1. CORPORATE INFORMATION

During the year, the Group was involved in the principal activities of the manufacture and sale of telecom and electronic products, accessories and components.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars (HK$) and all values are rounded to the nearest million except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

The adoption of HKASs 1, 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 23, 27, 28, 31, 33, 37 and 38, HKFRS 5, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

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

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

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

(a) HKAS 17 — Leases

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

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

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

(b) HKAS 32 and HKAS 39 — Financial Instruments

Convertible notes

In prior years, convertible notes were stated at amortised cost. Upon the adoption of HKAS 32, convertible notes are split into liability and equity components. The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with HKAS 32, comparative amounts have been restated.

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

(c) HKAS 40 — Investment Property

In prior years, the investment properties were classified as leasehold land and buildings and were stated at cost less accumulated depreciation and any impairment losses. Upon the adoption of HKAS 40, the investment properties are stated at fair value.

HKAS 40 requires the gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. 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 effects of the above changes are summarised in note 2.4 to the financial statements.

(d) HKFRS 2 — Share-based Payment

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

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

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

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

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

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

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

In prior years, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

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

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill.

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

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

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

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

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

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

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

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

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

Effect of new policies (Increase/(decrease)) HK$ million	Based on previous accounting policies	Effect of adopting: HKAS 17* Prepaid land lease payments	HKAS 32* Convertible notes	HKAS 40# Investment property	HKFRS 3# Discontinuation of amortisation of goodwill	Total effect on adoption of HKFRS & HKASs	After adoption of new policies
At 1 January 2005							
Assets:							
Property, plant and equipment	692	(85)	—	(133)	—	(218)	474
Investment properties	—	—	—	178	—	178	178
Prepaid land lease payments	—	84	—	(32)	—	52	52
Prepayments, deposits and other receivables	11	1	—	—	—	1	12
Liabilities:							
Convertible notes	660	—	(1)	—	—	(1)	659
Total equity:							
Issued capital	159	—	—	—	—	—	159
Share premium	4	—	—	—	—	—	4
Capital reserve	733	—	—	—	—	—	733
Equity component of convertible notes	—	—	7	—	—	7	7
Accumulated losses	(597)	—	(6)	13	—	7	(590)
	299	—	1	13	—	14	313

* adjustments which take effect retrospectively

\# adjustments which take effect prospectively from 1January 2005

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

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

Effect of new policies (Increase/(decrease)) HK$ million	Based on previous accounting policies	Effect of adopting: HKAS 17 Prepaid land lease payments	HKAS 32 Convertible notes	HKAS 40 Investment property	HKFRS 3 Discontinuation of amortisation of goodwill	Total effect on adoption of HKFRS & HKASs	After adoption of new policies
At 31 December 2005							
Assets:							
Property, plant and equipment	767	(52)	—	(156)	—	(208)	559
Investment properties	—	—	—	178	—	178	178
Prepaid land lease payments	—	51	—	—	—	51	51
Prepayments, deposits and other receivables	45	1	—	—	—	1	46
Goodwill	21	—	—	—	1	1	22
Liabilities:							
Convertible notes	660	—	(5)	—	—	(5)	655
Total equity:							
Issued capital	159	—	—	—	—	—	159
Share premium	4	—	—	—	—	—	4
Capital reserve	733	—	—	—	—	—	733
Equity component of convertible notes	—	—	7	—	—	7	7
Accumulated losses	(498)	—	(2)	22	1	21	(477)
	398	—	5	22	1	28	426

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

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

	Effect of adopting		
Effect of new policies (Increase/(decrease)) HK$ million	**HKAS 32* Convertible notes**	**HKAS 40# Investment property**	**Total effect on adoption of HKASs**
1 January 2004			
Equity component of convertible notes	7	—	7
Accumulated losses	(4)	—	(4)
	3	—	3
1 January 2005			
Equity component of convertible notes	7	—	7
Accumulated losses	(6)	13	7
	1	13	14

* adjustments which take effect retrospectively

\# adjustments which take effect prospectively from 1 January 2005

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

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

Effect of new policies (Increase/(decrease)) HK$ million	Effect of adopting HKAS 17 Prepaid land lease payments	HKAS 32 Convertible notes	HKAS 40 Investment property	HKFRS 3 Discontinuation of amortisation of goodwill	Total effect on adoption of HKFRS & HKASs
Year ended 31 December 2005					
Decrease in amortisation of goodwill	**—**	**—**	**—**	**1**	**1**
Decrease in depreciation	**1**	**—**	**9**	**—**	**10**
Increase in recognition of prepaid land lease payments	**(1)**	**—**	**—**	**—**	**(1)**
Decrease in fair value of convertible notes	**—**	**6**	**—**	**—**	**6**
Increase in finance costs	**—**	**(2)**	**—**	**—**	**(2)**
Total increase in profit	**—**	**4**	**9**	**1**	**14**
Increase in basic earnings per share (HK cents)	**—**	**0.02**	**0.06**	**0.01**	**0.09**
Increase in diluted earnings per share (HK cents)	**—**	**0.01**	**0.01**	**—**	**0.02**
Year ended 31 December 2004					
Decrease in depreciation	2	—	—	—	2
Increase in recognition of prepaid land lease payments	(2)	—	—	—	(2)
Increase in finance costs	—	(2)	—	—	(2)
Total decrease in profit	—	(2)	—	—	(2)
Decrease in basic earnings per share (HK cents)	—	(0.01)	—	—	(0.01)
Decrease in diluted earnings per share (HK cents)	—	—	—	—	—

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair values of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%–6%
Plant and machinery	10%–20%
Tools, moulds and equipment	10%–20%
Furniture and office equipment	10%–20%
Motor vehicles	15%–30%

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress

Construction in progress represents buildings under construction. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased assets is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Deferred development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

Deferred development costs (Continued)

Deferred development costs are stated at cost less any impairment losses, and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding four years, commencing from the date when the products are put into commercial production.

