CCT TELECOM

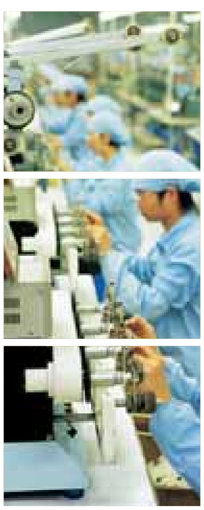
中建電訊集團有限公司

2007 Annual Report

Stock Code : 138


TECHNOLOGY

contents



chairman's letter

On behalf of the Board of CCT Telecom Holdings Limited, I am pleased to announce the results of the Group for the year ended 31 December 2007.

During the year under review, profit attributable to shareholders of the Company, including gains from investments, rose to HK$484 million, representing an increase of 35.2%. The satisfactory performance was attributable mainly to investment gains. However, faced with a fiercely competitive and difficult business environment, our core manufacturing business reported a substantial loss in 2007. During the year under review, turnover from our telecom and electronic products business group fell by 13.1% to HK$3,374 million.

In 2007, the Group's manufacturing business was faced with one of the most difficult times since its inception. In general, factors adversely affecting the business environment were worse than in 2006. On the domestic front, similar to most manufacturers based in China, during the year under review, the total production costs in our manufacturing business increased substantially due to a number of factors. The substantial rise in labour cost due to the shortage of labour in Guangdong Province, the significant increase in prices of materials and components resulting from the high oil prices and a buoyant Chinese economy together with the continuous appreciation of Renminbi during 2007 all combined to exert considerable pressure on our production costs thereby undermining profit margins.

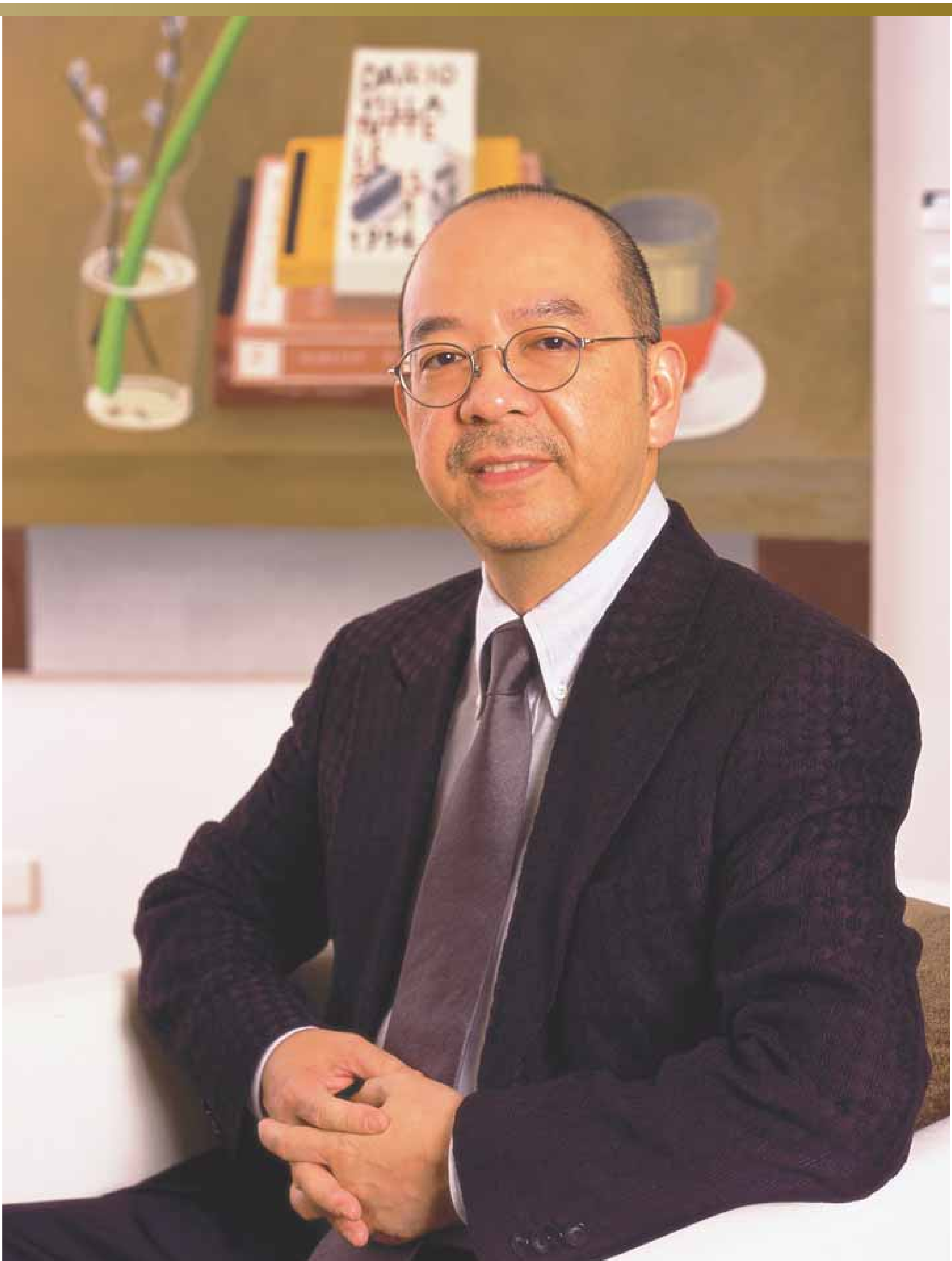
On the overseas front, one of our key markets, the US, was faced with the sub-prime mortgage financial crisis and the slowing US economy has dampened consumer spending.

Given the adverse business environment, we have introduced a range of measures to overcome the challenges. To begin with, our wealth of research and development resources have enabled us to offer innovative premium products with higher profit margins and these products will continue to play a major role in the revival of our manufacturing business in the near future.

On the China front, we have increased the wages rates and are vigorously implementing new recruitment initiatives to ensure a steady labour head-count for our manufacturing facilities. We have also introduced various measures to streamline operation costs and expenditure, which partly counter the impact of the sharp increase in production costs.

I am, however, pleased to report that despite the difficulties faced by our manufacturing business division, our securities investment business group performed very well during 2007. In the financial year 2007, the overall investment environment was extremely positive. As a result, our securities investment business group contributed operating profit of approximately HK$130 million during the year 2007.

In October 2007, we capitalised the improvement of the property market in Hong Kong and successfully disposed of one of our key office premise investments. The disposal of the office premises enabled the Group to receive a net cash proceeds of approximately HK$175 million and contributed a realised gain of approximately HK$34 million.



To capture the business opportunities arising from the buoyant property markets in China, the Group has explored potential realty investment opportunities in China during the year 2007. The Group has successfully won bids for three pieces of land located in Chaoyang City and Anshan City within the Liaoning Province, with aggregate total areas of approximately 356,000 square metres approved for both residential and commercial development purposes, which will be developed in phases in the future years.

SALE OF INVESTMENT IN CCT TECH SHARES

As noted in the 2006 annual report, an indirect wholly-owned subsidiary of the Company sold in total 13,800,000,000 shares in CCT Tech to Deutsche Bank and three other third party investors in May 2006 in order to restore the public float of CCT Tech. Put Options have been granted by the Company to Deutsche Bank in respect of such shares sold.

During the year 2007, Deutsche Bank and the three investors sold in total 13,799,807,849 shares in CCT Tech to other public investors. The related Put Options were then unwound and cancelled and the long term receivable attributable to the shares sold, including interest up to the date of unwind was then refunded to the Company pursuant to the terms of the Put Agreement. As at 31 December 2007, there were still 192,151 Put Options outstanding. The receipts of the long term receivable has further strengthened the financial position of the Group as a whole.

