notes to financial statements

31 December 2006

1. CORPORATE INFORMATION

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

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

2.1 BASIS OF PREPARATION

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

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.

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

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

(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.

(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".

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, 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.

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 value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

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

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

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

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

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

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

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

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

2.4 *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 the function of the impairment 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 where 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	5%–6%
Plant and machinery	10%–20%
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 the 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 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.

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.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Leases *(Continued)*

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

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as loans and receivables. 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.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Investments and other financial assets *(Continued)*

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.

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 an 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.

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at amortised cost (Continued)

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.

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.

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

Financial liabilities including trade and other payables, an amount due to the ultimate holding company 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 income statement when the liabilities are derecognised as well as through the amortisation process.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Convertible notes

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

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 and hedging

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.

The fair value of forward currency contracts as at balance sheet date had no significant impact on the Group's financial statements.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Inventories

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

Income tax

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

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

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

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

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

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

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

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

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

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Income tax *(Continued)*

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

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

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

Employee benefits

Paid leave carried forward

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

Employment Ordinance long service payments

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

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

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Employee benefits *(Continued)*

Pension schemes

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

In addition to the MPF Scheme, the Group operates a separate defined contribution retirement benefits scheme for those employees who are eligible to participate in this scheme. This scheme operates in a similar way to the MPF Scheme, except that when an employee leaves this scheme before his/her interest in the Group's employer contributions 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. The subsidiaries are required to contribute a percentage of the payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to 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.

2.4 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Foreign currencies *(Continued)*

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

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

Cash and cash equivalents

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

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

Revenue recognition

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

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

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

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

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

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

Judgements *(Continued)*

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.

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 an investment property.

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK$22 million (2005: HK$22 million). More details are given in note 17.

Estimation of fair value of investment properties

The fair value of the Company's investment properties is assessed by management based on the property valuation performed by independent qualified valuers on the basis of depreciated replacement cost. The valuation is based on an estimate of the market value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation.

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

Estimation uncertainty *(Continued)*

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2006 was HK$2 million (2005: HK$2 million). The amount of unrecognised tax losses at 31 December 2006 was HK$42 million (2005: HK$16 million). Further details are contained in note 29 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2006, the best estimate of the carrying amount of capitalised development costs was HK$36 million (2005: HK$44 million).

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 and accessories; and

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

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

4. *SEGMENT INFORMATION*

(a) Business segments

The following table presents revenue and profit for the Group's business segments for the years ended 31 December 2006 and 2005.

Group

	Telecom and electronic products		Corporate and others		Total	
HK$ million	**2006**	2005	**2006**	2005	**2006**	2005
Segment revenue:						
Sales to external customers	**3,848**	3,789	**—**	—	**3,848**	3,789
Other revenue	**59**	45	**—**	1	**59**	46
Total	**3,907**	3,834	**—**	1	**3,907**	3,835
Segment results	**128**	185	**(13)**	(6)	**115**	179
Interest income					**10**	6
Unallocated gains					**24**	—
Finance costs, net					**(33)**	(54)
Profit before tax					**116**	131
Tax					**(16)**	(18)
Profit for the year					**100**	113

No analysis of the assets and liabilities and other segment information regarding the Group's business segments for the two years ended 31 December 2006 has been presented as over 90% of the Group's revenue is derived from the telecom and electronic products segment.

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

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

Group

	United States of America		Asia Pacific		Europe		Consolidated	
HK$ million	2006	2005	2006	2005	2006	2005	2006	2005
Segment revenue:								
Sales to external customers	2,040	2,295	1,187	1,038	621	456	3,848	3,789
Other revenue	—	—	59	46	—	—	59	46
Total	2,040	2,295	1,246	1,084	621	456	3,907	3,835

5. REVENUE

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

Revenue from the following activities has been included in turnover:

HK$ million	2006	2005
Manufacture and sale of telecom and electronic products	3,848	3,789
Bank interest income	10	6
	3,858	3,795

