Company agreed to dispose of its then power supply components business and an unused industrial property to CCT Telecom for a total consideration of HK$139.0 million, which was satisfied by the cancellation of the 2008 Convertible Notes in the same amount owed to CCT Telecom. The transaction was approved and completed on 8 September 2004. Further details of the transaction are set out in the circular of the Company dated 20 August 2004.

18. 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

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 the Company.

(b) Interests and short positions in the shares, underlying shares and debentures of an associated corporation — CCT Telecom

(i) *Long positions in the shares of CCT Telecom:*

		Number of shares beneficially held and nature of interest				Approximate percentage of total
Name of director	Notes	Personal	Family	Corporate	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

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.

(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.

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

(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
Tong Chi Hoi	17/3/2003	17/3/2003 – 16/3/2008	0.75	1,000,000	1,000,000	0.23

(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 CCT Telecom 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 CCT Telecom at a conversion price of HK$1.246 per share (subject to adjustments) as at 30 June 2005 and due on 25 April 2010.

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	Notes	Number of shares held	Approximate percentage of total shareholding
			(%)
CCT Telecom	(a)	13,407,179,696	84.12
CCT Technology Investment Limited	(b)	13,407,179,696	84.12
Jade Assets Company Limited		9,707,179,696	60.91
CCT Assets Management Limited		1,350,000,000	8.47
Expert Success International Limited		1,350,000,000	8.47
Noble Team Investments Limited		1,000,000,000	6.27

Notes:

(a) The interest disclosed represents 13,407,179,696 shares indirectly owned by CCT Technology Investment Limited through the subsidiaries stated in Note (b) below. CCT Technology Investment Limited is a wholly-owned subsidiary of CCT Telecom.

(b) The interest disclosed represents 9,707,179,696 shares held by Jade Assets Company Limited, 1,350,000,000 shares held by CCT Assets Management Limited, 1,350,000,000 shares held by Expert Success International Limited and 1,000,000,000 shares held by Noble Team Investments Limited, all of them are wholly-owned subsidiaries of CCT Technology Investment Limited.

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

Name of holder of equity derivatives	Notes	Description of equity derivatives	Number of total underlying shares	Approximate percentage of total shareholding
				(%)
CCT Telecom	(a)	HK$615 million prime or best lending rate plus 2% convertible note due 2008 convertible at a price of HK$0.014 per share, subject to adjustments	43,928,571,428	275.61
		HK$45 million zero coupon convertible note due 2007 convertible at a price of HK$0.01 per share, subject to adjustments	4,500,000,000	28.23
CCT Technology Investment Limited	(b)	HK$615 million prime or best lending rate plus 2% convertible note due 2008 convertible at a price of HK$0.014 per share, subject to adjustments	43,928,571,428	275.61
		HK$45 million zero coupon convertible note due 2007 convertible at a price of HK$0.01 per share, subject to adjustments	4,500,000,000	28.23
Noble Team Investments Limited		HK$615 million prime or best lending rate plus 2% convertible note due 2008 convertible at a price of HK$0.014 per share, subject to adjustments	43,928,571,428	275.61
Jade Assets Company Limited		HK$45 million zero coupon convertible note due 2007 convertible at a price of HK$0.01 per share, subject to adjustments	4,500,000,000	28.23

Notes:

(a) The interest disclosed represents the convertible notes with a total of 48,428,571,428 underlying shares indirectly owned by CCT Technology Investment Limited through the subsidiaries stated in Note (b) below. CCT Technology Investment Limited is a wholly-owned subsidiary of CCT Telecom.

(b) The interest disclosed represents the convertible note due 2008 with 43,928,571,428 underlying shares held by Noble Team Investments Limited and the convertible note due 2007 with 4,500,000,000 underlying shares held by Jade Assets Company Limited, both of the two companies are wholly-owned subsidiaries of CCT Technology Investment Limited.

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 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 Listing Rules in respect of the share option schemes of a listed company. The Share Option Scheme became effective on 7 November 2002. As at 30 June 2005, there was no outstanding share options under the Share Option Scheme and 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 (Note 1)	Outstanding as at 30 June 2005	Date of grant of share options	Exercise period of share options	Exercise price per share (Note 2)
								HK$
Executive directors								
Mak Shiu Tong, Clement	100,000,000	—	—	(100,000,000)	—	30/4/2003	30/4/2003 – 29/4/2008	0.014
Cheng Yuk Ching, Flora	100,000,000	—	—	(100,000,000)	—	30/4/2003	30/4/2003 – 29/4/2008	0.014
Tam Ngai Hung, Terry	100,000,000	—	—	(100,000,000)	—	30/4/2003	30/4/2003 – 29/4/2008	0.014
Tong Chi Hoi	50,000,000	—	—	(50,000,000)	—	30/4/2003	30/4/2003 – 29/4/2008	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
Lau Ho Kit, Ivan	8,000,000	—	—	(8,000,000)	—	30/4/2003	30/4/2003 – 29/4/2008	0.014
	16,000,000	—	—	(16,000,000)	—			
Other employees								
In aggregate	716,781,000	—	—	(716,781,000)	—	30/4/2003	30/4/2003 – 29/4/2008	0.014
	716,781,000	—	—	(716,781,000)	—			
	1,082,781,000	—	—	(1,082,781,000)	—			

Notes:

(1) According to the composite offer and response document dated 31 March 2005 jointly issued by the Company and CCT Telecom, Jade Assets Company Limited, a wholly-owned subsidiary of CCT Telecom, made the voluntary conditional cash offers to acquire all the issued shares from the independent shareholders of the Company and to acquire the convertible note due 2005 (which was extended to 2007) of the Company and to cancel all the outstanding share options of the Company (the "Offers"). All optionholders have accepted the Offers in respect of their then entire holding of the share options at the consideration of HK$0.009 per share option. The Offers have become unconditional in all respects as to acceptances on 21 April 2005 and all the outstanding 1,082,781,000 share options under the Share Option Scheme were cancelled on 25 April 2005 in accordance with the terms of the Offers.

(2) 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.

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 days' average price ended on 30 June 2005)
	HK$ million		
Customer A	524.6	23.0%	152.4%
Customer B	66.2	2.9%	19.2%
Customer C	54.0	2.4%	15.7%

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 of 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 five 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 bye-laws of the Company.

Code Provision A.4.2

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

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

Pursuant to the bye-laws of the Company, the Chairman and the managing director of the Company shall not be subject to 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. Chow Siu Ngor, Lau Ho Kit, Ivan and Chen Li, 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 4 July 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 including one with 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, Mr. Tong Chi Hoi and Mr. William Donald Putt and the independent non-executive directors of the Company are Mr. Chow Siu Ngor, Mr. Lau Ho Kit, Ivan and Mr. Chen Li.

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

中建科技國際有限公司
CCT TECH