The Group was able to capitalise on the increase in the share price of CCT Tech in May 2007 and disposed of approximately 15 billion shares in CCT Tech (the “Investment Disposal”). The Investment Disposal enabled the Group to realise an investment gain during the year. After the Investment Disposal, the Group still holds over 50% shareholding interest in CCT Tech which remains as a principal subsidiary of the Company.

FURTHER DEVELOPMENT FOR THE ACQUISITION OF A FORESTRY PROJECT THROUGH TRADEEASY

In October 2007 and as amended subsequently in February and March 2008, Tradeeasy, a limited company listed on the GEM Board and an indirect non-wholly owned subsidiary of the Company, entered into agreements for the acquisition of a forestry project in Indonesia (the “Forestry Project”). The Forestry Project principally involves in the integrated business of upstream and downstream operations in the forestry business in the natural forest concessions of approximately 313,500 hectares in the Papua Province of Indonesia. The acquisition of the forestry business represents an expansion and diversification of the existing principal business activities of the Group and Tradeeasy. Due to the buoyant economy in Asia, especially in China, the regional demand for timber products significantly exceeds supply and as a result, prices of timber products have increased. We consider that the forestry industry is a high-growth business and believe that the acquisition of the Forestry Project represents a good opportunity for the Group and also Tradeeasy to enter the forestry industry with huge potential and good future prospect.

PROPOSED FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK$0.030 per share for the year 2007 to the shareholders whose names appear on the register of members of the Company on Friday, 23 May 2008, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company. The proposed final dividend will be payable from the Company’s retained profits and will be paid on or around Thursday, 12 June 2008 following the shareholders’ approval at the forthcoming annual general meeting of the Company. Taking into account the HK$0.025 per share 2007 interim dividend paid in

October 2007, the total dividend per ordinary share amounted to HK$0.055 per share for this financial year 2007, compared with the total dividend of HK$0.045 per ordinary share distributed in respect of the financial year 2006.

OUTLOOK

The advent of the sub-prime financial crisis in the second half of 2007 is set to place downward pressure on economic growth globally. The widespread dispersion of credit risk and the unclear impact on financial markets have caused a credit crunch and resulted in serious damages to the global financial market. Under the sub-prime cloud, the outlook of the US economy is less than optimistic for 2008 and there are fears that the US economy is heading for a recession which will no doubt further affect consumer spending. Although the US government has recently launched the stimulus packages by means of tax relief and other treasury measures in order to stimulate the US economy and ease the credit liquidity but the effect of such packages and measures are yet to be seen. All in all, year 2008 is set to be another difficult year full of challenges. The production issues we encountered in 2007 in the PRC, will likely continue to affect the profitability of our manufacturing business in the current year. In order to mitigate the impact of all these issues, a number of initiatives are in progress. The construction of our new production facilities in Chaoyang City, Liaoning Province is one of our initiatives to combat the production issues. We expect that the Group will benefit from the new factory in Chaoyang when it ramps up its production later this year.

The stock market in Hong Kong and China has corrected significantly in the first three months of 2008 due to the financial crisis in the US and the concerns of further macro-economic policies to be imposed by the Chinese government to control the high inflation rates in the PRC. Despite such uncertainties, we are still confident in the long-term growth of economy in Hong Kong and the PRC and will continue to invest in the listed shares in Hong Kong but we admit that the outlook of the investment market in the current year is challenging and uncertain.

While the government in China will adopt a steady fiscal policy and a contractionary monetary policy, this will not suddenly change the fundamentals of the rapid growth of GDP in China and the high demand for housing in China. Accordingly, the Group will continue to adhere to its established development strategic plan. In accelerating our development, we believe that the property development business will become a key driver of growth to our Group's business.

ACKNOWLEDGEMENTS

I would like to take this opportunity to express my gratitude to the members of the board for their diligent guidance and support, and to thank the Group's management team for their leadership and management, the staff for their hard work, and our shareholders, customers and suppliers, business partners and bankers for their continued support and confidence in the Group. We are confident of continuous growth in the years ahead and look forward to creating greater opportunities and delivering increased returns to our shareholders in the foreseeable future.

Mak Shiu Tong, Clement
Chairman

Hong Kong, 14 April 2008

review of operations

During the year under review, the Group engaged in the following principal activities: (i) manufacture and sale of telecom and electronic products; (ii) manufacture and sale of plastic and electronic components; (iii) manufacture and sale of infant and child products; (iv) securities investment business; (v) property investment and development; and (vi) provision of e-commerce services.

TELECOM AND ELECTRONIC PRODUCTS BUSINESS

The telecom and electronic products business is carried out by our listed subsidiary, CCT Tech and its subsidiaries. During the year under review, the telecom and electronic products business faced the most difficult time in its history. Affected by the sub-prime mortgage financial crisis, the slow down of the US economy as well as excess inventory of some of our European customers, the turnover of the telecom and electronic products business decreased during 2007. Coupled with strong market competition, the average selling price of our products also decreased during 2007.

In order to mitigate the impact of the challenges, the Group has been actively exploring business solutions to weather out the adverse unfavourable factors. We have continued to pursue our market diversification strategy in terms of expanding both our customer base and market demography. Our market diversification strategy over the years have proved to be sound and prudent decision especially during harsh times in the US economy as we have broadened our customer base to include many of the global leading distributors and renowned brands and we have expanded our geographical footprint to emerging markets. This marketing strategy has reduced our reliance on the US market.

In order to relief the pressure on average selling price from the customers and improve the Group's overall gross profit margin, more resources have been allocated to the development of higher-margin innovative and hi-tech products. Our R&D teams have worked closely with our customers and many innovative hi-tech products including broadband cordless phones have been developed by our R&D teams and will be rolled out in 2008. Other than the consumer telecom products market, we have been actively pursuing business opportunities in the commercial communications market. Our innovative SOHO products, and cordless conference box system have been launched in 2007 and positive response has been received from the customers. We believe that the in roads made into the commercial market will broaden our business opportunities for future growth.

As mentioned in the Group's interim report 2007, due to the shortage of labour in the Guangdong Province, the Group has not been able to hire and retain enough workers to fulfill all customer orders. The problem became more serious in the second half of 2007. In order to retain and hire additional workers, the Group significantly increased the wage levels of workers in our Guangdong factories during the financial year 2007. The increase in the wages of workers has, in turn, raised the production costs of the Group thereby affecting the Group's profitability. Despite these measures, the labour shortage issue could not be completely addressed and we were unable to retain enough workers to operate our production lines at an optimum level. As a result, production efficiency suffered and certain customer orders were cancelled or delayed.

The Group has implemented various measures to control costs, improve efficiency and enhance its level of production automation. The construction of our new production facilities in Chaoyang city, Liaoning Province has been substantially completed and has started production in preliminary ramped up stage. The Group plans to hire more workers in its Chaoyang factory and these local workers require training. We hope that when the Chaoyang factory commences mass production, it will ease the production issues in our Guangdong Province and will deliver cost savings to the Group.

MANUFACTURING OF PLASTIC AND ELECTRONICS COMPONENTS

We manufacture plastic and electronic components, including plastic casings, power supply and transformers, to provide vertical support to our telecom and electronic product businesses. The production of these plastic and electronic components provides a stable supply of high quality components to the telecom and electronic product business at competitive prices. Some of the plastic components products were sold to independent third parties. Likewise, due to high plastic material prices caused primarily by high oil prices, the shortage of labour and the increase in overall production costs of our Guangdong factories, the performance of the plastic and electronic components business was adversely affected. The production costs of our components manufacturing business are expected to stay at high level in 2008 and are not expected to fall until our new Chaoyang factory can commence mass production in 2008.

