1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands with limited liability and continued as an exempted company under the laws of Bermuda after the change of domicile from the Cayman Islands to Bermuda effective on 9 December 2005.

During the year, the Group was involved in the following principal activities:

- the manufacture and sale of telecom and electronic products, accessories and components;
- the manufacture and sale of baby products;
- the provision of e-commerce service;
- investment in securities; and
- investment and development of property.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Statements ("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, certain derivative financial instruments and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest million (HK$ 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 2006. 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.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

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

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 Financial Instruments: Recognition and Measurement

(i) *Amendment for financial guarantee contracts*

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) *Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

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

(b) HKAS 39 Financial Instruments: Recognition and Measurement *(Continued)*

(iii) *Amendment for cash flow hedge accounting of forecast intragroup transactions*

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

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.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

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 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

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

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, and HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 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.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, 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.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Goodwill *(Continued)*

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

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.

Goodwill previously eliminated against consolidated reserves

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business combinations" ("SSAP 30") in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets other than goodwill

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 in those expense categories consistent with function of the impaired asset.

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 the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as 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	2.5%–6%
Plant and machinery	10%–30%
Tools, moulds and equipment	10%–20%
Furniture and office equipment	10%–20%
Motor vehicles	15%–30%

2.4 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 represents buildings under construction. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds 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.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property, plant and equipment and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under “Property, plant and equipment and depreciation” above.

2.4 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.

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

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity finanical assets or 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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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, that is, the date that the Group commits to purchase or sell 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on these financial assets are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Investments and other financial assets *(Continued)*

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 subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate and transaction costs. 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.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity financial assets are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Impairment of financial assets

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 or held-to-maturity financial assets 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 the income statement.

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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

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 them 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bonds; 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 bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

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 the income statement.

Derivative financial instruments

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 the income statement.

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

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.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

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.

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.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Income tax *(Continued)*

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.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. 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 vest fully, in accordance with the rules of the MPF Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Pension scheme (Continued)

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 vests 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 its 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.

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 the income statement. 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.

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 the exchange fluctuation reserve. 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.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Cash and cash equivalents

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

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

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;

(c) dealings in securities and sale of investments, on the transaction dates when the relevant contract notes are exchanged, or the settlement dates when the securities are delivered;

(d) from the rendering of services, when the services have been rendered;

(e) 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 asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits or capital reserve within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 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);

(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 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.

Disposal of interest in a subsidiary subject to put options

As further detailed in note 33 to the financial statements, during the year, in order to restore the public float of CCT Tech International Limited ("CCT Tech"), a subsidiary of the Company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company and Deutsche Bank AG ("Deutsche Bank") entered into a sale and purchase agreement for the sale of 13.8 billion shares in CCT Tech to Deutsche Bank and three other independent third party investors at a price of HK$0.022 per share of CCT Tech with put options granted to Deutsche Bank. The put options are exercisable under the terms of a put agreement which requires the Company to repurchase the shares at a price of HK$0.02413 per share upon maturity of the put options on 9 May 2008 or the occurrence of certain events as set out in the put agreement.

The Group has determined that the financial asset derecognition conditions in relation to the 13.8 billion shares in CCT Tech as stipulated in HKAS 39 have not been fulfilled. Accordingly, the Company continued to consolidate the results of the CCT Tech group for the year ended 31 December 2006 attributable to the 13.8 billion shares in CCT Tech sold under the above arrangement.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have 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 2006 was HK$128 million (2005: HK$110 million). More details are given in note 18.

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

Judgements *(Continued)*

Estimation of fair value of the put options relating to the disposal of interest in a subsidiary

As further detailed in note 33 to the financial statements, the Group has accounted for the put options relating to the sale of the 13.8 billion shares in CCT Tech as a derivative financial instrument, which is stated at fair value. In estimating the fair value of the put options, the Group has engaged an external valuer who has applied the Black-Scholes model to determine the fair value on the date of completion of the relevant transaction and on 31 December 2006. Significant estimation of the parameters for applying the model, including risk-free interest rate, dividend yield and expected volatility, is required to be made.

The fair value of the put options using the Black-Scholes model was approximately HK$50 million on the completion date of the transaction and HK$71 million on 31 December 2006.

4. *SEGMENT INFORMATION*

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

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

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

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

(c) the securities investment segment engages in trading in securities and the holding of securities and treasury products;

(d) the property investment and development segment engages in property investment and property development; and

(e) the corporate and others segment comprises the provision of e-commerce service and corporate income and expense items.

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

4. *SEGMENT INFORMATION (Continued)*

(a) Business segments

The following tables present revenue and profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Group

	Telecom and electronic products		Baby products		Securities investment		Property investment and development		Corporate and others		Consolidated	
	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million
Segment revenue:												
Sales to external customers	3,882	3,846	112	124	149	—	3	2	34	—	4,180	3,972
Other revenue	34	—	—	—	—	2	—	—	2	23	36	25
Total revenue	3,916	3,846	112	124	149	2	3	2	36	23	4,216	3,997
Segment results	109	189	8	6	364	100	39	67	(112)	(76)	408	286
Interest income											19	8
Finance costs											(40)	(23)
Profit before tax											387	271
Tax											(21)	(18)
Profit for the year											366	253

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments

Group

	Telecom and electronic products		Baby products		Securities investment		Property investment and development		Corporate and others		Consolidated	
	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million
Segment assets	3,186	3,229	68	76	226	461	499	354	747	195	4,726	4,315
Unallocated assets											4	3
Total assets											4,730	4,318
Segment liabilities	997	1,095	19	18	—	—	3	2	371	13	1,390	1,128
Unallocated liabilities											531	480
Total liabilities											1,921	1,608
Other segment information:												
Capital expenditure	172	241	2	1	—	—	177	—	18	14	369	256
Depreciation	112	96	2	3	—	—	—	—	16	23	130	122
Amortisation	51	35	—	—	—	—	—	—	1	—	52	35
Impairment losses recognised directly in the income statement	—	—	—	—	—	—	—	2	21	10	21	12
Fair value loss on derivative financial instrument	—	—	—	—	—	—	—	—	21	—	21	—
Other non-cash expenses	69	33	—	—	—	—	—	—	11	1	80	34
Fair value gain on investment properties	—	—	—	—	—	—	39	—	—	—	39	—
Reversal of impairment losses on properties	—	—	—	—	—	—	—	64	—	2	—	66
Gain on disposal of available-for-sale financial assets	—	—	2	—	316	—	—	—	—	—	318	—
Fair value gain on financial assets at fair value through profit or loss	—	—	—	—	13	—	—	—	—	—	13	—
Gain on disposal and deemed disposal of interest in an associate	—	—	—	—	—	—	—	—	—	109	—	109
Gain on deemed acquisition of minority interests upon conversion of convertible notes	—	—	—	—	—	—	—	—	30	—	30	—

4. *SEGMENT INFORMATION (Continued)*

(b) Geographical segments

The following table presents revenue information for the Group's geographical segments.