Financial assets (applicable to the year ended 31 December 2005)

Financial assets in the scope HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Assets carried at amortised cost (Continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Interest-bearing loans and borrowings

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Convertible notes

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible notes, 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 basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

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

The Group uses derivative financial instruments such as forward currency contracts to manage its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

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

The fair values of the forward currency contracts as at 31 December 2005 and 31 December 2004 had no significant impact on the Group's financial statements.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

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

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

In addition to the MPF Scheme, the Group operates a separate defined contribution retirement benefits scheme for those employees who are eligible to participate in this scheme. This scheme operates in a similar way to the MPF Scheme, except that when an employee leaves this scheme before his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group are reduced by the relevant amount of the forfeited employer contributions.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of the payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs are recognised as expensed in the income statements in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

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

Judgements *(Continued)*

Classification between investment properties and owner-occupied properties (Continued)

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was HK$22 million (2004: HK$22 million). More details are given in note 17.

4. SEGMENT INFORMATION

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

4. SEGMENT INFORMATION *(Continued)*

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

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

(b) the corporate and others segment comprises corporate income and expense items.

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

(a) Business segments

The following table presents revenue and profit/(loss) for the Group's business segments for the years ended 31 December 2005 and 2004.

Group

	Telecom and electronic products		Corporate		Total	
HK$ million	**2005**	2004 (Restated)	**2005**	2004 (Restated)	**2005**	2004 (Restated)
Segment revenue:						
Sales to external customers	**3,789**	3,846	**—**	—	**3,789**	3,846
Other revenue	**45**	37	**1**	—	**46**	37
Total	**3,834**	3,883	**1**	—	**3,835**	3,883
Segment results	**185**	191	**(6)**	2	**179**	193
Interest income					**6**	1
Finance costs, net					**(54)**	(55)
Profit before tax					**131**	139
Tax					**(18)**	(16)
Profit for the year					**113**	123

No analysis of the assets and liabilities and other segment information regarding the Group's business segments for the two years ended 31 December 2005 has been presented as over 90% of the Group's revenue is derived from the telecom and electronic products segment.

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

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

Group

	United States of America		PRC, including Hong Kong		European Union		Others		Consolidated	
HK$' million	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004 (Restated)
Segment revenue:										
Sales to external customers	**2,295**	2,377	**838**	640	**456**	139	**200**	690	**3,789**	3,846
Other revenue	**—**	—	**46**	37	**—**	—	**—**	—	**46**	37
Total	**2,295**	2,377	**884**	677	**456**	139	**200**	690	**3,835**	3,883

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and interest income.

Revenue from the following activities has been included in turnover:

HK$ million	**2005**	2004
Manufacture and sale of telecom and electronic products	**3,789**	3,846
Bank interest income	**6**	1
	3,795	3,847

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Group	
HK$ million	Notes	**2005**	2004 (Restated)
Cost of inventories sold		**3,438**	3,480
Depreciation	14	**77**	83
Recognition of prepaid land lease payments	16	**1**	2
Minimum lease payments under operating leases in respect of land and buildings		**12**	11
Research and development costs:			
Deferred expenditure amortised*	18	**30**	30
Current year expenditure		**54**	48
		84	78
Goodwill:			
Amortisation for the year**	17	**—**	2
Impairment arising during the year**	17	**—**	1
		—	3
Auditors' remuneration		**3**	3
Employee benefits expense (excluding directors' remuneration — note 8):			
Wages and salaries		**294**	266
Pension scheme contributions***		**2**	3
Less: Amount capitalised in deferred development cost		**(30)**	(29)
		266	240
Provision for slow-moving and obsolete inventories*		**4**	33
Bad and doubtful debt provisions on trade receivables**		**14**	3
Bad and doubtful debt provisions on other receivables**		**—**	3
Write-off of deferred development costs**	18	**9**	15
Write-down of inventories to net realisable value*		**1**	3
Loss/(gain) on disposal of property, plant and equipment, net**		**1**	(1)
Foreign exchange difference, net		**4**	(6)
Compensation income received from a supplier	39(c)(iii)	**(18)**	—
Gain on disposal of subsidiaries	33	**—**	(20)
Gross rental income	39(a)(iv)	**(6)**	(6)

* Included in "Cost of sales" on the face of the consolidated income statement.

** Included in "Other expenses" on the face of the consolidated income statement.

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

7. FINANCE COSTS, NET

HK$ million	Group 2005	Group 2004 (Restated)
Interest on bank loans and other borrowings wholly repayable within five years	**8**	2
Interest on convertible notes (note 28)	**52**	53
Decrease in fair value of 2007 Convertible Note (note 28)	**(6)**	—
	54	55

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

HK$ million	Group 2005	Group 2004 (Restated)
Fees:		
Executive directors	**—**	—
Independent non-executive directors	**1**	1
	1	1
Executive directors' other emoluments:		
Salaries, allowances and benefits in kind	**13**	13
Performance related bonuses*	**5**	5
Pension scheme contributions	**—**	—
	18	18
	19	19

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

During the current and prior years, no share options were granted to the directors in respect of their services to the Group.

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005 HK$'000	2004 HK$'000
Chow Siu Ngor	**240**	240
Lau Ho Kit, Ivan	**240**	240
Chen Li	**240**	65
	720	545

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

(b) Executive directors

HK$ million	Salaries, allowances and benefits in kind	Performance related bonus	Pension scheme contributions	Total remuneration
2005				
Mak Shiu Tong, Clement	**5**	**—**	**—**	**5**
Tam Ngai Hung, Terry	**2**	**2**	**—**	**4**
Cheng Yuk Ching, Flora	**2**	**2**	**—**	**4**
Tong Chi Hoi	**4**	**1**	**—**	**5**
William Donald Putt	**—**	**—**	**—**	**—**
	13	**5**	**—**	**18**

HK$ million	Salaries, allowances and benefits in kind	Performance related bonus	Pension scheme contributions	Total remuneration
2004				
Mak Shiu Tong, Clement	5	—	—	5
Tam Ngai Hung, Terry	2	2	—	4
Cheng Yuk Ching, Flora	2	2	—	4
Tong Chi Hoi	4	1	—	5
William Donald Putt	—	—	—	—
	13	5	—	18

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2004: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2004: one) non-director, highest paid employees for the year are as follows:

	Group	
HK$ million	**2005**	2004
Salaries, allowances and benefits in kind	**2**	2
Performance related bonus	**—**	—
Pension scheme contributions	**—**	—
	2	2