INFANT AND CHILD PRODUCTS BUSINESS

During the year under review, despite keen market competition and high production costs in our Guangdong factories, the infant and child product business still reported an operating profit of HK$9 million. The Group has a strong commitment to product quality and had not received any quality complaints which were caused by poor workmanship. Despite recent news of recall of products and quality problems of other child product manufacturers in China, we have maintained an excellent product quality record. None of the products supplied by our infant and child products business were recalled in the US market during the financial year 2007. The management has devoted additional efforts to expand the product range in order to offer customers with more quality products at competitive prices. The Group will continue its efforts in developing new products, exploring new markets and expanding its customer base. As the recent slowdown of the US economy has little impact on the infant and child product business, we believe the infant and child products business will continue to grow at a reasonable pace and expect it to contribute a satisfactory return to the Group in the coming years.

SECURITIES INVESTMENT BUSINESS

During 2007, the Group invested in H-shares, other listed shares and high yield notes linked with listed shares on the Hong Kong stock market. Our investment strategy is to invest in those listed companies which benefit from the strong economic growth of the PRC and the appreciation of RMB. Due to the booming stock market in Hong Kong and the PRC, our securities investment business group performed very well in the financial year 2007. It had made significant contributions to turnover and profits in the respective amount of approximately HK$486 million and HK$130 million for the year ended 31 December 2007. Although the investment environment in 2008 is uncertain and volatile, we will continue to invest in the Hong Kong stock market as we believe in the long-term economic growth in Hong Kong and the PRC.

PROPERTY INVESTMENT AND DEVELOPMENT

Affected by the continued reduction in interest rate and shortage of supply of prime office premises in the Central, the sentiment of the office property market in Hong Kong has improved and the market prices of office premises, especially in the Central financial district, have increased. Capitalised on the recovery of the property market, in October 2007, we successfully disposed of one of our key office premise investments and derived a realised gain of approximately HK$34 million.

Our property development business in China achieved significant development during 2007. The Group has successfully won bids for three pieces of land located in Chaoyang City and Anshan City within, the Liaoning Province, with aggregate total areas of approximately 356,000 square metres approved for both residential and commercial development purposes. These projects are progressing as planned and one of the Anshan projects is due to commence construction in later part of 2008. We plan to pre-sell units of the Anshan project in early 2009.

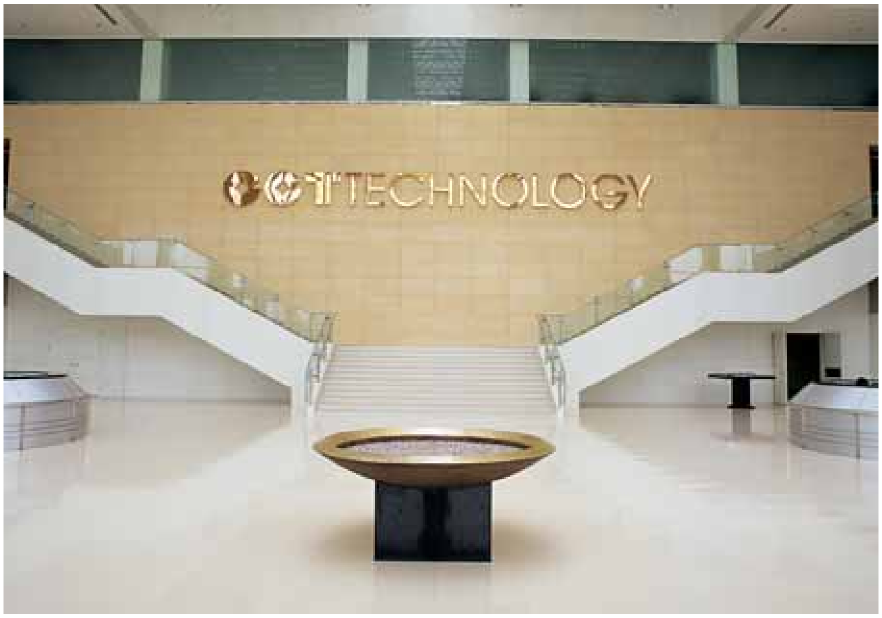
We are of course mindful of the macro-economic control measures introduced by the Central Government of the PRC aimed at reducing the risk of the property market overheating but we firmly believe that with careful planning of our projects based on a thorough understanding of such policies, the property development business has great potential and will generate business growth and attractive returns for years to come.

E-COMMERCE BUSINESS

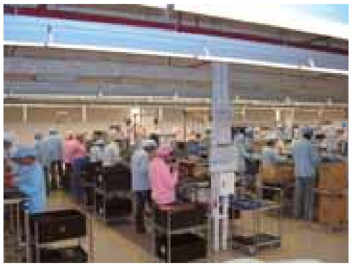
The provision of e-commerce service is carried out by Tradeeasy, a company listed on the GEM of the Stock Exchange. During the year under review, our e-commerce services business contributed a turnover of HK$45 million and a loss of approximately HK$9 million to the Group.

The operating environment of the existing business of Tradeeasy remains highly competitive. Most of the customers of Tradeeasy are small and medium manufacturers and traders operating in Hong Kong and China, whose businesses are hit hard by the weakened economy of the US economy and the escalating costs in China. These companies have cut down their promotional budget or become more conservative in their marketing related spending, which therefore has adversely affected the revenue of Tradeeasy's e-commerce business. To counter impact of the adverse business environment, Tradeeasy has streamlined its operations and continued to develop innovative products and explore new markets.

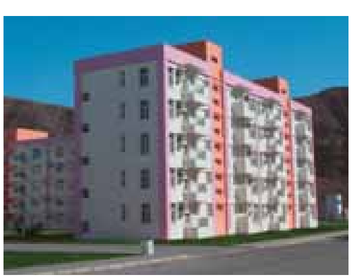
The entering into the conditional agreement to acquire the Forestry Project in Indonesia represents an expansion and diversification of the principal activities of Tradeeasy. The transaction is still pending the issue of the circulars in respect thereof and is subject to certain other conditions precedent including, inter alia, approval by the respective shareholders of Tradeeasy and the Company.


CCT TECHNOLOGY

CCT Technology Park, our principal manufacturing base in Huiyang, Guangdong Province, the PRC



Our factory complex in Dongguan, Guangdong Province, the PRC



Our factory complex in Chaoyang, Liaoning Province, the PRC

directors and senior management

EXECUTIVE DIRECTORS

Mr. MAK Shiu Tong, Clement, aged 54, has served as the Chairman, the CEO and an executive Director since January 1994. Mr. Mak is a substantial Shareholder and a member of the Remuneration Committee. Mr. Mak is responsible for the corporate planning, overall strategic direction of the Group and takes a leading role in managing the businesses. He has over 31 years of experience in the electronics manufacturing and distribution industry, specialising in telephone and telecom products. In his many years in the industry, he has demonstrated a keen understanding in the business of manufacturing, distribution, procurement and R&D of telecom and electronic products. He holds a Diploma in Electrical Engineering. Mr. Mak is also the Chairman, the CEO and an executive director of CCT Tech and Tradeeasy, both are non wholly-owned subsidiaries of the Company and whose shares are listed on the main board and the growth enterprise market, respectively, of the Stock Exchange.