6. *PROFIT BEFORE TAX*

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

		Group	
HK$ million	Notes	2006	2005
Cost of inventories sold		3,579	3,438
Depreciation	14	93	77
Less: Amount capitalised in deferred development costs		(2)	—
		91	77
Recognition of prepaid land lease payments	16	1	1
Minimum lease payments under operating leases in respect of land and buildings		14	12
Research and development costs:			
Deferred expenditure amortised*	18	46	30
Current year expenditure		58	54
		104	84
Auditors' remuneration		3	3
Employee benefits expense (excluding directors' remuneration — note 8):			
Wages and salaries		341	294
Pension scheme contributions***		4	2
Less: Amount capitalised in deferred development costs		(20)	(30)
		325	266
Provision for slow-moving and obsolete inventories*		30	4
Impairment of trade receivables**		8	14
Write-off of deferred development costs**	18	14	9
Write-down of inventories to net realisable value*		—	1
Loss on disposal of property, plant and equipment, net**		—	1
Foreign exchange differences, net		(7)	4
Waiver of interest on the 2008 Convertible Note	38(b)(i)	(20)	—
Compensation income received from a supplier	38(b)(ii)	(19)	(18)
Gross rental income	38(a)(iii)	(6)	(6)

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

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

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

7. FINANCE COSTS, NET

	Group	
HK$ million	2006	2005
Interest on bank loans and other borrowings wholly repayable within five years	12	8
Interest on convertible notes (note 28)	21	52
Decrease in fair value of the 2007 Convertible Note (note 28)	—	(6)
	33	54

8. DIRECTORS' REMUNERATION

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

	Group	
HK$ million	2006	2005
Fees:		
Executive directors	—	—
Independent non-executive directors	1	1
	1	1
Executive directors' other emoluments:		
Salaries, allowances and benefits in kind	10	13
Performance related bonuses*	8	5
Pension scheme contributions	—	—
	18	18
	19	19

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

8. *DIRECTORS' REMUNERATION* *(Continued)*

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

(a) Independent non-executive directors

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

	2006 HK$'000	2005 HK$'000
Chow Siu Ngor	240	240
Lau Ho Kit, Ivan	240	240
Chen Li	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	Pension scheme contributions	Total remuneration
2006				
Mak Shiu Tong, Clement	3	3	—	6
Tam Ngai Hung, Terry	1	2	—	3
Cheng Yuk Ching, Flora	1	2	—	3
William Donald Putt	—	—	—	—
Li Man To, Feynman*	1	—	—	1
Tong Chi Hoi**	4	1	—	5
	10	8	—	18

* appointed on 1 June 2006, remuneration paid to Mr. Li Man To for the period from 1 January 2006 to 31 May 2006 (not included in the above director's remuneration disclosure) was approximately HK$1 million.

** resigned on 11 November 2006

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors *(Continued)*

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

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 five (2005: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one non-director, highest paid employee for the prior year are as follows:

	Group	
HK$ million	2006	2005
Salaries, allowances and benefits in kind	—	2

The remuneration of the non-director, highest paid employee for the prior year fell within the band of HK$2,000,001 to HK$2,500,000.

During the prior year, no share options were granted to the non-director, highest paid employee in respect of his services to the Group.

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	2006	2005
Group:		
Current — Hong Kong:		
Charge for the year	7	10
Overprovision in prior years	—	(1)
Current — Elsewhere		
Charge for the year	8	5
Underprovision in prior years	—	1
Deferred (note 29)	1	3
Total tax charge for the year	16	18

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

Group — 2006

HK$ million	Hong Kong	%	PRC, excluding Hong Kong	%	Total	%
Profit before tax	41		75		116	
Tax at the statutory or appropriate tax rate	7.2	17.5	24.7	33.0	31.9	27.5
Lower tax rate for specific provinces or local authority	—	—	(3.3)	(4.4)	(3.3)	(2.8)
Tax exemption	—	—	(33.7)	(44.9)	(33.7)	(29.1)
Income not subject to tax	(5.1)	(12.4)	(1.6)	(2.1)	(6.7)	(5.8)
Expenses not deductible for tax	4.2	10.2	14.4	19.2	18.6	16.0
Tax losses utilised from previous periods	(0.1)	(0.2)	—	—	(0.1)	—
Tax losses not recognised	1.7	4.1	7.2	9.6	8.9	7.7
Tax charge at the Group's effective rate	7.9	19.2	7.7	10.4	15.6	13.5

10. TAX (Continued)

Group — 2005

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

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 included a loss of HK$11 million (2005: HK$58 million) which has been dealt with in the financial statements of the Company (note 32(b)).