Group

	United States of America		Asia Pacific		Europe		Consolidated	
	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million
Segment revenue:								
Sales to external customers	2,142	2,360	1,405	1,152	633	460	4,180	3,972
Other revenue	—	—	36	25	—	—	36	25
Total revenue	2,142	2,360	1,441	1,177	633	460	4,216	3,997

Over 90% of the Group's assets are located in Hong Kong and the Mainland of the People's Republic of China (the "PRC"). Accordingly, no separate analysis of assets by geographical segment is presented.

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 the value of services rendered, gross income from treasury investment which includes interest income on bank deposits and other financial assets, gross income from securities investment (which includes gross proceeds from the sale of investments and dividend income) and rental income from investment properties.

Revenue from the following activities has been included in turnover:

HK$ million	2006	2005
Revenue		
Manufacture and sale of telecom and electronic products	3,882	3,846
Manufacture and sale of baby products	112	124
Gross income from securities investment	137	—
Provision of e-commerce service	34	—
Rental income from investment properties (note 6)	3	2
Interest income from held-to-maturity financial assets and financial assets at fair value through profit or loss	12	—
Bank interest income	19	8
	4,199	3,980

6. PROFIT BEFORE TAX

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

		Group	
HK$ million	Notes	2006	2005
Cost of inventories sold		3,693	3,044
Depreciation	14	130	122
Less: Amount capitalised in deferred development costs		(2)	—
		128	122
Amortisation of prepaid land lease payments	16	5	5
Minimum lease payments under operating leases in respect of land and buildings		6	4
Research and development costs:			
Deferred expenditure amortised*	17	47	30
Current year expenditure		58	54
Goodwill impairment**	18	21	7
Auditors' remuneration		7	6
Employee benefits expense (excluding directors' remuneration — note 8)			
Wages and salaries		419	379
Equity-settled share option expense		—	—
Pension scheme contributions****		4	3
Less: Amount capitalised in deferred development costs		(20)	(30)
		403	352
Impairment of trade receivables**		8	15
Loss/(gain) on disposal of items of property, plant and equipment, net**		(1)	1
Impairment loss on items of property, plant and equipment**	14	—	1
Write off of items of property, plant and equipment**	14	11	1
Write off of deferred development costs**	17	15	8
Write-down of inventories to net realisable value*		46	8
Foreign exchange losses/(gains), net		(7)	13
Compensation for release of guarantee**		—	36
Fair value loss on financial assets at fair value through profit or loss**		—	2
Impairment loss on available-for-sale financial assets**		—	2
Loss on disposal of held-to-maturity financial assets**		1	—
Fair value loss on derivative financial instrument**	33	21	—
and after crediting:			
Fair value gain on investment properties***	15	39	—
Gain on deemed acquisition of minority interests upon conversion of convertible notes***		30	—
Net gain on disposal of subsidiaries***	39	—	42
Gain on disposal of available-for-sale financial assets***		318	—
Gain on disposal and deemed disposal of interest in an associate***		—	109
Fair value gain on financial assets at fair value through profit or loss***		13	—
Gross rental income from investment properties	5	3	2
Interest income on long term receivable***	33	8	—
Reversal of impairment losses on properties**	14	—	66

* 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.

*** Included in "Other income and gains" 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

HK$ million	Group 2006	Group 2005
Interest on bank loans and overdrafts wholly repayable within five years	12	7
Interest on bank loans wholly repayable after five years	11	6
Interest on convertible bonds	4	5
Interest on other liability	13	5
	40	23

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 2006	Group 2005
Fees:		
Executive directors	—	—
Independent non-executive directors	1	1
	1	1
Executive directors' other emoluments:		
Salaries, allowances and benefits in kind	22	20
Performance related bonuses*	25	12
Employee share option benefits	2	—
Pension scheme contributions	1	1
	50	33
	51	34

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

During the year, certain directors were granted share options, in respect of their services to the Group under the share option scheme of the Company's subsidiary, Tradeeasy Holdings Limited, which is listed on the Growth Enterprise Market of the Stock Exchange. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the year is included in the above directors' remuneration disclosures.

8. *DIRECTORS' REMUNERATION* (Continued)

(a) Independent non-executive directors

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

HK$'000	2006	2005
Samuel Olenick	240	240
Tam King Ching, Kenny	240	240
Lau Ho Man, Edward	240	240
	720	720

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors

HK$ million	Salaries, allowances and benefits in kind	Performance related bonuses	Employee share option benefits	Pension scheme contributions	Total remuneration
2006					
Mak Shiu Tong, Clement ("Mr. Mak")	13	13	1	1	28
Tam Ngai Hung, Terry	4	7	1	—	12
Cheng Yuk Ching, Flora	4	6	—	—	10
William Donald Putt	—	—	—	—	—
	21	26	2	1	50

HK$ million	Salaries, allowances and benefits in kind	Performance related bonuses	Employee share option benefits	Pension scheme contributions	Total remuneration
2005					
Mak Shiu Tong, Clement	12	5	—	1	18
Tam Ngai Hung, Terry	4	4	—	—	8
Cheng Yuk Ching, Flora	4	3	—	—	7
William Donald Putt	—	—	—	—	—
	20	12	—	1	33

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 three (2005: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2005: two) non-director, highest paid employees for the year are as follows:

	Group	
HK$ million	**2006**	2005
Salaries, allowances and benefits in kind	**6**	5
Performance related bonuses	**1**	3
Pension scheme contributions	**—**	—
	7	8

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

	Number of employees	
	2006	2005
HK$2,000,001–HK$2,500,000	**—**	1
HK$2,500,001–HK$3,000,000	**1**	—
HK$4,500,001–HK$5,000,000	**1**	—
HK$6,000,001–HK$6,500,000	**—**	1
	2	2

10. *TAX*

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the 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, followed by a 50% reduction in the PRC income tax for the next three consecutive years.