Mr. TAM Ngai Hung, Terry, aged 54, has served as an executive Director and the Group Finance Director since March 2001. Mr. Tam was appointed as the Deputy Chairman of the Company on 9 December 2005 and is also a member of the Remuneration Committee. Mr. Tam is mainly responsible for the corporate finance and accounting function of the Group. Mr. Tam has more than 30 years of experience in finance and accounting management, and also possesses substantial knowledge in corporate finance matters, mergers and acquisitions and company secretarial matters. Mr. Tam is a fellow of the Association of Chartered Certified Accountants and an associate of both the Hong Kong Institute of Certified Public Accountants and The Institute of Chartered Secretaries and Administrators. Mr. Tam has previously held a number of senior positions in several listed companies. Mr. Tam is also an executive director of CCT Tech and Tradeeasy, both are non wholly-owned subsidiaries of the Company and whose shares are listed on the main board and the growth enterprise market, respectively, of the Stock Exchange.

Ms. CHENG Yuk Ching, Flora, aged 54, has served as an executive Director since February 1998. Ms. Cheng assists the Chairman/CEO in overseeing the day-to-day management of the telecom and electronic product business, component and industrial product business of the Group. Ms. Cheng has over 28 years of experience in the electronics industry. She has held senior positions in various well-known electronics companies. She holds a Diploma in Business Administration. Ms. Cheng is also an executive director of CCT Tech and Tradeeasy, both are non wholly-owned subsidiaries of the Company and whose shares are listed on the main board and the growth enterprise market, respectively, of the Stock Exchange.

EXECUTIVE DIRECTORS *(Continued)*

Dr. William Donald PUTT, aged 70, has served as an executive Director since January 1997. Dr. Putt is responsible for the overseas business development and also assists the Chairman/CEO in setting the overall strategic direction of the Group. Dr. Putt obtained his PhD in Management from the Massachusetts Institute of Technology in the US. Dr. Putt has over 35 years of experience in the telecom industry, and was the president and co-founder of TeleConcepts Corporation, which specialised in the design, production and distribution of telecom products. Dr. Putt also serves on the boards of several foundations and non-profit organisations in the US and is on the Visiting Committee for the Public Service Center at the Massachusetts Institute of Technology. Dr. Putt is also an executive director of CCT Tech and Tradeeasy, both are non wholly-owned subsidiaries of the Company and whose shares are listed on the main board and the growth enterprise market, respectively, of the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. TAM King Ching, Kenny, aged 58, has served as an INED of the Company since December 1999. Mr. Tam is a member of the Audit Committee and the Remuneration Committee. Mr. Tam is a practising Certified Public Accountant in Hong Kong. He holds a Bachelor's Degree in Commerce and is a fellow of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Tam is serving as a member of the Ethics Committee and Practice Review Committee in the Hong Kong Institute of Certified Public Accountants. He is also a Past President of The Society of Chinese Accountants and Auditors. Mr. Tam also serves as an INED of five other listed companies on the main board of the Stock Exchange, namely, Kingmaker Footwear Holdings Limited, Shougang Concord Grand (Group) Limited, Starlite Holdings Limited, Yun Sky Chemical (International) Holdings Limited and Van Shung Chong Holdings Limited, and a listed company on the growth enterprise market of the Stock Exchange, namely, North Asia Strategic Holdings Limited.

Mr. LAU Ho Man, Edward, aged 53, has served as an INED of the Company since February 2000. Mr. Lau is a member of the Audit Committee and the Remuneration Committee. Mr. Lau has more than 31 years of experience in finance, accounting management and administration, and also has extensive experience in taxation and corporate finance matters. He is a Certified Public Accountant (Practising), a fellow of the Hong Kong Institute of Certified Public Accountants and an associate of The Institute of Chartered Accountants in England and Wales and The American Institute of Certified Public Accountants.

Mr. CHEN Li, aged 43, has served as an INED of the Company and a member of the Audit Committee and the Remuneration Committee since February 2008. Mr. Chen is currently a senior management of a reputable telecommunications company in China. Mr. Chen graduated from the faculty of physics in a university in China in 1985 with a profession in radio technology and has extensive experience in the Chinese telecommunications and management field. Mr. Chen is also an INED of CCT Tech, a non wholly-owned subsidiary of the Company and whose shares are listed on the main board of the Stock Exchange.

SENIOR MANAGEMENT

Mr. LI Man To, Feynman, aged 37, joined the Group in September 1999 and is currently an executive director of CCT Tech. Mr. Li also serves as the Managing Director of the principal subsidiaries of CCT Tech and is a key management executive for the telecom and electronic product business of the Group. Mr. Li is primarily responsible for the day-to-day management of the telecom and electronic product business of CCT Tech including R&D, sales and marketing, customer service and logistics activities of advance products. Mr. Li also oversees the operations of the R&D office in Singapore. Mr. Li graduated from The Chinese University of Hong Kong in Electronics Engineering Department in 1995. He has been in R&D of telecommunication field for more than 13 years with extensive engineering management experience. He is serving as a member of the Advisory Committee on Electronics Engineering of The Chinese University of Hong Kong.

Mr. MAN Chin Keung, Daniel, aged 44, joined the Group in November 2002. Mr. Man currently holds the position of Managing Director in a principal subsidiary of the Company engaged in the manufacturing and sale of plastic components and products. He has a Bachelor's Degree in Mechanical Engineering and a Master's Degree in Business Administration. He has more than 16 years of experience in the plastic injection industry.

Ms. LEE Kit Ying, Catherine, aged 38, joined the Group in November 2006. Ms. Lee currently holds the position of Deputy Managing Director in a principal subsidiary of the Company engaged in the manufacturing and sale of infant and child products. Ms. Lee graduated from the University of London with a Bachelor's Degree in Science (Economics) in 1997 and from The Hong Kong University of Science and Technology with a Master's Degree in Technology Management in 2003. She has more than 15 years of experience in the manufacturing and consumer electronics industry. Prior to joining the Group, Ms. Lee had gained extensive experience in business and operations management and held senior positions in various multinational companies and listed public companies.

Mr. LAW Hing Lam, Andy, aged 44, currently holds the position of Financial Controller in the principal subsidiaries of the industrial group of the Company and is responsible for the finance and accounting functions of the plastic and electronic component division and the baby product division of the Group. Mr. Law has extensive accounting and auditing experience and has worked for various renowned companies prior to joining the Company. He graduated with an Honours Degree in Accountancy and Economics from the City University of London, England in 1992. He is an associate member of both The American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. CHEUNG Chi Wah, Patrick, aged 37, joined the Company in October 1999. He currently holds the position of Group Financial Controller and is responsible for the finance and accounting management of the Group. Mr. Cheung graduated from The Hong Kong Polytechnic University with an Honours Degree in Accountancy in 1994. He holds a Master's Degree in Information Technology Management from The Chinese University of Hong Kong in 2002. He is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

Mr. LAM Che Wah, Danny, aged 43, joined the Company in December 2007. Mr. Lam currently holds the position of Company Secretary of the Company. Mr. Lam graduated from the Hong Kong Polytechnic (the predecessor of The Hong Kong Polytechnic University) with a Professional Diploma in Company Secretaryship and Administration in 1987. He has extensive experience in company secretarial practice. He is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

financial review

HIGHLIGHTS ON FINANCIAL RESULTS

HK$ million	2007	2006	% increase/ (decrease)
Turnover	**4,066**	4,199	(3.2%)
Gross profit	**288**	410	(29.8%)
Other income and gains	**667**	444	50.2%
Profit for the year	**397**	366	8.5%
Profit/(loss) attributable to:			
— Equity holders of the parent	**484**	358	35.2%
— Minority interests	**(87)**	8	N/A

DISCUSSION ON FINANCIAL RESULTS

The Group reported a turnover of approximately HK$4,066 million during the financial year 2007, which represents a decrease of approximately 3.2% over last year. The decrease in turnover is attributable to the decrease in turnover from our telecom and electronic products business.