12. DIVIDENDS

No dividends have been paid or declared by the Company for the year ended 31 December 2006 (2005: Nil).

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

The calculation of basic earnings per share amounts is based on the 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 notes, waiver of interest on the 2008 Convertible Note and the decrease in fair value of the 2007 Convertible Note where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

The calculations of the 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	100	113
Interest on convertible notes	21	52
Waiver of interest on the 2008 Convertible Note (note 38(b)(i))	(20)	—
Decrease in fair value of the 2007 Convertible Note	—	(6)
Profit attributable to ordinary equity holders of the parent before interest on convertible notes, waiver of interest on the 2008 Convertible Note and decrease in fair value of the 2007 Convertible Note	101	159

	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	47,383,823,736	15,938,422,562
Effect of dilution — weighted average number of ordinary shares:		
Share options	—	123,609,641
Convertible notes	16,983,170,254	48,428,571,429
	64,366,993,990	64,490,603,632

14. PROPERTY, PLANT AND EQUIPMENT

Group

HK$ million	Buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total
31 December 2006							
At 31 December 2005 and at 1 January 2006:							
Cost	378	278	141	79	18	1	895
Accumulated depreciation	(60)	(130)	(85)	(53)	(8)	—	(336)
Net carrying amount	318	148	56	26	10	1	559
At 1 January 2006, net of accumulated depreciation	318	148	56	26	10	1	559
Additions	3	36	27	8	1	16	91
Disposals	—	—	—	—	(1)	—	(1)
Provided during the year	(23)	(36)	(22)	(9)	(3)	—	(93)
At 31 December 2006, net of accumulated depreciation	298	148	61	25	7	17	556
At 31 December 2006:							
Cost	379	310	167	87	17	17	977
Accumulated depreciation	(81)	(162)	(106)	(62)	(10)	—	(421)
Net carrying amount	298	148	61	25	7	17	556

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

Group *(Continued)*

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

The net book value of fixed assets of the Group held under finance leases included in the total amounts of motor vehicles and office equipment as at 31 December 2006, amounted to approximately HK$4 million (2005: HK$5 million).

At 31 December 2006, certain of the Group's buildings with a net book value of approximately HK$287 million (2005: HK$305 million) were pledged to secure certain bank loans granted to the Group (note 26).

15. *INVESTMENT PROPERTIES*

HK$ million	2006	2005
Carrying amount at 1 January and 31 December	178	178

15. *INVESTMENT PROPERTIES (Continued)*

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

The Group's investment properties were revalued on 31 December 2006 by Grant Sherman Appraisal Limited, independent professionally qualified valuers, on a depreciated replacement cost approach. The investment properties are leased to an indirectly wholly-owned subsidiary of CCT Telecom under operating leases, further summary details of which are included in note 36(a) to the financial statements.

At 31 December 2006, the Group's investment properties with an amount of HK$178 million (2005: HK$178 million) were pledged to secure certain bank loans granted to the Group (note 26).

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

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

16. *PREPAID LAND LEASE PAYMENTS*

	Group	
HK$ million	2006	2005
Carrying amount at 1 January	52	53
Recognised during the year	(1)	(1)
Carrying amount at 31 December	51	52
Current portion included in prepayments, deposits and other receivables	(1)	(1)
Non-current portion	50	51

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

At 31 December 2006 and 2005, the entire leasehold land was pledged as security for the bank loans granted to the Group (note 26).