10. TAX *(Continued)*

HK$ million	Group 2006	Group 2005
Group:		
Current — Hong Kong:		
Charge for the year	10	12
Overprovision in prior years	—	(1)
Current — Elsewhere		
Charge for the year	12	7
Underprovision in prior years	—	1
Deferred — note 34	(1)	(1)
Total tax charge for the year	21	18

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries 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 — 2006

HK$ million	Hong Kong	%	The PRC, excluding Hong Kong	%	Total	%
Profit before tax	319.3		67.6		386.9	
Tax at the statutory or appropriate tax rate	55.9	17.5	22.3	33.0	78.2	20.2
Lower tax rate for specific provinces or local authority	—	—	(2.9)	(4.3)	(2.9)	(0.7)
Adjustment in respect of current tax of previous periods	0.1	—	(0.1)	(0.1)	—	—
Income not subject to tax	(74.9)	(23.5)	(53.9)	(79.7)	(128.8)	(33.3)
Expenses not deductible for tax	21.1	6.6	73.0	108.0	94.1	24.3
Tax losses utilised from previous periods	(0.2)	(0.1)	—	—	(0.2)	(0.1)
Tax losses not recognised	7.2	2.3	7.2	10.7	14.4	3.7
Tax exemption	—	—	(33.5)	(49.6)	(33.5)	(8.7)
Others	—	—	0.1	0.1	0.1	—
Tax charge at the Group's effective rate	9.2	2.8	12.2	18.1	21.4	5.4

10. TAX (Continued)

Group — 2005

HK$ million	Hong Kong	%	The PRC, excluding Hong Kong	%	Total	%
Profit before tax	163.2		107.7		270.9	
Tax at the statutory or appropriate tax rate	28.6	17.5	35.5	33.0	64.1	23.6
Lower tax rate for specific provinces or local authority	—	—	(25.7)	(23.8)	(25.7)	(9.5)
Adjustments in respect of current tax of previous periods	(1.4)	(0.9)	1.4	1.4	—	—
Income not subject to tax	(107.2)	(65.6)	(16.8)	(15.6)	(124.0)	(45.8)
Expenses not deductible for tax	89.9	55.0	31.9	29.6	121.8	45.0
Tax losses utilised from previous periods	(2.4)	(1.4)	—	—	(2.4)	(0.9)
Tax losses not recognised	4.3	2.6	—	—	4.3	1.6
Tax exemption	—	—	(18.7)	(17.4)	(18.7)	(6.9)
Others	(2.3)	(1.4)	0.8	0.7	(1.5)	(0.5)
Tax charge at the Group's effective rate	9.5	5.8	8.4	7.9	17.9	6.6

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of HK$32 million (2005: HK$428 million) which has been dealt with in the financial statements of the Company (note 37(b)).

12. DIVIDENDS

HK$ million	2006	2005
Paid special interim — Nil (2005: HK$0.68) per ordinary share	—	319
Paid interim — HK$0.02 (2005: Nil) per ordinary share	16	—
Proposed final — HK$0.025 (2005: HK$0.02) per ordinary share	20	13
	36	13
Total	36	332

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of basic earnings per share amounts is based on the 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 profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on convertible bonds (see below). The weighted average number of ordinary shares used in the calculation is the 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.

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

HK$ million	**2006**	2005
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**358**	225
Interest on convertible bonds (note 7)	**4**	5
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**362**	230

	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**732,918,201**	512,524,188
Effect of dilution — weighted average number of ordinary shares:		
Share options	**—**	8,941,582
Convertible bonds	**108,046,640**	102,961,814
	840,964,841	624,427,584

14. *PROPERTY, PLANT AND EQUIPMENT*

Group

HK$ million	Leasehold land and buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total
31 December 2006							
At 31 December 2005 and 1 January 2006:							
Cost	1,115	430	167	120	24	1	1,857
Accumulated depreciation and impairment	(191)	(215)	(108)	(77)	(13)	—	(604)
Net carrying amount	924	215	59	43	11	1	1,253
At 1 January 2006, net of accumulated depreciation and impairment	924	215	59	43	11	1	1,253
Acquisition of subsidiaries (note 38)	2	—	—	1	—	—	3
Additions	16	49	27	12	4	19	127
Disposals	(3)	(1)	—	—	(2)	—	(6)
Write off	(10)	—	—	(1)	—	—	(11)
Depreciation provided during the year	(48)	(44)	(23)	(12)	(3)	—	(130)
Transfer to investment properties (note 15)	(17)	—	—	—	—	—	(17)
Exchange realignment	—	3	—	—	—	—	3
At 31 December 2006, net of accumulated depreciation and impairment	864	222	63	43	10	20	1,222
At 31 December 2006:							
Cost	1,086	480	194	149	24	20	1,953
Accumulated depreciation and impairment	(222)	(258)	(131)	(106)	(14)	—	(731)
Net carrying amount	864	222	63	43	10	20	1,222

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

Group *(Continued)*

HK$ million	Leasehold land and buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total
31 December 2005							
At 1 January 2005:							
Cost	1,302	387	150	125	22	39	2,025
Accumulated depreciation and impairment	(365)	(204)	(91)	(79)	(13)	—	(752)
Net carrying amount	937	183	59	46	9	39	1,273
At 1 January 2005, net of accumulated depreciation and impairment	937	183	59	46	9	39	1,273
Additions	13	66	23	12	7	80	201
Disposals	(2)	(1)	—	—	(2)	—	(5)
Write off	—	—	—	(1)	—	—	(1)
Depreciation provided during the year	(48)	(36)	(21)	(14)	(3)	—	(122)
Impairment	(1)	—	—	—	—	—	(1)
Reversal of impairment	66	—	—	—	—	—	66
Reclassification	118	2	(2)	—	—	(118)	—
Transfer to investment properties (note 15)	(159)	—	—	—	—	—	(159)
Exchange realignment	—	1	—	—	—	—	1
At 31 December 2005, net of accumulated depreciation and impairment	924	215	59	43	11	1	1,253
At 31 December 2005:							
Cost	1,115	430	167	120	24	1	1,857
Accumulated depreciation and impairment	(191)	(215)	(108)	(77)	(13)	—	(604)
Net carrying amount	924	215	59	43	11	1	1,253

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

Company

HK$ million	Furniture and office equipment
31 December 2006	
At 31 December 2005 and 1 January 2006, net of accumulated depreciation	3
Depreciation provided during the year	(1)
At 31 December 2006, net of accumulated depreciation	2
At 31 December 2006:	
Cost	5
Accumulated depreciation	(3)
Net carrying amount	2
31 December 2005	
At 1 January 2005, net of accumulated depreciation	1
Additions	3
Depreciation provided during the year	(1)
At 31 December 2005, net of accumulated depreciation	3
At 31 December 2005:	
Cost	7
Accumulated depreciation	(4)
Net carrying amount	3

The net book value of the fixed assets of the Group held under finance leases included in the total amounts of plant and machinery and motor vehicles as at 31 December 2006, amounted to approximately HK$11 million (2005: HK$12 million) and HK$4 million (2005: HK$6 million), respectively.

The Group's land and buildings included above are held under the following lease terms:

HK$ million	Hong Kong	Elsewhere	Total
Medium term leases	33	831	864

At 31 December 2006, certain of the Group's land and buildings with an aggregate carrying value of approximately HK$517 million (2005: HK$567 million) were pledged to secure general banking facilities granted to the Group (note 30).