Gross profit dropped significantly from approximately HK$410 million in 2006 to approximately HK$288 million in 2007. The drop in gross profit is mainly due to the substantial increase in production costs and the reduction in the average selling price of our telecom and electronic products.

Other income and gains amounted to approximately HK$667 million in 2007, up 50.2% from HK$444 million in 2006. The significant increase in other income and gains was mainly attributable to disposal of investments and dilution gains upon the exercise of shares options of the CCT Tech and Tradeeasy.

Profit attributable to equity shareholders of the Company amounted to approximately HK$484 million, up 35.2% from previous financial year 2006, mainly due to the increase in gains from disposal of investments.

Profit/(loss) shared by minority interests changed significantly. The change arose from the decrease in equity interest of the Group in CCT Tech during the year under review and the share of loss of the CCT Tech Group by the minority shareholders for the year ended 31 December 2007, compared with the share of net profit of the CCT Tech Group by the minority shareholders for the financial year 2006.

ANALYSIS BY BUSINESS SEGMENT

	Turnover				
	2007		2006		
HK$ million	Amount	Relative %	Amount	Relative %	% increase/ (decrease)
Telecom and electronic products	**3,374**	**83.0%**	3,882	92.5%	(13.1%)
Infant and child products	**115**	**2.8%**	112	2.7%	2.7%
Securities investment business	**486**	**12.0%**	149	3.5%	226.2%
Property investment and development	**4**	**0.1%**	3	—	33.3%
Corporate and others	**87**	**2.1%**	53	1.3%	64.2%
Total	**4,066**	**100.0%**	4,199	100.0%	(3.2%)

	Operating profit/ (loss)(before bank interest income, finance costs and tax)		
HK$ million	2007	2006	% increase/ (decrease)
Telecom and electronic products	**(201)**	109	N/A
Infant and child products	**9**	8	12.5%
Securities investment business	**130**	48	170.8%
Property investment and development	**52**	39	33.3%
Corporate and others	**423**	204	107.4%
Total	**413**	408	1.2%

During the year, telecom and electronic products business continued to be the principal business of the Group, accounting for approximately 83.0% (2006: 92.5%) of the Group's total turnover. Turnover from the telecom and electronic products business dropped by approximately 13.1% to HK$3,374 million in 2007, as compared to HK$3,882 million in 2006. The drop in turnover from the telecom and electronic products business is mainly due to adverse business environment. As turnover from the securities investment business increased substantially from approximately HK$149 million in 2006 to approximately HK$486 million in 2007, up approximately 226.2%, the relative percentage of the turnover contribution from the securities investment business to the Group's total turnover jumped from approximately 3.5% in 2006 to approximately 12.0% in 2007. As a result, the relative percentage of the turnover from the telecom and electronic products business to the Group's turnover dropped from approximately 92.5% to approximately 83.0%.

ANALYSIS BY BUSINESS SEGMENT *(Continued)*

The infant and child products business remained small and accounted for approximately 2.8% (2006: 2.7%) of the total turnover.

The performance of our telecom and electronic products business was badly hurt by the difficult business environment and reported an operating loss of approximately HK$201 million in 2007, as compared to an operating profit of HK$109 million in 2006. The change was mainly due to the fall in average selling prices of consumer telecom products and substantial increase in operating costs.

The infant and child product business reported an operating profit of HK$9 million due to successful efforts of the management to improve efficiency and control costs.

The securities investment business benefited from the buoyant Hong Kong stock market in 2007 and its operating profit increased significantly to HK$130 million, representing an impressive growth of 170.8%. The growth was mainly attributable to the gains and dividend income from listed shares and interest from equity-linked notes due to the booming stock market in 2007.

The gains of the property investment and development business was derived mainly from the disposal of an office investment property and rental income less related expenses.

The gain in the corporate and others represented mainly the gains derived from disposal of our partial interests in CCT Tech during 2007 less the head office administrative expenses and the loss of the e-commerce business.

ANALYSIS BY GEOGRAPHICAL SEGMENT

	Turnover (including bank interest income)				
	2007		2006		
HK$ million	**Amount**	**Relative %**	Amount	Relative %	**% increase / (decrease)**
US	**1,793**	**44.1%**	2,142	51.0%	(16.3%)
Asia Pacific region	**1,780**	**43.8%**	1,424	33.9%	25.0%
Europe	**493**	**12.1%**	633	15.1%	(22.1%)
Total	**4,066**	**100.0%**	4,199	100.0%	(3.2%)

The sale to the US market accounted for approximately 44.1% (2006: 51.0%) of the Group's total turnover for the year ended 31 December 2007. The drop in our sales to the US market was mainly due to the reduction of customers' orders, the fall in the average selling price and the shortage of labour in our Guangdong factories which affected our production. Helped by the substantial increase in turnover of our securities investment business, turnover derived from Asia Pacific region increased substantially from approximately HK$1,424 million in 2006 to approximately HK$1,780 million in 2007. Turnover from the Asia Pacific region accounted for approximately 43.8% (2006: 33.9%) of the Group's total turnover, reporting a growth of approximately 25.0%. Also affected by the subprime loan crisis and the excessive inventory of some of our European customers, orders from Europe market decreased and led to the drop of our sales to Europe market by 22.1% to HK$493 million, contributing approximately 12.1% (2006: 15.1%) of the Group's total turnover.

HIGHLIGHTS ON FINANCIAL POSITION AND MAJOR BALANCE SHEET ITEMS

HK$ million	31 December 2007	31 December 2006	% increase / (decrease)
NON-CURRENT ASSETS			
Property, plant and equipment	**1,287**	1,222	5.3%
Investment properties	**315**	490	(35.7%)
Goodwill	**55**	128	(57.0%)
Long term receivable	**—**	312	(100.0%)
CURRENT ASSETS			
Trade and bills receivable	**718**	837	(14.2%)
Prepayments, deposits and other receivables	**276**	42	557.1%
Financial assets at fair value through profit or loss	**398**	226	76.1%
Cash and cash equivalents	**1,673**	865	93.4%
EQUITY AND NON-CURRENT LIABILITIES			
Long term payable	**—**	256	(100.0%)
Derivative financial instrument	**—**	71	(100.0%)
Minority interests	**550**	57	864.9%
Equity attributable to shareholders' of the Company	**3,225**	2,752	17.2%

DISCUSSION ON FINANCIAL POSITION AND MAJOR BALANCE SHEET ITEMS

During the year 2007, the property, plant and equipment assets increased slightly by 5.3% to approximately HK$1,287 million, attributable mainly to the additions of the machinery, toolings and moulds for the existing Guangdong factories and for the new Chaoyang factory offset by the annual depreciation of fixed assets.

Decrease in the investment properties from HK$490 million in 2006 to HK$315 million in 2007 was mainly due to the disposal of an investment property during the year 2007.

Goodwill decreased by approximately 57.0% to HK$55 million as at 31 December 2007, mainly due to the release of goodwill for our decrease in equity interests in CCT Tech and the impairment of other goodwill during the year 2007.

As explained in the Group's annual report 2006, the long term receivable represents the initial exchange amount which serves as an effective collateral to secure the obligations of the Company under the Put Agreement entered into between the Company and Deutsche Bank in respect of the Put Options granted by the Company to Deutsche Bank in relation to the 13.8 billion shares in CCT Tech. During the year 2007, Deutsche Bank and the three other independent third party investors disposed in total 13,799,807,849 shares in CCT Tech to other public shareholders. The related Put Options were unwound and cancelled under the Put Agreement and the attributable portion of the long term receivable was then refunded to the Company. The long-term receivable therefore reduced significantly and the remaining balance related to the outstanding 192,151 Put Options as at 31 December 2007 was approximately HK$4,000.