17. GOODWILL

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

Group

HK$ million	
31 December 2006	
At 1 January 2006 and 31 December 2006:	
Cost	**23**
Accumulated impairment	**(1)**
Net carrying amount	**22**
31 December 2005	
At 1 January 2005 and 31 December 2005:	
Cost	23
Accumulated impairment	(1)
Net carrying amount	22

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the telecom products cash-generating unit. For the purpose of impairment testing, the recoverable amount of goodwill is determined based on a value-in-use calculation. The value-in-use calculation uses cash flow projections based on financial budgets covering a period of five years approved by management. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget. Key assumptions include the expected growth in revenues and gross margin, timing of future capital expenditures, long term growth rates and selection of discount rates. Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections. The discount rate applied to the cash flow projections is 18%.

18. OTHER INTANGIBLE ASSETS

Group

HK$ million	Deferred development costs
31 December 2006	
Cost at 1 January 2006, net of accumulated amortisation	44
Additions — internal development	52
Write-off	(14)
Amortisation provided during the year	(46)
At 31 December 2006	36
At 31 December 2006:	
Cost	89
Accumulated amortisation and write-off	(53)
Net carrying amount	36
31 December 2005	
Cost at 1 January 2005, net of accumulated amortisation	28
Additions — internal development	55
Write-off	(9)
Amortisation provided during the year	(30)
At 31 December 2005	44
At 31 December 2005:	
Cost	76
Accumulated amortisation and write-off	(32)
Net carrying amount	44

19. INTERESTS IN SUBSIDIARIES

	Company	
HK$ million	2006	2005
Unlisted shares, at cost	308	308
Loans to subsidiaries	389	386
	697	694
Impairment	(53)	(53)
	644	641

19. *INTERESTS IN SUBSIDIARIES (Continued)*

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

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
Empire Success Holdings Limited	British Virgin Islands/ Hong Kong	US$16,501 Ordinary	100	—	Investment holding
CCT Marketing Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	100	Trading of telecom products
CCT Telecom (HK) Limited	Hong Kong	HK$2,600,000 Ordinary	—	100	Sourcing of telecom products, raw materials and components
CCT Tech Advanced Products Limited	Hong Kong	HK$2 Ordinary	—	100	Trading of advanced wireless electronic products
Huiyang CCT Telecommunications Products Co., Ltd.	People's Republic of China	HK$120,000,000 Registered^	—	100	Manufacture of telecom products
Dongguan Eswire Electronics Co., Ltd.	People's Republic of China	HK$68,000,000 Registered^	—	100	Manufacture of telecom products
Dongguan CCT Digital Products Company Limited	People's Republic of China	HK$7,000,000 Registered^	—	100	Manufacture of electronic products
CCT Tech (Chaoyang) Company Limited	People's Republic of China	US$6,950,000 Registered^	—	100	Manufacture of telecom and electronic products

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

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

20. INVENTORIES

	Group	
HK$ million	2006	2005
Raw materials	44	84
Work in progress	52	66
Finished goods	95	117
	191	267

21. 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	303	37	271	34
31 to 60 days	234	28	251	31
61 to 90 days	239	29	231	29
Over 90 days	46	6	52	6
	822	100	805	100

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

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
HK$ million	2006	2005	2006	2005
Prepayments	3	2	1	1
Deposits and other receivables	22	44	—	17
	25	46	1	18

In 2006, included in the Group's other receivables is amount due from a subsidiary of CCT Telecom of HK$7 million.

In 2005, included in the Group's and the Company's other receivables are amounts due from CCT Telecom of HK$17 million and HK$17 million, respectively.