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

	Number of employees	
	2005	2004
HK$2,000,001– HK$2,500,000	**1**	1
	1	1

During the current and prior years, no share options were granted to the non-director, highest paid employees in respect of their services to the Group.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

HK$ million	**2005**	2004 (Restated)
Group:		
Current — Hong Kong		
Charge for the year	**10**	10
Overprovision in prior years	**(1)**	(3)
Current — Elsewhere		
Charge for the year	**5**	4
Underprovision in prior years	**1**	1
Deferred (note 29)	**3**	4
Total tax charge for the year	**18**	16

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

Group — 2005

HK$ million	**Hong Kong**	%	**PRC, excluding Hong Kong**	%	**Total**	%
Profit/(loss) before tax	**(1)**		**132**		**131**	
Tax at the statutory or appropriate tax rate	**(0.2)**	**17.5**	**43.6**	**33.0**	**43.4**	**33.1**
Lower tax rate for specific provinces or local authority	**—**	**—**	**(24.4)**	**(18.4)**	**(24.4)**	**(18.6)**
Tax exemption	**—**	**—**	**(23.4)**	**(17.7)**	**(23.4)**	**(17.8)**
Adjustment in respect of current tax of previous periods	**(1.7)**	**170.0**	**1.5**	**1.1**	**(0.2)**	**(0.2)**
Income not subject to tax	**(3.5)**	**350.0**	**(1.2)**	**(0.9)**	**(4.7)**	**(3.6)**
Expenses not deductible for tax	**12.1**	**(1,207.5)**	**10.6**	**8.0**	**22.7**	**17.4**
Tax losses utilised from previous periods	**(0.2)**	**20.0**	**—**	**—**	**(0.2)**	**(0.2)**
Tax losses not recognised	**4.3**	**(430.0)**	**—**	**—**	**4.3**	**3.3**
Tax charge at the Group's effective rate	**10.8**	**(1,080.0)**	**6.7**	**5.1**	**17.5**	**13.4**

10. TAX *(Continued)*

Group — 2004

HK$ million	Hong Kong (Restated)	%	PRC, excluding Hong Kong	%	Total (Restated)	%
Profit/(loss) before tax	(1)		140		139	
Tax at the statutory or appropriate tax rate	(0.2)	17.5	33.6	24.0	33.4	24.0
Lower tax rate for specific provinces or local authority	—	—	(19.3)	(13.8)	(19.3)	(13.9)
Tax exemption	—	—	(29.6)	(21.1)	(29.6)	(21.3)
Adjustments in respect of current tax of previous periods	(2.3)	230.0	1.2	0.9	(1.1)	(0.8)
Income not subject to tax	(8.0)	800.0	(4.9)	(3.5)	(12.9)	(9.3)
Expenses not deductible for tax	20.0	(1,997.5)	19.1	13.6	39.1	28.1
Tax losses not recognised	1.5	(150.0)	4.9	3.5	6.4	4.7
Tax charge at the Group's effective rate	11.0	(1,100.0)	5.0	3.6	16.0	11.5

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

The net loss from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was approximately HK$58 million (2004: HK$36 million (restated) (note 32(b)).

12. DIVIDENDS

No dividends have been paid or declared by the Company for the year ended 31 December 2005 (2004: Nil)

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

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

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(Continued)*

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

HK$ million	**2005**	2004 (Restated)
Earnings		
Net profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**113**	123
Interest on convertible notes (note 28)	**52**	53
Decrease in fair value of 2007 Convertible Note (note 28)	**(6)**	—
Net profit attributable to ordinary equity holders of the parent before interest on convertible notes and decrease in fair value of 2007 Convertible Note	**159**	176

	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**15,938,422,562**	14,426,127,480
Effect of dilution-weighted average number of ordinary shares:		
Share options	**123,609,641**	169,592,205
Convertible notes	**48,428,571,429**	56,891,451,991
	64,490,603,632	71,487,171,676

14. PROPERTY, PLANT AND EQUIPMENT

Group

HK$ million	Buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total
31 December 2005							
At 31 December 2004 and at 1 January 2005:							
Cost							
As previously reported	512	243	122	71	16	39	1,003
Prior year adjustments	(90)	—	—	—	—	—	(90)
Opening adjustments	(158)	—	—	—	—	—	(158)
As restated	264	243	122	71	16	39	755
Accumulated depreciation							
As previously reported	(73)	(119)	(65)	(45)	(9)	—	(311)
Prior year adjustments	5	—	—	—	—	—	5
Opening adjustments	25	—	—	—	—	—	25
As restated	(43)	(119)	(65)	(45)	(9)	—	(281)
Net carrying amount (as restated)	221	124	57	26	7	39	474
At 1 January 2005, net of accumulated depreciation	221	124	57	26	7	39	474
Additions	7	54	19	8	7	69	164
Disposals	—	(1)	—	—	(1)	—	(2)
Provided during the year	(17)	(29)	(20)	(8)	(3)	—	(77)
Transfers	107	—	—	—	—	(107)	—
At 31 December 2005, net of accumulated depreciation	318	148	56	26	10	1	559
At 31 December 2005:							
Cost	378	278	141	79	18	1	895
Accumulated depreciation	(60)	(130)	(85)	(53)	(8)	—	(336)
Net carrying amount	318	148	56	26	10	1	559

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

Group

HK$ million	Buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total (Restated)
31 December 2004							
At 31 December 2003 and at 1 January 2004:							
Cost							
As previously reported	531	213	104	71	15	—	934
Prior year adjustments	(90)	—	—	—	—	—	(90)
As restated	441	213	104	71	15	—	844
Accumulated depreciation							
As previously reported	(50)	(103)	(51)	(40)	(9)	—	(253)
Prior year adjustments	3	—	—	—	—	—	3
As restated	(47)	(103)	(51)	(40)	(9)	—	(250)
Net carrying amount (as restated)	394	110	53	31	6	—	594
At 1 January 2004, net of accumulated depreciation	394	110	53	31	6	—	594
Additions	8	49	26	6	4	39	132
Disposals	—	—	—	—	(1)	—	(1)
Disposals of subsidiaries (note 33)	(24)	(6)	(3)	(2)	—	—	(35)
Provided during the year	(24)	(29)	(19)	(9)	(2)	—	(83)
At 31 December 2004, net of accumulated depreciation	354	124	57	26	7	39	607
At 31 December 2004:							
Cost	422	243	122	71	16	39	913
Accumulated depreciation	(68)	(119)	(65)	(45)	(9)	—	(306)
Net carrying amount	354	124	57	26	7	39	607

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

The net book value of the fixed assets of the Group held under finance leases included in the total amounts of motor vehicles and office equipment as at 31 December 2005, amounted to approximately HK$5 million (2004: HK$2 million).