15. INVESTMENT PROPERTIES

HK$ million	Group 2006	2005
Carrying amount at 1 January	257	101
Additions	177	—
Disposals	—	(3)
Fair value gain on investment properties	39	—
Transfer from an owner-occupied property (note 14)	17	159
Carrying amount at 31 December	490	257

The Group's investment properties are situated in Hong Kong and held under the following lease terms:

HK$ million	
Long term leases	275
Medium term leases	215
	490

The Group's investment properties were revalued on 31 December 2006 by Grant Sherman Appraisal Limited, independent professionally qualified valuers, on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 43(a) to the financial statements.

At 31 December 2006, the Group's investment properties with a value of HK$487 million (2005: HK$254 million) were pledged to secure general banking facilities granted to the Group (note 30).

15. *INVESTMENT PROPERTIES (Continued)*

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

Location	Use	Tenure	Attributable interest of the Group
House No. 36, Carpark 3 & 4, 56 Repulse Bay Road, Hong Kong	Residential	Long term lease	100%
House No. 37, Carpark 50 & 51, 56 Repulse Bay Road, Hong Kong	Residential	Long term lease	100%
House No. 7, Rosecliff, No. 20 Tai Tam Road, Hong Kong	Residential	Long term lease	100%
32/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong	Office building	Medium term lease	100%
15/F, CCT Telecom Building, No. 11 Wo Shing Street, Shatin, Hong Kong	Office building	Medium term lease	100%
Carpark no. 64 and 66 Basement of Site No. 1, No. 26, 27, 234, 236 and 237 at the Basement of Site No. 3, Whampoa Garden, Hunghom, Kowloon, Hong Kong	Carpark	Long term lease	100%

16. *PREPAID LAND LEASE PAYMENTS*

HK$ million	Group 2006	Group 2005
Carrying amount at 1 January	225	230
Additions	10	—
Recognised during the year	(5)	(5)
Carrying amount at 31 December	230	225
Current portion included in prepayments, deposits and other receivables	(5)	(5)
Non-current portion	225	220

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

17. OTHER INTANGIBLE ASSETS

Group

HK$ million	Deferred development costs
31 December 2006	
Cost at 1 January 2006, net of accumulated amortisation	45
Acquisition of subsidiaries (note 38)	7
Additions — internal development	55
Write off	(15)
Amortisation provided during the year	(47)
At 31 December 2006	45
At 31 December 2006:	
Cost	102
Accumulated amortisation	(57)
Net carrying amount	45
31 December 2005	
Cost at 1 January 2005, net of accumulated amortisation	28
Additions — internal development	55
Write off	(8)
Amortisation provided during the year	(30)
At 31 December 2005	45
At 31 December 2005:	
Cost	76
Accumulated amortisation	(31)
Net carrying amount	45

18. 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 2006	
At 1 January 2006:	
Cost	117
Accumulated impairment	(7)
Net carrying amount	110
Cost at 1 January 2006, net of accumulated impairment	110
Acquisition of interests in a subsidiary (note 38)	39
Impairment during the year	(21)
Net carrying amount at 31 December 2006	128
At 31 December 2006:	
Cost	156
Accumulated impairment	(28)
Net carrying amount	128

Group

HK$ million	
31 December 2005	
At 1 January 2005:	
Cost	28
Accumulated impairment	—
Net carrying amount	28
Cost at 1 January 2005, net of accumulated impairment	28
Acquisition of minority interests in subsidiaries	89
Impairment during the year	(7)
Net carrying amount at 31 December 2005	110
At 31 December 2005:	
Cost	117
Accumulated impairment	(7)
Net carrying amount	110

18. GOODWILL *(Continued)*

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- Telecom and electronic products cash-generating unit;
- Provision of e-commerce service cash-generating unit; and
- Property holding cash-generating unit.

Telecom and electronic products cash-generating unit

The recoverable amount of the telecom and electronic products cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 18%.

Provision of e-commerce service cash-generating unit

The recoverable amount of the provision of e-commerce service cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15%. An impairment loss of HK$19 million was recognised to reduce the carrying amount of goodwill to HK$20 million.

Property holding cash-generating unit

The recoverable amount of the property holding cash-generating unit is determined based on estimated fair value less costs to sell. An independent valuation is obtained to determine the fair value. An impairment loss of HK$2 million was recognised to reduce the carrying amount of goodwill to HK$5 million.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

HK$ million	2006	2005
Telecom and electronic products	103	103
Provision of e-commerce service	20	—
Property holding	5	7
Carrying amount of goodwill	128	110

18. *GOODWILL (Continued)*

Key assumptions were used in the value in use calculation of the telecom and electronic products cash-generating unit and the provision of e-commerce service cash-generating unit for 31 December 2006. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements, and expected market development.

Discount rate — The discount rate used is before tax and reflect specific risks relating to the relevant unit.

Business environment — There is no major change in the existing political, legal and economic conditions in the countries with which and the country in which the cash-generating units carried on its business.

19. *INTERESTS IN SUBSIDIARIES*

	Company	
HK$ million	**2006**	2005
Unlisted shares, at cost	**45**	45
Due from subsidiaries	**3,131**	3,552
	3,176	3,597
Provision for impairment	**(1,036)**	(1,101)
	2,140	2,496

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Company's directors, these advances are considered quasi-equity loans to the subsidiaries. The carrying amounts of the amounts due from subsidiaries approximate to their fair values.

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Canford Holdings Limited	Hong Kong	HK$2 Ordinary	—	100	Property holding
CCT Marketing Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	96.07	Trading of telecom products
CCT Telecom (HK) Limited	Hong Kong	HK$2,600,000 Ordinary	—	96.07	Sourcing of telecom products, raw material and components
CCT Tech International Limited ("CCT Tech") @	Bermuda/ Hong Kong	HK$643,669,939.90 Ordinary	—	96.07	Investment holding
Electronic Sales Limited	Hong Kong	HK$5,948,000 Ordinary	—	100	Sale of power supply components
Goldbay Investments Limited	Hong Kong	HK$2 Ordinary	—	100	Property holding
Huge Partner Limited	Hong Kong	HK$10,000 Ordinary	—	100	Property holding
Neptune Holding Limited	Hong Kong	HK$10,000,000 Non-voting* class 'A' shares HK$1,000,000 Voting class 'B' shares	—	100	Trading of plastic casings and parts
Rich Full International Industries Limited	Hong Kong	HK$1 Ordinary	—	100	Property holding
Topcon Investments Limited	Hong Kong	HK$1 Ordinary	—	100	Property holding
Wiltec Industries Limited	Hong Kong	HK$100 Ordinary HK$1,000,000 Deferred**	—	100	Sale of baby products

19. *INTERESTS IN SUBSIDIARIES (Continued)*

Particulars of the principal subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Huiyang CCT Telecommunications Products Co., Ltd.	PRC	HK$80,000,000 Registered^	—	96.07	Manufacturing of telecom products
Huiyang CCT Plastic Products Co., Ltd.	PRC	HK$48,600,000 Registered^	—	100	Manufacturing of plastic casings and parts
CCT Telecom (Chaoyang) Property Development Company Limited	PRC	US$5,150,000 Registered^	—	100	Property development
CCT Tech (Chaoyang) Company Limited	PRC	US$6,950,000 Registered^	—	96.07	Manufacturing of telecom and electronic products
CCT (Chaoyang) Plastic Products Company Limited	PRC	US$11,577,000 Registered^	—	100	Manufacturing of plastic casings and parts
Electronic Sales (Chaoyang) Limited	PRC	US$900,000 Registered^	—	100	Manufacturing of power supply components
Tradeeasy Holdings Limited @@	Cayman Islands/ Hong Kong	HK$9,710,000 Ordinary	—	66.26	Provision of e-commerce service

* The non-voting shares carry no rights to dividends and no rights to vote at general meetings.