23. *CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS*

	Group		Company	
HK$ million	**2006**	2005	**2006**	2005
Cash and bank balances	**368**	387	**4**	1
Time deposits	**185**	103	**3**	2
	553	490	**7**	3
Less: Time deposits pledged for bank borrowings (note 26(a)(iv))	**(83)**	(71)	**—**	—
Cash and cash equivalents	**470**	419	**7**	3

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$5 million (2005: HK$5 million). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

24. *TRADE AND BILLS PAYABLES*

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

	Group			
	2006		2005	
HK$ million	**Balance**	**Percentage**	Balance	Percentage
Current to 30 days	**245**	**26**	300	29
31 to 60 days	**234**	**25**	249	24
61 to 90 days	**186**	**20**	188	18
Over 90 days	**264**	**29**	310	29
	929	**100**	1,047	100

Included in the trade and bills payables are trade payables of HK$127 million (2005: HK$161 million) due to Neptune Holding Limited ("Neptune") and Electronic Sales Limited ("ESL"), being wholly-owned subsidiaries of CCT Telecom, which are unsecured, interest-free and repayable within 120 days from the invoice date.

The trade payables are non-interest-bearing and are normally settled on 120-day terms.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
HK$ million	2006	2005	2006	2005
Other payables	21	31	—	—
Accruals	89	76	1	1
	110	107	1	1

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

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2006			2005		
	Effective interest rate (%)	Maturity	HK$ million	Effective interest rate (%)	Maturity	HK$ million
Current						
Finance lease payables (note 27)	2.50–3.00	2007	1	2.50–3.00	2006	2
Bank loans — unsecured	6.60–7.00	2007	22	4.25–6.75	2006	46
Bank loans — secured	5.508–7.25	2007	149	5.625–6.75	2006	87
			172			135
Non-current						
Finance lease payables (note 27)	—	—	—	2.50–3.00	2007–2008	1
Bank loans — secured	5.508–6.25	2008	29	5.625–6.75	2007–2008	76
			29			77
2007 Convertible Note (note 28(a))	—	—	—	6.25	2007	40
2008 Convertible Note (note 28(b))	—	—	—	BLR*+2	2008	615
			—			655
			29			732
			201			867

* Best lending rate

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

Company

	2006 Effective interest rate (%)	2006 Maturity	2006 HK$ million	2005 Effective interest rate (%)	2005 Maturity	2005 HK$ million
Non-current						
2007 Convertible Note (note 28(a))	—	—	—	6.25	2007	40
2008 Convertible Note (note 28(b))	—	—	—	BLR*+2	2008	615
			—			655

* Best lending rate

HK$ million	Group 2006	Group 2005	Company 2006	Company 2005
Analysed into:				
Bank loans repayable:				
Within one year or on demand	171	133	—	—
In the second year	29	48	—	—
In the third to fifth years, inclusive	—	28	—	—
	200	209	—	—
Other borrowings repayable:				
Within one year or on demand	1	2	—	—
In the second year	—	41	—	40
In the third to fifth years, inclusive	—	615	—	615
	1	658	—	655
	201	867	—	655

Notes:

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

(i) the pledge of the Group's buildings situated in the PRC, which had an aggregate carrying value at the balance sheet date of approximately HK$287 million (2005: HK$305 million) (note 14);

(ii) the pledge of the Group's investment properties situated in the PRC, which had an aggregate carrying value at the balance sheet date of approximately HK$178 million (2005: HK$178 million) (note 15);

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

Company *(Continued)*

Notes: *(Continued)*

(iii) the pledge of the Group's leasehold land situated in the PRC, which had an aggregate carrying value at the balance sheet date of approximately HK$51 million (2005: HK$52 million) (note 16); and

(iv) the pledge of certain of the Group's time deposits amounting to HK$83 million (2005: HK$71 million) (note 23).

(b) Except for the secured bank loan which is 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 (note 27)	1	—	3	—
Bank loans — unsecured	—	22	—	46
Bank loans — secured	—	178	—	163
Convertible notes (note 28)	—	—	40	615
	1	200	43	824

	Company			
	2006		2005	
HK$ million	Fixed rate	Floating rate	Fixed rate	Floating rate
Convertible notes (note 28)	—	—	40	615

Except for the convertible notes, the carrying amounts of the Group's and the Company's borrowings approximate to their fair values. As at 31 December 2005, the fair value of the Group's and the Company's convertible notes with a carrying value of HK$655 million was HK$644 million.