At 31 December 2005, certain of the Group's buildings with a net book value of approximately HK$305 million (2004: Nil) were pledged to secure certain bank loans granted to the Group (note 26).

15. INVESTMENT PROPERTIES

HK$ million	**2005**	2004
Carrying amount at 1 January		
As previously reported	**—**	—
Opening adjustment-Effect on adopting HKAS 40 (note 2.2(c))	**178**	—
As restated and carrying amount at 31 December	**178**	—

The Group's investment properties are situated in the PRC and are held under medium term leases.

The Group's investment properties were revalued on 31 December 2005 by Grant Sherman Appraisal Limited, independent professionally qualified valuers, on a depreciated replacement cost approach. The investment properties are leased to an indirect wholly-owned subsidiary of CCT Telecom under operating leases, further summary details of which are included in note 37(a) to the financial statements.

At 31 December 2005, the Group's investment properties amounting to HK$178 million (2004: Nil) were pledged to secure certain bank loans granted to the Group (note 26).

Further particulars of the Group's investment properties are as below:

Location	**Use**	**Tenure**	**Attributable interest of the Group**
A factory complex with a total gross floor area of approximately 67,000 square metres located at Sanhan Development District, Danshui Town, Huiyang City Guangdong Province, PRC	Industrial	Medium term lease	100%

16. PREPAID LAND LEASE PAYMENTS

HK$ million	Group 2005	2004 (Restated)
Carrying amount at 1 January		
As previously reported	**—**	—
Effect on adopting HKAS 17 (note 2.2(a))	**85**	87
Opening adjustments — Effect on adopting HKAS 40 (note 2.2(c))	**(32)**	—
As restated	**53**	87
Recognised during the year	**(1)**	(2)
Carrying amount at 31 December	**52**	85
Current portion included in prepayments, deposits and other receivables	**(1)**	(1)
Non-current portion	**51**	84

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

The entire leasehold land was pledged as security for the bank loans granted to the Group (2004: Nil) (note 26).

17. GOODWILL

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

Group

HK$ million	
31 December 2005	
At 1 January 2005:	
Cost as previously reported	**25**
Effect of adopting HKFRS (note 2.2(e))	**(2)**
Cost as restated	**23**
Accumulated amortisation and impairment as previously reported	**(3)**
Effect of adopting HKFRS (note 2.2(e))	**2**
Accumulated amortisation and impairment as restated	**(1)**
Net carrying amount	**22**
At 31 December 2005:	
Cost	**23**
Accumulated impairment	**(1)**
Net carrying amount	**22**

17. GOODWILL *(Continued)*

Group

HK$ million	
31 December 2004	
At 1 January 2004:	
Cost	58
Accumulated amortisation	(3)
Net carrying amount	55
Cost at 1 January 2004, net of accumulated amortisation	55
Reversal of goodwill upon disposal of subsidiaries (note 33)	(30)
Impairment during the year	(1)
Amortisation provided during the year	(2)
At 31 December 2004	22
At 31 December 2004:	
Cost	25
Accumulated amortisation and impairment	(3)
Net carrying amount	22

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

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the telecom products cash-generating unit. For the purpose of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculation. The value-in-use calculations uses cashflow projections based on financial budgets for 5 years approved by management. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget. Key assumptions include the expected growth in revenues and gross margin, timing of future capital expenditures, long term growth rates and selection of discount rates. Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

18. OTHER INTANGIBLE ASSETS

Group

HK$ million	**Deferred development costs**
31 December 2005	
Cost at 1 January 2005, net of accumulated amortisation	**28**
Additions — internal development	**55**
Write-off	**(9)**
Amortisation provided during the year	**(30)**
At 31 December 2005	**44**
At 31 December 2005:	
Cost	**76**
Accumulated amortisation and write-off	**(32)**
Net carrying amount	**44**

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

19. INTERESTS IN SUBSIDIARIES

	Company	
HK$ million	**2005**	2004
Unlisted shares, at cost	**308**	308
Due from subsidiaries	**386**	425
Due to subsidiaries	**—**	(2)
	694	731
Impairment	**(53)**	(53)
	641	678

19. INTERESTS IN SUBSIDIARIES *(Continued)*

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Empire Success Holdings Limited	British Virgin Islands/ Hong Kong	US$16,501 Ordinary	100	—	Investment holding
CCT Marketing Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	100	Trading of telecom products
CCT Telecom (HK) Limited	Hong Kong	HK$2,600,000 Ordinary	—	100	Sourcing of telecom and electronic products
CCT Electronics Limited	Hong Kong	HK$2 Ordinary	—	100	Trading of electronic products
CCT Tech Advanced Products Limited	Hong Kong	HK$2 Ordinary	—	100	Trading of advanced wireless electronic products
Huiyang CCT Telecommunications Products Co., Ltd.	People's Republic of China	HK$80,000,000 Registered^	—	100	Manufacture of telecom products
Dongguan Eswire Electronics Co., Ltd.	People's Republic of China	HK$49,597,740 Registered^	—	100	Manufacture of telecom products
Dongguan CCT Digital Products Company Limited	People's Republic of China	HK$5,909,300 Registered^	—	100	Manufacture of electronic products

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20. INVENTORIES

HK$ million	Group 2005	Group 2004
Raw materials	**84**	41
Work in progress	**66**	42
Finished goods	**117**	85
	267	168

21. TRADE AND BILLS RECEIVABLES

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

	Group			
	2005		2004	
HK$ million	**Balance**	**Percentage**	Balance	Percentage
Current to 30 days	**271**	**34**	283	39
31 to 60 days	**251**	**31**	242	33
61 to 90 days	**231**	**29**	202	27
Over 90 days	**52**	**6**	9	1
	805	**100**	736	100

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

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
HK$ million	**2005**	2004 (Restated)	**2005**	2004
Prepayments	**2**	3	**1**	1
Deposits and other receivables	**44**	9	**17**	—
	46	12	**18**	1

Included in the Group's and the Company's other receivables are amounts due from CCT Telecom of HK$17 million (2004: Nil) and HK$17 million (2004: Nil), respectively, as further detailed in note 39(c)(ii) to the financial statements.

23. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
HK$ million	**2005**	2004	**2005**	2004
Cash and bank balances	**387**	347	**1**	22
Time deposits	**103**	170	**2**	26
	490	517	**3**	48
Less: Time deposits pledged for bank borrowings (note 26(a)(iv))	**(71)**	(95)	**—**	—
Cash and cash equivalents	**419**	422	**3**	48

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$5 million (2004: HK$5 million). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

24. TRADE AND BILLS PAYABLES

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

	Group			
	2005		2004	
HK$ million	**Balance**	**Percentage**	Balance	Percentage
Current to 30 days	**300**	**29**	249	26
31 to 60 days	**249**	**24**	181	19
61 to 90 days	**188**	**18**	204	21
Over 90 days	**310**	**29**	329	34
	1,047	**100**	963	100

Included in trade and bills payables are trade payables of HK$161 million (2004: HK$194 million) due to Neptune Holding Limited ("Neptune") and Electronic Sales Limited ("ESL"), being wholly-owned subsidiaries of CCT Telecom, which are unsecured, interest-free and repayable within 120 days from the invoice date.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
HK$ million	**2005**	2004	**2005**	2004
Other payables	**31**	15	**—**	—
Accruals	**76**	90	**1**	4
	107	105	**1**	4

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

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

HK$ million	Effective interest rate (%)	Maturity	Group **2005**	Group 2004 (Restated)	Company **2005**	Company 2004 (Restated)
Current						
Finance lease payables (note 27)	2.5–3	2006	**2**	1	**—**	—
Bank loans — unsecured	4.25–6.75	2006	**46**	—	**—**	—
Bank loans — secured	5.625–6.75	2006	**87**	115	**—**	—
			135	116	**—**	—
Convertible notes (note 28)			**—**	44	**—**	44
			135	160	**—**	44
Non-current						
Finance lease payables (note 27)	2.5–3	2007–2008	**1**	1	**—**	—
Bank loans — unsecured	5.62–6.75	2007	**—**	—	**—**	—
Bank loans — secured	5.625–6.75	2007–2008	**76**	22	**—**	—
			77	23	**—**	—
Convertible notes (note 28)	BLR*+2	2008	**615**	615	**615**	615
Convertible notes (note 28)	6.25	2007	**40**	—	**40**	—
			732	638	**655**	615
			867	798	**655**	659

* Best lending rate

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

	Group		Company	
HK$ million	**2005**	2004 (Restated)	**2005**	2004 (Restated)
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**133**	115	**—**	—
In the second year	**48**	22	**—**	—
In the third to fifth years, inclusive	**28**	—	**—**	—
	209	137	**—**	—
Other borrowings repayable:				
Within one year or on demand	**2**	45	**—**	44
In the second year	**41**	1	**40**	—
In the third to fifth years, inclusive	**615**	615	**615**	615
	658	661	**655**	659
	867	798	**655**	659

Notes:

(a) Certain of the Group's bank loans are secured by:

(i) the pledge of the Group's buildings situated in the PRC, which had an aggregate carrying value at the balance sheet date of approximately HK$305 million (2004: Nil) (note 14);

(ii) the pledge of the Group's investment properties situated in the PRC, which had an aggregate carrying value at the balance sheet date of approximately HK$178 million (2004: Nil) (note 15);

(iii) the pledge of the Group's leasehold land situated in the PRC, which had an aggregate carrying value at the balance sheet date of approximately HK$52 million (2004: Nil) (note 16); and

(iv) the pledge of certain of the Group's time deposits amounting to HK$71 million (2004: HK$95 million) (note 23).

(b) Except for the secured bank loan which is denominated mainly in RMB and United States dollars, all other borrowings are in Hong Kong dollars.

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

Other interest rate information:

	Group			
	2005		2004	
HK$ million	**Fixed rate**	**Floating rate**	Fixed rate	Floating rate
Finance lease payable (note 27)	**3**	**—**	2	—
Bank loans — unsecured	**—**	**46**	—	—
Bank loans — secured	**—**	**163**	—	137
Convertible notes (note 28)	**40**	**615**	44	615
	43	**824**	46	752

	Company			
	2005		2004	
HK$ million	**Fixed rate**	**Floating rate**	Fixed rate	Floating rate
Convertible notes (note 28)	**40**	**615**	44	615

Except for the convertible notes, the carrying amounts of the Group's and the Company's borrowings approximate their fair values. The fair value of the Group's and the Company's convertible notes with a carrying amount of HK$655 million (2004: HK$659 million) is HK$664 million (2004: HK$673 million).

The fair value of the liability portion of the convertible notes is estimated using an equivalent market interest rate for a similar convertible note.

27. FINANCE LEASE PAYABLES

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

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

Group

HK$ million	**Minimum lease payments 2005**	Minimum lease payments 2004	**Present value of minimum lease payments 2005**	Present value of minimum lease payments 2004
Amounts payable:				
Within one year	**2**	1	**2**	1
In the second year	**1**	1	**1**	1
Total minimum finance lease payments	**3**	2	**3**	2
Future finance charges	**—**	—		
Total net finance lease payables	**3**	2		
Portion classified as current liabilities (note 26)	**(2)**	(1)		
Non-current portion (note 26)	**1**	1		

28. CONVERTIBLE NOTES

(a) On 17 May 2002, CCT Technology Holdings Limited, a direct wholly-owned subsidiary of the Company, issued the convertible note with principal amount of HK$45 million to Emporium International Limited, an indirect wholly-owned subsidiary of CCT Telecom, with the original due date on 17 May 2005. The convertible note was subsequently extended to 31 December 2007 and the convertible note was replaced by the convertible note (the "2007 Convertible Note") issued by the Company. The 2007 Convertible Note provides 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 the fifth business day prior to the maturity of the 2007 Convertible Note at a conversion price of HK$0.01 per share (subject to adjustment according to the terms of the 2007 Convertible Note).