** The non-voting deferred shares carry no rights to dividends, to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding-up.

@ Listed on the Main Board of the Stock Exchange.

@@ Listed on the Growth Enterprise Market of the Stock Exchange.

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

19. *INTERESTS IN SUBSIDIARIES* (Continued)

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. *AVAILALBLE-FOR-SALE FINANCIAL ASSETS*

	Group	
HK$ million	**2006**	2005
Listed equity investment in Hong Kong, at fair value	**—**	551
Unlisted equity investment, at cost less impairment	**2**	2
Other assets, at fair value	**9**	16
	11	569
Less: portion classified as current assets	**—**	(551)
Non-current assets	**11**	18

During the prior year, the gross gain of the Group's available-for-sale financial assets recognised directly in equity amounted to HK$320 million.

The above investments consist of investments in equity securities and club debenture which were designated as available-for-sale financial assets on 1 January 2005 and have no fixed maturity date or coupon rate. As the unlisted equity investment has no published quoted prices available or is not able to be benchmarked with similar financial instruments, and the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, the Group has stated the unlisted equity investment at cost less impairment.

21. *HELD-TO-MATURITY FINANCIAL ASSETS*

	Group and Company	
HK$ million	**2006**	2005
Unlisted held-to-maturity financial assets, at amortised cost	**2**	18
Less: portion classified as current assets	**(2)**	—
Non-current assets	**—**	18

The held-to-maturity financial asset at 31 December 2006 has maturity of 1 year and carries effective interest rate of 2.25% per annum. The held-to-maturity financial assets at 31 December 2005 have maturities of 2 to 4 years and carry effective interest rates of 1.7% to 4.0% per annum.

22. INVENTORIES

HK$ million	Group 2006	Group 2005
Raw materials	78	95
Work in progress	57	71
Finished goods	98	128
	233	294

23. TRADE AND BILLS RECEIVABLES

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

	Group			
	2006		2005	
HK$ million	Balance	Percentage	Balance	Percentage
Current to 30 days	294	35	286	34
31 to 60 days	249	30	259	31
61 to 90 days	243	29	239	29
Over 90 days	51	6	54	6
	837	100	838	100

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

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
HK$ million	2006	2005	2006	2005
Prepayments	10	21	—	—
Deposits and other receivables	32	29	1	2
	42	50	1	2

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
HK$ million	2006	2005	2006	2005
Listed equity investments in Hong Kong, at market value	71	4	71	—
Deposits with embedded derivatives, at fair value	155	57	155	57
	226	61	226	57
Less: portion classified as current assets	(226)	(24)	(226)	(20)
Non-current assets	—	37	—	37

The above equity investments and deposits with embedded derivatives at 31 December 2006 were classified as held for trading.

As at 31 December 2005, the details of the company held by the Group exceeding 20% of its total issued shares are as follows:

Name	Place of incorporation	Description of shares held	Percentage holding
Tradeeasy Holdings Limited*	Cayman Islands	Ordinary shares	22.2

* Listed on the Growth Enterprise Market of the Stock Exchange and became a subsidiary of the Company during the current year (note 38).

26. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
HK$ million	2006	2005	2006	2005
Cash and bank balances	419	411	10	7
Time deposits	534	188	341	79
	953	599	351	86
Less: Time deposits pledged for bank borrowings	(88)	(71)	(5)	—
Cash and cash equivalents	865	528	346	86

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$11 million (2005: HK$7 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.

26. *CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS (Continued)*

Cash at banks earns interest at floating rates based on daily bank deposit 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.

27. *TRADE AND BILLS PAYABLES*

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

	Group			
	2006		2005	
HK$ million	Balance	Percentage	Balance	Percentage
Current to 30 days	232	26	290	29
31 to 60 days	233	26	243	25
61 to 90 days	168	19	167	17
Over 90 days	253	29	288	29
	886	100	988	100

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

28. *OTHER PAYABLES AND ACCRUALS*

	Group		Company	
HK$ million	2006	2005	2006	2005
Other payables	86	27	10	—
Accruals	91	112	5	5
	177	139	15	5

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

29. FORWARD CURRENCY CONTRACTS

HK$ million	2006 Asset	2006 Liabilities	2005 Asset	2005 Liabilities
Forward currency contracts	—	—	1	1

The carrying amounts of forward currency contracts were the same as their fair values.

The Group had entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting.

30. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2006 Effective interest rate (%)	2006 Maturity	2006 HK$ million	2005 Effective interest rate (%)	2005 Maturity	2005 HK$ million
Current						
Finance lease payables (note 31)	2.50–5.75	2007	4	2.50–3.00	2006	6
Bank loans — unsecured	6.01–7.00	2007	26	5.62–6.75	2006	46
Bank loans — secured	4.74–7.25	2007	177	4.25–6.75	2006	106
			207			158
Non-current						
Finance lease payables (note 31)	N/A	N/A	—	2.50–3.00	2007–2008	4
Bank loans — secured	4.74–6.25	2008–2016	247	4.25–6.75	2007–2014	212
			247			216
2010 Convertible Bonds (note 32(a))	7.25	2010	23	7.25	2010	77
2009 Convertible Bonds (note 32(b))	5.68	2009	26	N/A	N/A	—
			296			293
			503			451

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

Company

	2006			2005		
	Effective interest rate (%)	Maturity	HK$ million	Effective interest rate (%)	Maturity	HK$ million
Non-current						
2010 Convertible Bonds (note 32(a))	7.25	2010	23	7.25	2010	77
2009 Convertible Bonds (note 32(b))	5.68	2009	26	N/A	N/A	—
			49			77

	Group		Company	
HK$ million	2006	2005	2006	2005
Analysed into:				
Bank loans repayable:				
Within one year or on demand	203	152	—	—
In the second year	59	67	—	—
In the third to fifth years, inclusive	100	92	—	—
Beyond five years	88	53	—	—
	450	364	—	—
Other borrowings repayable:				
Within one year or on demand	4	6	—	—
In the second year	—	4	—	—
In the third to fifth years, inclusive	49	77	49	77
	53	87	49	77
	503	451	49	77

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

(i) mortgage over the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$487 million (2005: HK$254 million);

(ii) mortgage over the Group's land and buildings situated in Hong Kong and the PRC, which had an aggregate carrying value at the balance sheet date of approximately HK$517 million (2005: HK$567 million); and

(iii) the pledge of certain of the Group's time deposits amounting to HK$88 million (2005: HK$71 million).