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

27. *FINANCE LEASE PAYABLES*

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

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

	Group			
HK$ million	**Minimum lease payments 2006**	Minimum lease payments 2005	**Present value of minimum lease payments 2006**	Present value of minimum lease payments 2005
Amounts payable:				
Within one year	**1**	2	**1**	2
In the second year	**—**	1	**—**	1
Total minimum finance lease payments	**1**	3	**1**	3
Future finance charges	**—**	—		
Total net finance lease payables	**1**	3		
Portion classified as current liabilities (note 26)	**(1)**	(2)		
Non-current portion (note 26)	**—**	1		

28. CONVERTIBLE NOTES

(a) On 17 May 2002, a directly wholly-owned subsidiary of the Company, issued a convertible note with a principal amount of HK$45 million to an indirectly wholly-owned subsidiary of CCT Telecom with the original due date on 17 May 2005. The convertible note was subsequently extended to 31 December 2007 and the convertible note was replaced by the convertible note (the "2007 Convertible Note") issued by the Company. The 2007 Convertible Note provided the holder an option right to convert the principal amount into ordinary shares of HK$0.01 each of the Company on any business day prior to the fifth business day prior to the maturity of the 2007 Convertible Note at a conversion price of HK$0.01 per share (subject to adjustment according to the terms of the 2007 Convertible Note).

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount was assigned as the equity component and was included in the shareholders' equity as at 31 December 2005.

On 9 May 2006, the 2007 Convertible Note with a principal amount of HK$45 million was fully converted into 4,500,000,000 shares of Company of HK$0.01 each at the conversion price of HK$0.01 per share.

(b) On 30 June 2003, the Company issued a convertible note due 2008 (the "2008 Convertible Note") with the principal amount of HK$768 million to an indirectly wholly-owned subsidiary of CCT Telecom, as the consideration for the acquisition of the entire interest in Empire Success Holdings Limited from an indirectly wholly-owned subsidiary of CCT Telecom. The 2008 Convertible Note provided the holder the right to convert the principal amount into the Company's ordinary shares of HK$0.01 each on any business day prior to the fifth business day prior to the maturity of the convertible note at a conversion price of HK$0.014 per share (subject to adjustment according to the terms of the 2008 Convertible Note). The 2008 Convertible Note bears interest at the prime or best lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollar loans plus 2% per annum and will mature on the fifth anniversary of the date of its issue.

As the directors consider that the equity component of the 2008 Convertible Note is not significant, the equity component was not separately recognised in the shareholders' equity as at 31 December 2005.

On 9 May 2006, the 2008 Convertible Note with a remaining principal amount of HK$615 million was fully converted into 43,928,571,428 shares of Company of HK$0.01 each at the conversion price of HK$0.014 per share.

29. DEFERRED TAX

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

Deferred tax liabilities

Group

HK$ million	2006 Accelerated tax depreciation
At 1 January 2006	3
Deferred tax charged to the income statement during the year (note 10)	1
Gross deferred tax liabilities at 31 December 2006	4

Deferred tax assets

Group

HK$ million	2006 Losses available for offsetting against future taxable profit
Gross deferred tax assets at 1 January 2006 and 31 December 2006	2
Net deferred tax liabilities at 31 December 2006	2

29. *DEFERRED TAX (Continued)*

Deferred tax liabilities

Group

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

Deferred tax assets

Group

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

The Group has tax losses arising in Hong Kong of HK$42 million (2005: HK$16 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 and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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.

30. SHARE CAPITAL

Shares

	Company	
HK$ million	2006	2005
Authorised:		
120,000,000,000 (2005: 120,000,000,000) ordinary shares of HK$0.01 each	1,200	1,200
Issued and fully paid:		
64,366,993,990 (2005: 15,938,422,562) ordinary shares of HK$0.01 each	644	159

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

	Number of ordinary shares of HK$0.01 each in issue	Issued capital HK$ million
At 1 January 2005, 31 December 2005 and 1 January 2006	15,938,422,562	159
Conversion of convertible notes	48,428,571,428	485
At 31 December 2006	64,366,993,990	644

Note:

During the year, convertible notes with carrying amounts of HK$40 million and HK$615 million were converted into 4,500,000,000 shares and 43,928,571,428 shares of the Company of HK$0.01 each at conversion prices of HK$0.01 and HK$0.014 per share, respectively.