On 26 April 2004, the 2007 Convertible Note was 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 Note was transferred to Jade Assets Company Limited ("Jade Assets"), an indirect wholly-owned subsidiary of CCT Telecom, pursuant to the terms of the voluntary conditional cash offer made by CCT Telecom during the year.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

(b) On 30 June 2003, the Company issued the convertible note due 2008 (the "2008 Convertible Note") with the principal amount of HK$768 million to Noble Team Investments Limited ("Noble Team"), 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 Note provides the holder the right to convert the principal amount into the Company's ordinary shares of HK$0.01 each on any business day prior to the fifth business day prior to the maturity of the convertible note at a conversion price of HK$0.014 (subject to adjustment according to the terms of the 2008 Convertible Note) per share. The 2008 Convertible Note bears interest at the 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 its issue.

In 2004, part of the 2008 Convertible Note 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 Note 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, to a subsidiary of CCT Telecom.

28. CONVERTIBLE NOTES *(Continued)*

The legal title of the 2008 Convertible Note was subsequently transferred to Jade Assets on 16 February 2006.

As the directors consider that the equity component of the 2008 Convertible Note is not significant, the equity component is not separately recognised in the shareholders' equity.

The net proceeds received from the issue of the convertible notes have been split between the liability and equity components, as follows:

HK$ million	Group **2005**	Group 2004 (Restated)	Company **2005**	Company 2004 (Restated)
Nominal value of convertible notes issued:				
2007 Convertible Note — note (a)	**45**	45	**45**	45
2008 Convertible Note — note (b)	**615**	615	**615**	615
	660	660	**660**	660
Equity component	**(7)**	(7)	**(7)**	(7)
Liability component at the issuance date	**653**	653	**653**	653
Decrease in fair value due to extension of maturity date of the 2007 Convertible Note (note 7)	**(6)**	—	**(6)**	—
Effective interest expense:				
Prior years	**6**	4	**6**	4
Current year:				
Interest expense (note 7)	**52**	53	**52**	53
Interest paid	**(50)**	(51)	**(50)**	(51)
Liability component at 31 December (note 26)	**655**	659	**655**	659
Portion classified as current liabilities	**—**	(44)	**—**	(44)
Non-current liabilities	**655**	615	**655**	615

29. DEFERRED TAX

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

Deferred tax liabilities

Group

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

Deferred tax assets

Group

HK$ million	**2005 Losses available for offseting against future taxable profit**
At 1 January 2005	**4**
Deferred tax charged to the income statement during the year (note 10)	**(2)**
Gross deferred tax assets at 31 December 2005	**2**
Net deferred tax liabilities at 31 December 2005	**(1)**

29. DEFERRED TAX *(Continued)*

Deferred tax liabilities

Group

HK$ million	2004 Accelerated tax depreciation
At 1 January 2004	3
Deferred tax credited to the income statement during the year (note 10)	(1)
Gross deferred tax liabilites at 31 December 2004	2

Deferred tax assets

Group

HK$ million	2004 Losses available for offseting against future taxable profit
At 1 January 2004	9
Deferred tax charged to the income statement during the year (note 10)	(5)
Gross deferred tax assets at 31 December 2004	4
Net deferred tax assets at 31 December 2004	2

The Group has tax losses arising in Hong Kong of HK$16 million (2004: HK$25 million) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2005, there is no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

30. SHARE CAPITAL

Shares

	Company	
HK$ million	**2005**	2004
Authorised:		
120,000,000,000 (2004: 120,000,000,000) ordinary shares of HK$0.01 each	**1,200**	1,200
Issued and fully paid:		
15,938,422,562 (2004: 15,938,422,562) ordinary shares of HK$0.01 each	**159**	159

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

	Number of ordinary shares of HK$0.01 each in issue	**Issued capital HK$'million**
At 1 January 2004	13,138,422,562	131
Conversion of convertible notes	2,800,000,000	28
At 31 December 2004, 1 January 2005 and 31 December 2005	15,938,422,562	159

Note:

In 2004, convertible notes amounting to HK$32 million were converted into 1,800,000,000 shares and 1,000,000,000 shares of the Company of HK$0.01 each at conversion prices of HK$0.01 and HK$0.014 per share, respectively.

Share options

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

31. SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was conditionally adopted by the then shareholder of the Company and the shareholders of CCT Technology Holdings Limited, the then holding company of the Company, on 17 September 2002 and 15 October 2002 respectively. The Share Option Scheme became effective on 7 November 2002. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from that date. As at 31 December 2005, there were no share options outstanding under the Share Option Scheme. No share options has been granted under the Share Option Scheme during the year.

The purpose of the Share Option Scheme is to provide incentives and rewards to the eligible participants who contribute to the success of the operations of the Group. Eligible participants of the Share Option Scheme include any employee, executive or officer of the Group (including executive and non-executive directors of the Group) and any supplier, consultant, agent, adviser, shareholder, customer, partner, or business associate who, at the sole discretion of the board of directors of the Company (the "Board"), will contribute or has contributed to the Group.

Pursuant to the Share Option Scheme, the maximum number of shares in respect of which share options may be granted under the Share Option Scheme is such number of shares, when aggregated with shares subject to any other share option scheme(s) of the Company, must not exceed 10% of the issued share capital of the Company upon the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or 30% of the issued share capital of the Company from time to time. The general limit on grant of the share options under the Share Option Scheme was refreshed to 10% of the shares in issue as at the date of approval by the shareholders of the Company and the shareholders of CCT Telecom, the holding company of the Company, on 27 May 2004. As at the date of this annual report, the total number of the shares available for issue in respect thereof is 1,344,882,612, which represents approximately 8.44% of the total issued share capital of the Company as at the date of this annual report.

The maximum number of shares issuable upon exercise of the share options granted under the Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding share options) to each eligible participant in any 12-month period is limited to 1% of the shares of the Company in issue as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company (and if required, the holding company) and the shareholders' approval of the Company (and if required, the approval of the shareholders of the holding company) at a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to the approval in advance by the independent non-executive directors of the Company, (and if required, the approval of the independent non-executive directors of the holding company) excluding the independent non-executive director(s) of the Company and the holding company who is/are the grantee(s) of the share options. In addition, any share option granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue as at the date of grant or with an aggregate value (based on the closing price of the shares of the Company at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to the issue of a circular by the Company (and if required, the holding company) and the shareholders' approval of the Company (and if required, the approval of the shareholders of the holding company) in advance at a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options or the expiry date of the Share Option Scheme, whichever is earlier.