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

(b) Except for the secured bank loans aggregating HK$177 million which are denominated in RMB and United States dollars, all borrowings are in Hong Kong dollars.

Other interest rate information:

	Group			
	2006		2005	
HK$ million	Fixed rate	Floating rate	Fixed rate	Floating rate
Finance lease payables	2	2	3	7
Bank loans — unsecured	—	26	—	46
Bank loans — secured	—	424	—	318
Convertible bonds	49	—	77	—
	51	452	80	371

	Company			
	2006		2005	
HK$ million	Fixed rate	Floating rate	Fixed rate	Floating rate
Convertible bonds	49	—	77	—

Except for the convertible bonds, the carrying amounts of the Group's and the Company's borrowings approximate to their fair values. The fair value of the Group's and the Company's convertible bonds with carrying amounts of HK$49 million (2005: HK$77 million) and HK$49 million (2005: HK$77 million) are HK$44 million (2005: HK$68 million) and HK$44 million (2005: HK$68 million) at the balance sheet date, respectively.

The fair value of the liability portion of the convertible bonds is estimated using an equivalent market interest rate for a similar bond without a conversion option. The fair value of other borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

31. *FINANCE LEASE PAYABLES*

The Group leases certain of its motor vehicles, machinery and office equipment for business use. These leases are classified as finance leases and have remaining lease term of one year.

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 2006**	Minimum lease payments 2005	**Present value of minimum lease payments 2006**	Present value of minimum lease payments 2005
Amounts payable:				
Within one year	4	7	4	6
In the second year	—	4	—	4
Total minimum finance lease payments	4	11	4	10
Future finance charges	—	(1)		
Total net finance lease payables	4	10		
Portion classified as current liabilities — note 30	(4)	(6)		
Non-current portion — note 30	—	4		

32. CONVERTIBLE BONDS

(a) On 25 April 2005, the Company issued convertible bonds with an aggregate nominal value of approximately HK$155 million (the "2010 Convertible Bonds") to those shareholders and noteholders of CCT Tech who accepted the general offers made by a subsidiary of the Company on 31 January 2005 to take over CCT Tech and who opted for the 2010 Convertible Bonds.

The 2010 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company at the conversion price of HK$0.604 per share (subject to adjustment as provided in the terms and conditions of the 2010 Convertible Bonds) at any time during the conversion period starting from the date of issue and ending on the fifth business day before the fifth anniversary of the date of issue. The 2010 Convertible Bonds are unsecured, interest-free and have a maturity date of 25 April 2010. Unless converted into the shares of the Company or early repaid by the Company, the outstanding balance of the 2010 Convertible Bonds shall be redeemed in full on maturity. The Company may at its sole discretion repay, in whole or in part, the outstanding balance of the 2010 Convertible Bonds not yet repaid or converted into the shares of the Company any time before maturity by giving the holders of the convertible bonds a prior written notice of 14 days.

During the prior year, the 2010 Convertible Bonds with a nominal value of approximately HK$52 million were converted into 80,662,359 shares in the Company of HK$0.10 each. During the current year, the 2010 Convertible Bonds with a nominal value of HK$75 million were converted into 124,172,185 shares in the Company of HK$0.10 each.

(b) On 23 June 2006, the Company issued a convertible bond with a nominal value of HK$30 million (the "2009 Convertible Bond") as part of consideration for the acquisition of a property as further detailed in note 45(a) to the financial statements.

The 2009 Convertible Bond is convertible at the option of the bondholder into ordinary shares of the Company at the conversion price of HK$1.13 per share (subject to adjustment as provided in the terms and conditions of the 2009 Convertible Bond) at any time from the date of issue of 2009 Convertible Bond to the fifth business day immediately prior to the maturity thereof. The 2009 Convertible Bond is unsecured, interest-free and has a maturity date of 23 June 2009. Unless converted into the shares of the Company or early repaid by the Company, the outstanding balance of the 2009 Convertible Bond shall be redeemed in full on maturity. The Company may at its sole discretion repay, in whole or in part, the outstanding balance of the 2009 Convertible Bond not yet repaid or converted into the shares of the Company any time before maturity by giving the holders of the convertible bonds a prior written notice of 14 days. There was no conversion of the 2009 Convertible Bond during the current year.

The fair value of the liability component of the convertible bonds 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 the shareholders' equity.

32. *CONVERTIBLE BONDS (Continued)*

The convertible bonds issued during the year have been split as to the liability and equity components, as follows:

HK$ million	Group and Company 2006
Nominal value of convertible bonds issued during the year	30
Equity component	(5)
Liability component at the issuance date	25
Interest expense	1
Liability component at 31 December (note 30)	26

33. *LONG TERM RECEIVABLE/LONG TERM PAYABLE/DERIVATIVE FINANCIAL INSTRUMENT*

		Group and Company	
HK$ million	Notes	2006	2005
Long term receivable	(a)	312	—
Long term payable	(b)	256	—
Derivative financial instrument	(c)	71	—

During the year, in order to restore the public float of CCT Tech on the Stock Exchange, the Company and Deutsche Bank entered into a sale and purchase agreement dated 17 March 2006 (the "S&P Agreement") for the sale of 13.8 billion shares in CCT Tech (the "CCT Tech Sale Shares") (representing approximately 21.4% of the issued share capital of CCT Tech as enlarged by 48,428,571,428 shares in CCT Tech issued upon the conversion of the convertible notes in CCT Tech held by the Company's subsidiaries) owned by a subsidiary of the Company to Deutsche Bank and three other independent third party investors at a price of HK$0.022 per share of CCT Tech with put options (the "Put Options") granted to Deutsche Bank which are exercisable under the terms of the put agreement (the "Put Agreement"). Under the Put Agreement, Deutsche Bank can exercise the Put Options to require the Company to repurchase the CCT Tech Sale Shares at a price of HK$0.02413 per share. The Put Options are not transferable and are only exercisable upon maturity of the Put Options on 9 May 2008 or the occurrence of certain events under the Put Agreement. The consideration for the disposal of the CCT Tech Sale Shares and the grant of the Put Options amounting to approximately HK$304 million (the "Consideration") has been paid to Deutsche Bank as an initial exchange amount (the "Initial Exchange Amount") under the terms of the Put Agreement and serves effectively as collateral to secure the obligations of the Company under the Put Agreement. The Initial Exchange Amount bears interest at a deposit rate of 4.53% per annum.