DISCUSSION ON FINANCIAL POSITION AND MAJOR BALANCE SHEET ITEMS *(Continued)*

Trade and bills receivables decreased by approximately 14.2% to HK$718 million in 2007 from approximately HK$837 million in 2006. The drop was mainly due to the decrease in sales from the telecom and electronic products business.

Prepayments, deposits and other receivables increased by 557.1% to HK$276 million in 2007 was mainly due to prepayment paid for acquisition of three pieces of lands located in Chaoyang City and Anshan City within the Liaoning Province.

The increase in financial assets at fair value through profit or loss under current assets was mainly attributable to our additional investment in Hong Kong listed equity investments.

Cash and cash equivalents increased by 93.4% to HK$1,673 million mainly due to (i) the receipt of the option unwind amounts from Deutsche Bank related to the disposal of CCT Tech shares by Deutsche Bank and the three other independent third party investors; and (ii) proceeds from our disposal of investments during 2007 less our additional investment in financial assets.

Long term payable represents the liability of the Company in respect of the repurchase obligations of the CCT Tech Shares under the Put Agreement. The related portion of the long term liability of the Company in relation to those shares in CCT Tech sold by Deutsche Bank and the three investors during the year 2007 was derecognised and was recognised in the consolidated income statement during the year ended 31 December 2007.

Derivative financial instrument represents the fair value of Put Options under the Put Agreement. Following the disposal of 13,799,807,849 shares of CCT Tech by Deutsche Bank and the three other independent third party investors, the related Put Options were substantially unwound and derecognised in the consolidated income statement. The derivative financial instrument in relation to the outstanding 192,151 Put Options as at 31 December 2007 was approximately HK$1,000.

Increase in minority interests was mainly due to reduction in shareholding in CCT Tech by the Group. The Group still held an equity interest in CCT Tech of approximately 50.5% as at 31 December 2007 and CCT Tech remained as a principal subsidiary of the Company.

The increase in shareholders' fund of approximately 17.2% was mainly due to the carried forward of the retained profits for the year 2007 and issue of new shares from the conversion of convertible bonds during the year 2007.

CAPITAL STRUCTURE AND GEARING RATIO

HK$ million	31 December 2007 Amount	31 December 2007 Relative %	31 December 2006 Amount	31 December 2006 Relative %
Bank loans	**385**	**10.5%**	450	13.8%
Convertible bonds (liability component)	**43**	**1.2%**	49	1.5%
Finance lease payable	**8**	**0.2%**	4	0.2%
Total borrowings	**436**	**11.9%**	503	15.5%
Equity	**3,225**	**88.1%**	2,752	84.5%
Total capital employed	**3,661**	**100.0%**	3,255	100.0%

The Group's gearing ratio was approximately 11.9% as at 31 December 2007 (31 December 2006: 15.5%). The gearing ratio maintained at low level which reflects a healthy financial position and the prudent financial policy of the Group. Taking into account the cash on hand, the Group in fact did not have any net borrowings and the net cash balance (net of borrowings) of the Group amounted to HK$1,487 million (31 December 2006: HK$450 million).

Outstanding bank borrowings amounted to HK$385 million at 31 December 2007 (31 December 2006: HK$450 million). Approximately 54.3% of these bank borrowings was arranged on a short-term basis for the ordinary business of the Group and was repayable within one year. The remaining 45.7% of the bank borrowings was of long-term nature, principally comprised mortgage loans on investment properties and properties used by the Group.

Acquisition of certain of the Group's assets was financed by way of finance leases and the total outstanding finance lease payables for the Group as at 31 December 2007 amounted to approximately HK$8 million (31 December 2006: HK$4 million).

As at 31 December 2007, the maturity profile of the bank and other borrowings and convertible bonds of the Group falling due within one year, in the second to the fifth year and in the sixth to the tenth year amounted to HK$212 million, HK$163 million and HK$61 million, respectively (31 December 2006: HK$207 million, HK$208 million and HK$88 million, respectively). There was no material effect of seasonality on the Group's borrowing requirements.

LIQUIDITY AND FINANCIAL RESOURCES

HK$ million	31 December 2007	31 December 2006
Current assets	**3,538**	2,293
Current liabilities	**1,456**	1,295
Current ratio	**243.0%**	177.1%

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

Current ratio as at 31 December 2007 was 243.0% (31 December 2006: 177.1%). The current ratio improved significantly, mainly due to the increase in cash during the year 2007. The strong liquid position was attributable to our effective financial management of the Group.

As at 31 December 2007, the Group's total cash balance amounted to HK$1,923 million (31 December 2006: HK$953 million), of which HK$250 million (31 December 2006: HK$88 million) was pledged for banking facilities granted to the Group.

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

CAPITAL EXPENDITURE AND COMMITMENTS

During the year ended 31 December 2007, the Group incurred capital expenditure to acquire fixed assets and addition of intangible assets amounted to approximately HK$252 million, which was mainly related to the core manufacturing businesses of the Group.

The Group's capital commitments amounted to approximately HK$79 million (31 December 2006: HK$69 million) as at 31 December 2007, which was mainly related to capital expenditure for the manufacturing business of the Group and all of which will be financed by internal resources.

TREASURY MANAGEMENT

The Group employs a conservative approach to cash management and risk control. To achieve better risk control and efficient fund management, the Group's treasury activities are centralised.

During the financial year 2007, the Group's receipts were mainly denominated in US dollars, with some in Hong Kong dollars and the Euro. Payments were mainly made in Hong Kong dollars, US dollars and Renminbi and some made in Euros. Cash was generally placed in short-term deposits and medium-term deposits denominated in Hong Kong dollars and US dollars. As at 31 December 2007, the Group's borrowings were mainly denominated in Hong Kong dollars and US dollars. As at 31 December 2007, other than the convertible bonds in an aggregate principal amount of approximately HK$48 million which is interest-free, the Group's borrowings were principally made on a floating rate basis.

The objective of the Group's treasury policies is to minimise risks and exposures due to the fluctuations in foreign currency exchange rates and interest rates. The Group does not have any significant interest rate risk as both the borrowings of the Group and the interest rates currently remain at low levels. In terms of foreign exchange exposures, the Group is principally exposed to two major currencies, namely the US dollar in terms of receipts and the Renminbi in terms of the production costs (including mainly wages and overheads) in China. For US dollar exposure, since the Hong Kong dollar remains pegged to the US dollar, the exchange fluctuation is not expected to be significant. Above all, as most of the Group's purchases are also made in US dollars, which are to be paid out of our sales receipts in US dollars, the management considers that the foreign exchange exposure risk for the US dollar is not material.

TREASURY MANAGEMENT *(Continued)*

For Renminbi exposure, as our wages and overheads in our factories in China are paid in Renminbi, our production costs will rise due to the possible further appreciation of Renminbi. Any further appreciation of the Renminbi in the near future will be of concern to all manufacturers with manufacturing facilities in China. The Group will continue to explore ways and methods to hedge future appreciation of Renminbi. We have invested some of our surplus funds on listed shares that we believe will benefit from appreciation of Renminbi. We hope that the returns and gains that we may derive from these listed shares will hedge partly against the potential appreciation of the Renminbi.