31. SHARE OPTION SCHEME *(Continued)*

The exercise price of the share options is determinable by the Board, but may not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

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

	Number of share options							
Name or category of participant	**Outstanding as at 1 January 2005**	**Granted during the year**	**Exercised during the year***	**Lapsed/ Cancelled during the year**	**Outstanding as at 31 December 2005**	**Date of grant of share options**	**Exercise period of share options**	**Exercise price per share** 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)	—			

31. SHARE OPTION SCHEME *(Continued)*

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

** 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.

At the balance sheet date, there was no share options outstanding under the Share Option Scheme and no share options has been granted under the Share Option Scheme during the year ended 31 December 2005.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 58 of the financial statements.

(b) Company

HK$ million	Notes	Special reserve	Share premium account	Equity component of convertible notes	Accumulated losses	Total
Balance at 1 January 2004						
As previously reported		(56)	—	—	(10)	(66)
Prior year adjustments	2.4(b)	—	—	7	(4)	3
As restated		(56)	—	7	(14)	(63)
Conversion of convertible notes	30	—	4	—	—	4
Loss for the year (as restated)		—	—	—	(36)	(36)
At 31 December 2004 and 1 January 2005 (as restated)		(56)	4	7	(50)	(95)
Loss for the year		—	—	—	(58)	(58)
At 31 December 2005		(56)	4	7	(108)	(153)

33. DISPOSAL OF SUBSIDIARIES

HK$ million	Notes	2005	2004
Net assets disposed of:			
Property, plant and equipment	14	—	35
Inventories		—	5
Trade and bills receivables		—	50
Cash and bank balances		—	36
Trade and bills payables		—	(29)
Other payables and accruals		—	(7)
Tax payable		—	(1)
		—	89
Reversal of goodwill upon disposal of subsidiaries	17	—	30
Gain on disposal of subsidiaries		—	20
		—	139
Satisfied by:			
Cancellation of convertible notes	28(b)	—	139
		—	139

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

HK$ million	2005	2004
Cash and bank balances disposed of	—	(36)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	—	(36)

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

34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the finance leases of HK$3 million (2004: HK$1 million).

35. CONTINGENT LIABILITIES

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

	Group		Company	
HK$ million	**2005**	2004	**2005**	2004
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	**—**	—	**499**	426
	—	—	**499**	426

As at 31 December 2005, the bank facilities granted to the subsidiaries subject to corporate guarantees given to the banks by the Company were utilised to the extent of approximately HK$304 million (2004: HK$223 million).

(b) The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$1 million as at 31 December 2005 (2004: HK$6 million), as further explained under the heading "Employees benefits" in note 2.5 to the financial statements. The contingent liability has 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.

36. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group, are included in note 26(a) to the financial statements.

37. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangements with leases negotiated for terms for three years.

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
HK$ million	**2005**	2004
Within one year	**6**	6
In the second to fifth years, inclusive	**12**	—
	18	6

(b) As lessee

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

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
HK$ million	**2005**	2004
Within one year	**2**	5
In the second to fifth years, inclusive	**—**	2
	2	7

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
HK$ million	**2005**	2004
Contracted, but not provided for		
Construction in progress	**—**	15
Purchase of a motor vehicle	**—**	4
Purchases of plant and machinery and equipment	**7**	1
	7	20

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

39. RELATED PARTY TRANSACTIONS

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

		Year ended 31 December	
HK$ million	Notes	**2005**	2004
Fellow subsidiaries:			
Purchase of plastic casings and components	(i)	**315**	313
Purchase of materials	(ii)	**—**	13
Purchase of power supply components	(iii)	**157**	47
Factory rental income	(iv)	**6**	6
Factory rental expenses	(v)	**6**	2
Office rental expenses	(vi)	**3**	3
Outsourcing of non-electronic baby products	(vii)	**32**	—
Ultimate holding company:			
Management information system service fee	(viii)	**4**	3

39. RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

(i) The plastic casings and components were purchased by CCT Telecom (HK) Limited ("CCT HK"), an indirect wholly-owned subsidiary of the Company, from Neptune Holding Limited ("Neptune"), an indirect wholly-owned subsidiary of CCT Telecom in accordance with the terms and conditions set out in a manufacturing agreement (the "First Manufacturing Agreement") entered into between CCT HK and Neptune on 15 May 2003. CCT HK and Neptune agreed to early terminate the First Manufacturing Agreement and on 4 May 2004 and at the same time, the Company and CCT Telecom entered into a new manufacturing agreement (the "Second Manufacturing Agreement") pursuant to which CCT Telecom agree to manufacture through the CCT Telecom Remaining Group (CCT Telecom and its subsidiaries excluding the Group) certain plastic casings and components and toolings for telecom products and other products for the Group. The Second Manufacturing Agreement became effective on 15 June 2004.

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

(ii) The purchase of materials was made by Electronic Sales Limited ("ESL") from Neptune for the period up to 12 September 2004 when ESL ceased to be a subsidiary of the Company and became a subsidiary of CCT Telecom. 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 a manufacturing agreement (the "Third Manufacturing Agreement") entered into between Neptune and ESL on 23 July 2002. The Third Manufacturing Agreement was terminated on 4 May 2004 and was replaced by the Second Manufacturing Agreement.

(iii) The power supply components purchased from the CCT Telecom Remaining Group and the purchase price was 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 ("PSC 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 (the "Huiyang Tenancy Agreement") entered into between Shine Best and CCT Ent on 15 May 2003.

(v) The factory rental expenses were charged to the Group by CCT Telecom Remaining Group, for the provision of factory spaces in Dongguan, the PRC, at rates determined in accordance with the terms and conditions set out in a tenancy agreement (the "Dongguan Tenancy Agreement") entered into between the Company and CCT Telecom on 13 September 2004.

(vi) The office rental expenses were charged to CCT HK and CCT Telecom R&D Limited ("CCT R&D"), both being indirect wholly-owned subsidiaries of the Company, by Goldbay Investments Limited ("Goldbay"), an indirect wholly-owned subsidiary of CCT Telecom, for the provision of office spaces in Hong Kong, at rates determined in accordance with the terms and conditions set out in the five tenancy agreements (the "Hong Kong Tenancy Agreements") entered into between CCT HK and Goldbay on 17 September 2004 and 19 October 2005, and between CCT R&D and Goldbay on 17 December 2004.