33. *LONG TERM RECEIVABLE/LONG TERM PAYABLE/DERIVATIVE FINANCIAL INSTRUMENT (Continued)*

The Group has determined that the financial asset derecognition conditions in relation to the CCT Tech Sale Shares as stipulated in HKAS 39 have not been fulfilled. Accordingly, the Company continued to consolidate the results of the CCT Tech group for the year ended 31 December 2006 attributable to the CCT Tech Sale Shares.

(a) Long term receivable

Long term receivable represents the sum of the Initial Exchange Amount of HK$304 million and the accrued interest of HK$8 million on the Initial Exchange Amount receivable by the Company. If any of the CCT Tech Sale Shares are disposed of by Deutsche Bank or any of the three investors, the related Put Options will be unwound and the related long term receivable plus interest up to the date of unwind will be refunded to the Company. The amount of long term receivable not being refunded will be used to offset the long term payable upon the exercise of the Put Options.

(b) Long term payable

Long term payable represents the liability of the Company in respect of the repurchase obligations of the CCT Tech Sale Shares under the Put Agreement. If Deutsche Bank or any of the three investors disposed of all or part of the CCT Tech Sale Shares to third parties, the related Put Options will be unwound and recognised in the consolidated income statement, and the attributable amount of long term payable will be included in the calculation of the gain or loss on disposal of the relevant CCT Tech Sale Shares disposed.

(c) Derivative financial instrument

The derivative financial instrument represents the Put Options which are stated at fair value of HK$71 million at 31 December 2006. The derivative financial instrument was initially recognised at fair value at HK$50 million on the completion date of the S&P Agreement and was subsequently remeasured at fair value at the balance sheet date. The loss of HK$21 million on change in fair value of the Put Options for the year ended 31 December 2006 was taken directly to the income statement. The Put Options if not exercised or unwound will expire on 9 May 2008. The long term payable in relation to the Put Agreement will be used to offset against the long term receivable upon the exercise of the Put Options and the consequent buy back of CCT Tech Sale Shares from Deutsche Bank, and the corresponding amount of the Put Options will be recognised in the consolidated income statement. If the CCT Tech Sale Shares are sold by Deutsche Bank and/or the three investors to third parties, the related Put Options will be unwound.

Further details of the transaction were set out in the Company's circular to shareholders dated 11 April 2006.

34. DEFERRED TAX

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

Deferred tax liabilities

Group

HK$ million	2006 Accelerated tax depreciation
Gross deferred tax liabilities at 1 January 2006 and 31 December 2006	3

Deferred tax assets

Group

HK$ million	2006 Losses available for offsetting against future taxable profit
At 1 January 2006	3
Deferred tax credited to the income statement during the year — note 10	1
Gross deferred tax assets at 31 December 2006	4
Net deferred tax assets at 31 December 2006	1

34. DEFERRED TAX *(Continued)*

Deferred tax liabilities

Group

HK$ million	2005 Accelerated tax depreciation
At 1 January 2005	5
Deferred tax credited to the income statement during the year — note 10	(2)
At 31 December 2005	3

Deferred tax assets

Group

HK$ million	2005 Losses available for offsetting against future taxable profit
At 1 January 2005	4
Deferred tax charged to the income statement during the year — note 10	(1)
Gross deferred tax assets at 31 December 2005	3
Net deferred tax liabilities at 31 December 2005	—

The Group has tax losses arising in Hong Kong of HK$245 million (2005: HK$194 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 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

35. SHARE CAPITAL

Shares

HK$ million	Company 2006	Company 2005
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200**	200
Issued and fully paid:		
779,865,493 (2005: 655,693,308) ordinary shares of HK$0.10 each	**78**	65

During the year, the 2010 Convertible Bonds with a nominal value of approximately HK$75 million were converted into 124,172,185 shares in the Company of HK$0.10 each at a conversion price of HK$0.604 per share. Further details relating to the 2010 Convertible Bonds were set out in note 32(a) to the financial statements.

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$0.10 each in issue	Issued capital HK$ million	Share premium account HK$ million	Total HK$ million
At 1 January 2005	422,525,230	42	1,250	1,292
Exercise of share options	41,780,000	4	27	31
Issue of new shares upon conversion of convertible bonds	80,662,359	8	44	52
Issue of scrip dividend shares	110,725,719	11	96	107
Cancellation of share premium account	—	—	(1,417)	(1,417)
At 31 December 2005 and 1 January 2006	655,693,308	65	—	65
Issue of new shares upon conversion of convertible bonds	124,172,185	13	67	80
At 31 December 2006	779,865,493	78	67	145

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 36 to the financial statements.

36. SHARE OPTION SCHEME

A share option scheme was adopted by the Company on 28 February 2002 (the "Share Option Scheme") to comply with the new amendments to the Listing Rules in respect of the share option schemes of a listed company. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from the date of adoption. As at 31 December 2006, there were no share options outstanding under the Share Option Scheme. No share option has been granted, exercised, cancelled or lapsed 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 Group's operation. 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, business associate who, in the sole discretion of the board of directors of the Company (the "Board"), 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 as at the date of adoption of the Share Option Scheme or 30% of the issued share capital of the Company from time to time.

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 the shareholders' approval of the 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, excluding the independent non-executive director(s) of the 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 Company's shares as at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to the issue of a circular by the Company and the shareholders' approval of the 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.

36. *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 Company's shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

37. *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 54 of the financial statements.

The Group's capital reserve was created from the reduction of the Company's share capital on 8 April 2002.

(b) Company

HK$ million	Share premium account	Capital reserve	Distributable reserve	Equity component of convertible bonds	Retained profits/ (accumulated losses)	Total
At 1 January 2005	1,250	1,060	—	—	(102)	2,208
Exercise of share options	27	—	—	—	—	27
Issue of convertible bonds	—	—	—	46	—	46
Issue of shares upon conversion of convertible bonds	44	—	—	(15)	—	29
Issue of scrip dividend shares	96	—	—	—	—	96
Cancellation of share premium account	(1,417)	—	1,417	—	—	—
Profit for the year	—	—	—	—	428	428
2005 special interim dividend	—	(319)	—	—	—	(319)
Proposed 2005 final dividend	—	—	—	—	(13)	(13)
At 31 December 2005 and 1 January 2006	—	741	1,417	31	313	2,502
Issue of convertible bonds	—	—	—	5	—	5
Issue of shares upon conversion of convertible bonds	67	—	—	(23)	—	44
Profit for the year	—	—	—	—	32	32
2005 final dividend	—	—	—	—	(2)	(2)
2006 interim dividend	—	—	—	—	(16)	(16)
Proposed 2006 final dividend	—	—	—	—	(20)	(20)
At 31 December 2006	67	741	1,417	13	307	2,545

37. *RESERVES (Continued)*

(b) Company *(Continued)*

Note: At 31 December 2006, the Company's reserves available for distribution including the share premium, capital reserve, distributable reserve accounts and retained profits of the Company, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK$2,532 million.