Share options

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

31. SHARE OPTION SCHEME

The current share option scheme (the "Share Option Scheme") was effective on 7 November 2002. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from that date.

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

Pursuant to the Share Option Scheme, the maximum number of shares in respect of which share options may be granted under the Share Option Scheme is such number of shares, when aggregated with shares subject to any other share option scheme(s) of the Company, must not exceed 10% of the issued share capital of the Company upon the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or 30% of the issued share capital of the Company from time to time. The general limit on a grant of the share options under the Share Option Scheme was refreshed to 10% of the shares in issue as at the date of approval by the shareholders of the Company and the shareholders of CCT Telecom, the holding company of the Company, on 27 May 2004. As at the date of this annual report, the total number of the shares available for issue in respect thereof is 1,344,882,612, which represents approximately 2.09% of the total issued share capital of the Company as at the date of this annual report.

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

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

31. *SHARE OPTION SCHEME (Continued)*

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.

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

At the balance sheet date, there were no share options outstanding under the Share Option Scheme and no share options have been granted under the Share Option Scheme during the year ended 31 December 2006.

32. *RESERVES*

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 54 of the financial statements.

(b) Company

HK$ million	Notes	Special reserve	Share premium account	Equity component of convertible notes	Accumulated losses	Total
Balance at 1 January 2005		(56)	4	7	(50)	(95)
Loss for the year		—	—	—	(58)	(58)
At 31 December 2005 and 1 January 2006		(56)	4	7	(108)	(153)
Issue of new shares upon conversion of convertible notes	28, 30	—	178	(7)	—	171
Loss for the year		—	—	—	(11)	(11)
At 31 December 2006		(56)	182	—	(119)	7

33. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

In 2005, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the finance leases of HK$3 million.

34. 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	**754**	499
	754	499

As at 31 December 2006, the banking facilities granted to the subsidiaries subject to corporate guarantees given to the banks by the Company were utilised to the extent of approximately HK$327 million (2005: HK$304 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$0.3 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 because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

35. PLEDGE OF ASSETS

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

36. OPERATING LEASE COMMITMENTS

(a) As lessor

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

At 31 December 2006, 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	6	6
In the second to fifth years, inclusive	6	12
	12	18

(b) As lessee

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

At 31 December 2006, 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	3	2
In the second to fifth years, inclusive	2	—
	5	2

37. COMMITMENTS

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

	Group	
HK$ million	2006	2005
Contracted, but not provided for		
Construction in progress	1	—
Purchases of plant and machinery and equipment	32	7
	33	7

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

38. RELATED PARTY TRANSACTIONS

(a) In addition to those detailed elsewhere in these financial statements, during the current year, the Group had the following transactions with CCT Telecom and its subsidiaries other than the Group (the "CCT Telecom Remaining Group"):

HK$ million	Notes	2006	2005
Fellow subsidiaries:			
Purchase of plastic casings and components	(i)	298	315
Purchase of power supply components	(ii)	168	157
Factory rental income	(iii)	6	6
Factory rental expenses	(iv)	6	6
Office rental expenses	(v)	3	3
Purchase of non-electronic baby products	(vi)	—	32
Sale of consumer electronic products	(vii)	26	—
Ultimate holding company:			
Management information system service fee	(viii)	4	4

Notes:

(i) On 4 May 2004, the Company and CCT Telecom entered into a new manufacturing agreement, pursuant to which the Group agreed to manufacture through the CCT Telecom Remaining Group certain plastic casings and components and toolings for the production of telecom and electronic products for the Group.