(vii) The non-electronic baby products and related components were outsourced by the Group to the CCT Telecom Remaining Group. The purchase price was 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 an outsourcing agreement (the "Outsourcing Agreement") entered into between the Company and CCT Telecom on 29 November 2004 which became effective on 1 January 2005.

(viii) The management information system service fee was charged to CCT Telecom by CCT HK for the provision of general management information system support, network and software consultation and hardware maintenance services. The rate was determined in accordance with the terms and conditions set out in an agreement (the "MIS Agreement") entered into between CCT Telecom and CCT HK on 15 May 2003.

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

39. RELATED PARTY TRANSACTIONS *(Continued)*

(b) ESL and CCT Investment Limited ("CCT Investment") were indirect wholly-owned subsidiaries of the Company throughout the period up to 12 September 2004, the date on which these two subsidiaries were disposed of to CCT Telecom (the "Disposal").

Before the completion of the Disposal on 13 September 2004, ESL and CCT Investment had the following connected transactions with certain subsidiaries of CCT Telecom up to 12 September 2004:

	Notes	**Period from 1 January 2004 to 12 September 2004** HK$ million
Factory rental expenses	(i)	4
Rental expenses	(ii)	1

Notes:

(i) The factory rental expenses were charged to CCT Investment, by CCT Properties (Dongguan) Limited ("CCT Prop"), an indirect wholly-owned subsidiary of CCT Telecom, for the provision of factory space in Dongguan, the PRC, at a rate determined in accordance with the terms and conditions set out in a tenancy agreement (the "First Tenancy Agreement") entered into between CCT Investment and CCT Prop on 15 May 2003. Both parties agreed to have an early termination of the First Tenancy Agreement in accordance with the provisions of the First Tenancy Agreement and entered into a new tenancy agreement with a greater floor area on 14 January 2004.

(ii) The rental expenses were charged to ESL by CCT Prop for the provision of factory space in Dongguan, the PRC, at a rate determined in accordance with the terms and conditions set out in a rental agreement (the "Second Tenancy Agreement") entered into between ESL and CCT Prop on 15 April 2003. Both parties agreed to have an early termination of the Second Tenancy Agreement in accordance with the provisions of the Second Tenancy Agreement and enter into a new tenancy agreement with a smaller floor area on 14 January 2004.

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

(c) Other transactions with related parties:

(i) During the year, the Company had paid the 2008 Convertible Note interest of approximately HK$50 million to Noble Team at prime or best lending rate as quoted by the Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollar loans plus 2%.

(ii) During the year, CCT Telecom had reimbursed certain administrative expenses of the Group amounting to HK$17 million.

(iii) During the year, the Group received an one-off compensation from Neptune amounting to approximately HK$18 million for the substandard plastic materials supplied to the Group by Netune in 2005.

39. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Outstanding balance with related parties:

(i) As disclosed in the consolidated balance sheet, the Group and the Company had outstanding receivables from CCT Telecom of HK$17 million as at 31 December 2005. The balances are unsecured, interest-free and have been subsequently settled on 6 April 2006.

(ii) Details of the Group's trade payable balances with its fellow subsidiaries as at the balance sheet date are disclosed in note 24 to the financial statements.

(e) Compensation of key management personnel of the Group

HK$ million	**2005**	2004
Short term employee benefits	**20**	21
Post-employment benefits	**—**	—
Total compensation paid to key management personnel	**20**	21

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible notes, finance leases, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.5 to the financial statements.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The Group's policy is to manage its interest cost using an appropriate mix of fixed and variable rate debts.

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

Foreign currency risk

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

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

There is no significant concentration of credit risk in relation to the Group's financial assets.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, convertible notes, other interest-bearing loans and finance leases. In addition, banking facilities have been put in place for contingency purposes.

Fair values

The financial assets and liabilities which are not carried at fair value in the balance sheets are presented below:

(a) *Bank balances, trade and bills receivables, trade and bills payables, other receivables and payables*

The carrying amounts of these balances approximate to their fair values because of the immediate or short term maturity of these financial instruments.

(b) *Bank loans, finance lease payables and convertible notes*

The carrying amounts of bank loans and finance lease payables approximate their fair values, based on the prevailing interest rates. The fair value of convertible notes is disclosed in note 28 to the financial statements.

41. POST BALANCE SHEET EVENTS

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

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

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

(b) On 17 March 2006, CCT Telecom entered into a conditional sale and purchase agreement (the "S&P Agreement") with Deutsche Bank in relation to the sale of 13,800,000,000 shares in the Company (the "Sale Shares") to Deutsche Bank and not less than two third party investors (the "Third Party Investors") in order to restore the public float of the Company to not less than 25% of total issued capital of the Company. The price for the sale of the Sale Shares is HK$0.022 per Sale Share and the total consideration amounted to approximately HK$303,600,000, payable in cash. On the same date of 17 March 2006, CCT Telecom entered into the put agreement (the "Put Agreement") with Deutsche Bank granting Deutsche Bank the put options to sell back the Sale Shares to CCT Telecom pursuant to the terms of the Put Agreement. The transactions under the S&P Agreement and the Put Agreement are subject to the approval of the shareholders of CCT Telecom at a special general meeting to be held on 27 April 2006 and the fulfillment or waiver of certain other conditions in accordance with the S&P Agreement.

Upon fulfillment and waiver of the conditions and immediately before completion of the S&P Agreement, Jade Assets will convert the 2007 Convertible Note and 2008 Convertible Note in full into a total of 48,428,571,428 new ordinary shares in the Company, out of which 13,800,000,000 new shares of the Company will be sold to Deutshe Bank and the Third Party Investors. Immediately after the sale of the Sale Shares, CCT Telecom will hold approximately 74.62% of the total issued share capital of the Company as enlarged by the full conversion of the 2007 Convertible Note and 2008 Convertible Note and the public shareholders will hold 25.38%.

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

42. COMPARATIVE AMOUNTS

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

43. APPROVAL OF THE FINANCIAL STATEMENTS

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