The Company's capital reserve was created from the reduction of share capital on 8 April 2002.

38. *BUSINESS COMBINATION*

On 25 April 2006, the Group subscribed for a total of 550 million shares issued and allotted by Tradeeasy at a cash consideration of HK$22 million. Following the completion of the subscription of new shares, Tradeeasy became a 66.26% owned subsidiary of the Company. Tradeeasy and its subsidiaries (collectively referred as to the "Tradeeasy Group") are engaged in the provision of e-commerce service.

The fair value of the identifiable assets and liabilities of the Tradeeasy Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

HK$ million	Fair value recognised on acquisition	Carrying amount
Property, plant and equipment	3	3
Other intangible assets	7	7
Trade receivables	2	2
Prepayments, deposits and other receivables	2	2
Cash and bank balances	26	26
Other payables and accruals	(7)	(7)
Minority interests	(11)	(11)
	22	22
Goodwill on acquisition	39	
	61	
Satisfied by:		
Cash	22	
Reclassification from financial assets at fair value through profit or loss	4	
Restatement of fair value losses on financial assets at fair value through profit or loss upon the business combination	35	
	61	

38. *BUSINESS COMBINATION (Continued)*

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

HK$ million	2006	2005
Cash consideration	(22)	—
Cash and bank balances acquired	26	—
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	4	—

Since its acquisition, the Tradeeasy Group contributed approximately HK$34 million to the Group's turnover and HK$3 million to the consolidated profit for the year ended 31 December 2006.

39. *DISPOSAL OF SUBSIDIARIES*

HK$ million	2005
Net assets disposed of:	
Other payables and accruals	(42)
	(42)
Net gain on disposal of subsidiaries (note 6)	42
	—
Satisfied by:	
Cash	—

The disposal of subsidiaries had no significant impact on the cash and cash equivalents of the Group.

40. *NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT*

Major non-cash transactions

(a) During the year, the Group entered into finance lease arrangements in respect of property, plant and equipments with a total capital value at the inception of the finance leases of HK$1 million (2005: HK$4 million).

(b) As further detailed in note 32(b) to the financial statements, during the year, the Company issued the 2009 Convertible Bond with a nominal value HK$30 million to a company controlled by Mr. Mak as part of the consideration for the acquisition of a property from Mr. Mak.

(c) As further detailed in note 33 to the financial statements, the aggregate consideration for the disposal of the CCT Tech Sale Shares and the grant of the Put Options amounting to approximately HK$304 million was paid to Deutsche Bank as collateral to secure the obligations of the Company under the Put Agreement and was recorded as a long term receivable in the consolidated balance sheet.

41. CONTINGENT LIABILITIES

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

	Company	
HK$ million	**2006**	2005
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	**301**	**186**

As at 31 December 2006, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$247 million (2005: HK$154 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 2006 (2005: HK$1 million), as further explained under the heading "Employees benefits" in note 2.4 to the financial statements. The contingent liability has arisen as a number of current employees have achieved the required number of years of service to the Group 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.

42. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group, are included in note 30 to the financial statements.

43. *OPERATING LEASE ARRANGEMENTS*

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 11 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	Group	
HK$ million	2006	2005
Within one year	4	2
In the second to fifth years, inclusive	4	2
After five years	3	—
	11	4

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 2 to 5 years.

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

	Group	
HK$ million	2006	2005
Within one year	8	2
In the second to fifth years, inclusive	5	6
After five years	—	1
	13	9

43. *OPERATING LEASE ARRANGEMENTS (Continued)*

(b) As lessee *(Continued)*

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

	Group	
HK$ million	**2006**	2005
Within one year	**2**	2
In the second to fifth years, inclusive	**9**	9
After five years	**117**	115
	128	126

44. *COMMITMENTS*

In addition to the operating lease commitments detailed in note 43(b) above, the Group had the following commitments at the balance sheet date:

Capital commitments

	Group	
HK$ million	**2006**	2005
Contracted, but not provided for		
Construction in progress	**64**	—
Purchases of plant and machinery and equipment	**5**	7
	69	7

45. *RELATED PARTY TRANSACTION*

(a) On 27 April 2006, Rich Full International Industries Limited ("Rich Full"), an indirectly wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Fine Bonus Enterprises Limited ("Fine Bonus"), a company controlled by Mr. Mak and his associates, for the purchase of a property by Rich Full from Fine Bonus at a consideration of HK$80 million, of which HK$50 million was paid by cash and HK$30 million was satisfied by the issuance of the 2009 Convertible Bond. This transaction was approved by the independent shareholders of the Company on 5 June 2006 and was completed on 23 June 2006. Further details of the transaction were set out in the circular of the Company dated 19 May 2006.

45. *RELATED PARTY TRANSACTION (Continued)*

(b) Compensation of key management personnel of the Group

HK$ million	2006	2005
Short term employee benefits	64	48
Post-employment benefits		—
Total compensation paid to key management personnel	64	48

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

The related party transaction in (a) above also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

46. *FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES*

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible bonds and finance leases. 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 entered 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 2.4 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 floating interest rates. The Group operates at a low gearing ratio and as the interest rates are stable and maintain at relatively low level, the Group's interest rate risk is not high.

Foreign currency risk

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

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

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, available-for-sale financial assets 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 overdrafts, bank loans, convertible bonds, other interest-bearing loans and finance leases. In addition, banking facilities have been put in place for contingency purposes.

Fair values

Other than the available-for-sale financial assets, financial assets at fair value through profit or loss, forward currency contracts and derivative financial instrument which have been measured at fair value, 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) *Held-to-maturity financial assets*

The carrying amount of the Group's held-to-maturity financial assets approximates to their fair value.

(c) *Bank loans, finance lease payables and convertible bonds*

The carrying amounts of bank loans and finance lease payables approximate to their fair values, based on the prevailing interest rates. The fair value of convertible bonds is disclosed in note 30 to the financial statements.

47. POST BALANCE SHEET EVENTS

(a) On 16 January 2007, the 2010 Convertible Bonds with a nominal value of HK$10 million were converted into 17,242,781 shares in the Company of HK$0.10 each.

(b) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

(c) Up to the date of approval of these financial statements by the Board, an aggregate number of 5,611,840,000 Put Options in relation to the CCT Tech Sale Shares as further detailed in note 33 to the financial statements were were unwound due to the disposal of 5,611,840,000 shares of CCT Tech by Deutsche Bank, and an aggregate amount of net cash proceeds of HK$119 million was received by the Company. As the event occurred near to the date of the approval of these financial statements, the financial impact of the event cannot be reasonably estimated at this stage.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 April 2007.