ACQUISITION AND DISPOSAL OF MATERIAL SUBSIDIARIES AND ASSOCIATES

Save as disclosed below, the Group did not acquire or dispose of any material subsidiaries and associates during the period under review. During the period under review, the Group disposed of part of its shareholding interest in CCT Tech to the extent of 15 billion shares. After the disposal, the Group still held 50.5% shareholding interest in CCT Tech as at 31 December 2007 and CCT Tech is still a principal subsidiary of the Company.

SIGNIFICANT INVESTMENT

During prior financial year 2006, the Group increased its property investment by acquiring two luxury residential properties for rental purposes for a total consideration of HK$177 million. Save as disclosed, there was no significant investment unrelated to the core manufacturing businesses of the Group during the financial years 2006 and 2007.

PLEDGE OF ASSETS

As at 31 December 2007, certain of the Group's assets with a net book value of HK$804 million (31 December 2006: HK$1,004 million) and time deposits of HK$250 million (31 December 2006: HK$88 million) were pledged to secure the banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 2007, the banking facilities granted to the subsidiaries subject to the corporate guarantees given to banks by the Company were utilised to the extent of approximately HK$165 million (31 December 2006: HK$247 million).

EMPLOYEES AND REMUNERATION POLICY

The total number of employees of the Group as at 31 December 2007 was 16,278 (31 December 2006: 17,820). Remuneration packages are normally reviewed on an annual basis. Apart from salary payments, other staff benefits include provident fund contributions, medical insurance coverage and performance related bonuses. Share options may also be granted to eligible employees and persons of the Group. At 31 December 2007, there were no outstanding share options granted by the Company.

corporate information

COMPANY NAME

CCT Telecom Holdings Limited

BOARD OF DIRECTORS

Executive Directors

Mak Shiu Tong, Clement *(Chairman and CEO)*
Tam Ngai Hung, Terry
Cheng Yuk Ching, Flora
William Donald Putt

Independent Non-executive Directors

Tam King Ching, Kenny
Lau Ho Man, Edward
Chen Li

COMPANY SECRETARY

Lam Che Wah, Danny

QUALIFIED ACCOUNTANT

Cheung Chi Wah, Patrick

PRINCIPAL BANKERS

Nanyang Commercial Bank, Ltd
Deutsche Bank AG, Hong Kong Branch
Natexis Banques Populaires

SOLICITORS

Sidley Austin

AUDITORS

Ernst & Young, Certified Public Accountants

FINANCIAL YEAR END

31 December

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2208, 22/F., St. George's Building
2 Ice House Street
Central
Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

TELEPHONE NUMBER

+852 2102 8138

FAX NUMBER

+852 2102 8100

COMPANY WEBSITE

www.cct.com.hk

STOCK CODE

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corporate governance report

CORPORATE GOVERNANCE PRACTICES

The Company has always recognised the importance of the Shareholders' transparency and accountability. It is the belief of the Board that the Shareholders can maximise their benefits from good corporate governance. The Company is committed to maintaining and ensuring high standards of corporate governance in the interests of the Shareholders.

Throughout the financial year ended 31 December 2007, the Board has reviewed the Group's corporate governance practices and is satisfied that the Company has complied with the code provisions under the Code set out in Appendix 14 to the Listing Rules, except for the following deviations from the code provisions of the Code:

Code Provision A.2.1

There is no separation of the roles of chairman and chief executive officer as set out in the code provision A.2.1.

Mr. Mak Shiu Tong, Clement currently assumes the roles of both the Chairman and the CEO. Mr. Mak has substantial experience and a firmly established reputation in the telecom industry that is essential to fulfilling the role of the Chairman. At the same time, Mr. Mak has the appropriate management skills and business acumen that are the pre-requisites for assuming the role of the CEO in the day-to-day management of the Group. The Board is composed of four executive directors (including the Chairman) and three INEDs with a balance of skills and experience appropriate for the requirements of the Group. Furthermore, the roles of the managing director and the general managers of the Company's major operating subsidiaries are performed by other individuals. The Board believes that there is no need to segregate the roles of the Chairman and the CEO as the balance of power and authority is already ensured by the current structure. The Board does not believe that the separation of the roles of the Chairman and the CEO will improve the corporate performance.

Code Provision A.4.1

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

None of the existing INEDs of the Company is appointed for a specific term. However, all INEDs of the Company are subject to retirement by rotation and re-election at least once every three years at the AGM of the Company in accordance with the bye-laws of the Company.

Code Provision A.4.2

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

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

CORPORATE GOVERNANCE PRACTICES *(Continued)*

Code Provision A.4.2 *(Continued)*

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its code of conduct regarding the securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code adopted by the Company throughout the financial year ended 31 December 2007.

THE BOARD

The Board is charged with the responsibility for the promotion of the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith and in the best interests of the Company.

Matters reserved for the Board's decision include those relating to:

— the strategic direction of the Group;

— the objectives of the Group;

— monitoring the performance of the management of the Group;

— ensuring prudent and effective control measures are in place;

— material bank facilities arrangements;

— material acquisitions and disposals of assets and significant investments;

— material transactions with connected persons;

— material corporate finance transactions including placing or sale of shares or convertible bonds, corporate restructuring, take-over, including approval of the announcements and the circulars;

THE BOARD *(Continued)*

— reviewing and approving interim and annual financial statements, declaration of dividends;

— appointment, re-appointment of auditors and determination of their remuneration; and

— reviewing and determination of the terms and remuneration of the Directors.

The management of the Group was delegated the authority and responsibility by the Board for managing the businesses of the Group, with division heads responsible for different aspects of the business. The Board meets at least four times each year and meets as and when required. Appropriate and sufficient information including notices were provided to the Board's members in a timely manner. During the financial year ended 31 December 2007, the Board held thirty-two meetings. The attendance of the Directors at the Board's meetings (either in person or by phone) is set out as follows:

Name of the Director	Number of attendance
Mak Shiu Tong, Clement	31/32
Tam Ngai Hung, Terry	32/32
Cheng Yuk Ching, Flora	32/32
William Donald Putt	19/32
Tam King Ching, Kenny	22/32
Lau Ho Man, Edward	22/32
Samuel Olenick	21/32

The company secretary of the Company is responsible for taking minutes of the Board's meetings and all Board's minutes are open for inspection by the Directors upon reasonable notice.

The Directors are enable, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

Appropriate insurance cover has been arranged in respect of the legal action against the Directors and the management of the Group. The Board considers that the Group has sufficient and appropriate liability insurance to cover the Directors and the management of the Group against any legal liability arising from their performance of duties.

BOARD'S COMPOSITION

As at the date of this Annual Report, the Board comprises four executive directors, namely Mr. Mak Shiu Tong, Clement (also acting as the Chairman and the CEO), Mr. Tam Ngai Hung, Terry (also acting as the Deputy Chairman), Ms. Cheng Yuk Ching, Flora and Dr. William Donald Putt and three INEDs, namely Mr. Tam King Ching, Kenny, Mr. Lau Ho Man, Edward and Mr. Chen Li. Mr. Chen Li, who is subject to retirement by rotation and, be eligible for re-election at the forthcoming AGM of the Company in accordance with the bye-laws of the Company, was appointed as an INED of the Company on 5 February 2008, and Mr. Samuel Olenick resigned as an INED of the Company on the same day due to old age and health concerns. The Board has maintained a balance of skills and experience appropriate of the requirements, promotion and development of the businesses of the Group. Its composition represents a mixture of management, technical, marketing, procurement, accounting and finance with substantial experience in the businesses in which the Group is engaged.

BOARD'S COMPOSITION *(Continued)*

The Company has received annual confirmation of independence from the three INEDs of the Company, namely Mr. Tam King Ching, Kenny, Mr. Lau Ho Man, Edward and Mr. Samuel Olenick in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all INEDs of the Company are independent within the definition of the Listing Rules.