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

38. *RELATED PARTY TRANSACTIONS (Continued)*

Notes: *(Continued)*

(ii) The purchase price of the power supply components purchased from the CCT Telecom Remaining Group was determined based on the direct material costs of the products plus a mark-up of up to 100% of such direct material costs pursuant to the power supply components manufacturing agreement entered into between the Company and CCT Telecom on 2 June 2004.

(iii) The factory rental income was charged to Shine Best Developments Limited ("Shine Best"), an indirectly wholly-owned subsidiary of CCT Telecom, by CCT Enterprise Limited ("CCT Ent"), an indirectly wholly-owned subsidiary of the Company, for the provision of factory space in Huiyang, the PRC, at a rate determined in accordance with the terms and conditions set out in a tenancy agreement entered into between Shine Best and CCT Ent on 5 December 2005.

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

(v) The office rental expenses were charged to CCT Telecom (HK) Limited ("CCT HK") and CCT R&D Limited ("CCT R&D"), both being indirectly wholly-owned subsidiaries of the Company, by Goldbay Investments Limited ("Goldbay"), an indirectly the wholly-owned subsidiary of CCT Telecom, for the provision of office spaces in Hong Kong, at rates determined in accordance with the terms and conditions set out in the tenancy agreements entered into between CCT HK and Goldbay on 5 December 2005 and 12 October 2006 and between CCT R&D and Goldbay on 5 December 2005 and 12 October 2006.

(vi) The non-electronic baby products and related components were purchased by the Group from the CCT Telecom Remaining Group. The purchase price was determined based on direct material costs plus a mark-up of no more than 300% of such material costs in accordance with the terms and conditions set out in an outsourcing agreement entered into between the Company and CCT Telecom on 29 November 2004. No such purchase was made in 2006.

(vii) The selling prices of the consumer electronic products were determined based on the direct material costs of the products plus a mark-up of up to 120% of such direct material costs pursuant to a consumer electronic products manufacturing agreement entered into between the Company and CCT Telecom on 14 July 2006.

(viii) The management information system service fee was charged to CCT Telecom by CCT HK for the provision of general management information system support, network and software consultation and hardware maintenance services. The rate was determined in accordance with the terms and conditions set out in an agreement entered into between CCT Telecom and CCT HK on 5 December 2005.

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

38. *RELATED PARTY TRANSACTIONS (Continued)*

(b) Other transactions with related parties:

(i) During the year, CCT Telecom waived the interest on the 2008 Convertible Note in the amount of approximately HK$20 million for the period from 1 January 2006 to 9 May 2006 (the date of conversion of the 2008 Convertible Note). During the prior year, the Company paid interest on the 2008 Convertible Note in the amount of approximately HK$50 million to a subsidiary of CCT Telecom at prime or best lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollar loans plus 2%.

(ii) During the year, the Group received a compensation from Neptune amounting to approximately HK$19 million (2005: HK$18 million) for the substandard plastic materials supplied to the Group by Neptune for the year.

(c) Outstanding balances with related parties:

Details of Group's balances with its fellow subsidiaries at the balance sheet date are disclosed in notes 22 and 24 to the financial statements.

(d) Compensation of key management personnel of the Group

HK$ million	2006	2005
Short term employee benefits	28	29
Post-employment benefits	—	—
Total compensation paid to key management personnel	28	29

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

39. *FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES*

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

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

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

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 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 a floating interest rate. The Group operates at a low gearing ratio and as the market rates are stable and maintain at 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 or purchases by or expenditure of operating units in currencies other than the units' functional currency. The Group use forward currency contracts to reduce its foreign currency risk, but the transactions do not qualify for hedge accounting.

Credit risk

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

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

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

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

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

Liquidity risk

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

Fair values

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

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

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

(b) *Bank loans and finance lease payables*

The carrying amounts of bank loans and finance lease payables approximate to their fair values, based on the prevailing interest rates.

40. *POST BALANCE SHEET EVENT*

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.

41. *APPROVAL OF THE FINANCIAL STATEMENTS*

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