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of a sufficient number of the INEDs and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise throughout the financial year ended 31 December 2007. The Board currently comprises three INEDs, two of whom have accounting and financial expertise and bring strong independent judgement, knowledge and experience to the Board.

The Board's members have no financial, business, family or other material/relevant relationships with each other. Such balanced Board's composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the Code for the Board to have at least one-third in number of its members comprising the INEDs. The biographies of the Directors are set out in the section headed "Directors and Senior Management" in this Annual Report, which demonstrate a diversity of skills, expertise, experience and qualifications.

THE CHAIRMAN AND THE CEO

Mr. Mak Shiu Tong, Clement currently assumes the roles of both the Chairman and the CEO. The considered reasons for such deviation from the code provision under the Code are set out in the section headed "Corporate Governance Practices" above. Mr. Mak is responsible for the corporate planning, overall strategic direction of the Group and takes a leading role in managing the businesses of the Group.

RE-ELECTION AND RETIREMENT OF THE DIRECTORS

The bye-laws of the Company provide that (i) each Director (except the Chairman and the managing Director) is required to retire by rotation at least once every three years and that one-third (or the number nearest to but not less than one-third) of the Directors shall retire from office by rotation and be eligible for re-election at each AGM of the Company; and (ii) any Director appointed by the Board, either to fill a casual vacancy on or as an addition to the existing Board, shall hold office only until the next following AGM of the Company and shall then be eligible for re-election at that meeting.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the INEDs of the Company has filed a written confirmation to the Company confirming his independence and has undertaken to inform the Stock Exchange and the Company as soon as practicable if there is any subsequent change in circumstances which may affect his independence. The INEDs of the Company are not appointed for any specific terms, but they are subject to retirement by rotation and re-election at least once every three years at the AGM of the Company in accordance with the bye-laws of the Company.

BOARD COMMITTEES

The Board has established two committees, namely the Remuneration Committee and the Audit Committee, with clearly defined written terms of reference. The main roles and responsibilities of these two committees, including all authorities delegated to them by the Board, as set out in the terms of reference, are published on the Company's website at www.cct.com.hk. The different committees' independent views and recommendations not only ensure proper control of the Group but also the continual achievement of the high corporate governance standards expected of a listed company. The chairman of each committee reports the outcome of the committee's meetings to the Board for further discussion and approval.

Remuneration of the Directors

Pursuant to the requirements of the Listing Rules, the Company has established the Remuneration Committee in 2005 with specific written terms of reference in line with the code provisions under the Code. The Remuneration Committee is mainly responsible for (i) making recommendations to the Board on the policy and structure for the remuneration of the Directors and the senior management of the Group; (ii) reviewing the remuneration package including the performance-based bonus and incentive rewards for the executive Directors and the senior management of the Group; and (iii) reviewing and recommending to the Board the fees payable to the INEDs of the Company.

The Remuneration Committee for the financial year ended 31 December 2007 consisted of five members comprising three INEDs, namely Mr. Tam King Ching, Kenny, Mr. Lau Ho Man, Edward and Mr. Samuel Olenick, and two executive directors, namely Mr. Mak Shiu Tong, Clement and Mr. Tam Ngai Hung, Terry. Mr. Samuel Olenick resigned on 5 February 2008 and a new INED of the Company, namely Mr. Chen Li was appointed on the same day as a member of the Remuneration Committee. The Remuneration Committee is chaired by one of the members who must be an INED. The chairman of the Remuneration Committee is subject to rotation each year, provided that he/she must be an INED.

During the financial year ended 31 December 2007, the Remuneration Committee held two meetings. The attendance of the members of the Remuneration Committee at the Remuneration Committee's meetings (either in person or by phone) is set out as follows:

Name of the members of the Remuneration Committee	Number of attendance
Tam King Ching, Kenny	2/2
Lau Ho Man, Edward	2/2
Samuel Olenick	2/2
Mak Shiu Tong, Clement	2/2
Tam Ngai Hung, Terry	2/2

BOARD COMMITTEES *(Continued)*

Remuneration of the Directors *(Continued)*

For the financial year ended 31 December 2007, the Remuneration Committee met on two occasions and reviewed the current framework, policies and structure for the remuneration of the Directors and the senior management of the Group and reported to the Board of their reviews with recommendations. The Remuneration Committee also reviewed specific remuneration package including the terms of employment, incentive rewards and performance-based bonus of the executive Directors and the senior management of the Group and the fees payable to the INEDs of the Company.

The primary objective of the Group's remuneration policy is to retain and motivate the executive Directors and the senior management of the Group by linking their rewards to the corporate and individual performance, job complexity and responsibilities, so that the interests of the executive Directors are aligned with those of the Shareholders. No Director can, however, approve his/her own remuneration.

In order to attract, retain, and motivate the executives and the employees serving for the Group, the Company has adopted the Share Option Scheme in 2002. The Share Option Scheme enables the eligible participants to obtain an ownership interest in the Company by payment of the exercise price with reference to the market price of the Share at the time of grant and thus to reward to the participants who contribute to the success of the Group's operations.

Details of the amount of the Directors' emoluments are set out in note 8 to the financial statements in this Annual Report and details of the Share Option Scheme are set out in the section headed "Report of the Directors" in this Annual Report.

Audit Committee

The Company has established the Audit Committee in 2000 with specific written terms of reference formulated in accordance with the requirements of the Listing Rules. The primary duties of the Audit Committee are to ensure the objectivity and credibility of the Company's financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company.

The Audit Committee is mainly responsible for (i) reviewing the Company's interim and annual financial statements and making recommendations as to the approval of the Company's interim and annual financial statements by the Board; (ii) reviewing and making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and the terms of engagement including the remuneration of the external auditors; (iii) discussing with the external auditors the nature and scope of the audit; (iv) monitoring and assessing the independence and objectivity of the external auditors and the effectiveness of the audit process in accordance with the applicable standards; (v) reviewing and monitoring the financial reporting and the reporting judgement contained in them; and (vi) reviewing the financial and internal control, accounting policies and practices with the management of the Group, internal and external auditors of the Company.

The Audit Committee for the financial year ended 31 December 2007 consisted of three members comprising three INEDs, namely Mr. Tam King Ching, Kenny, Mr. Lau Ho Man, Edward and Mr. Samuel Olenick. Mr. Samuel Olenick resigned on 5 February 2008 and a new INED of the Company, namely Mr. Chen Li was appointed on the same day as a member of the Audit Committee. The chairman of the Audit Committee is subject to rotation each year. All members of the Audit Committee hold the relevant industry or accounting and financial experience necessary to advise on the Board's strategies and other related matters. All members of the Audit Committee have complete and unrestricted access to the external auditors and all employees of the Company.

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

During the financial year ended 31 December 2007, the Audit Committee held four meetings. The attendance of the members of the Audit Committee at the Audit Committee's meetings (either in person or by phone) is set out as follows:

Name of the members of the Audit Committee	Number of attendance
Tam King Ching, Kenny	4/4
Lau Ho Man, Edward	4/4
Samuel Olenick	4/4

In 2007, the members of the Audit Committee met with the Group's external auditors to discuss the annual audit plan. The meeting of the Audit Committee was attended by the members of the Audit Committee and the external auditors of the Company. The external auditors also made presentations to the Audit Committee on the findings on key issues addressed in the annual audit.

For the financial year ended 31 December 2007, the Audit Committee reviewed the accounting principles and practices adopted by the Company and discussed with the management of the Group the financial reporting matters. The Audit Committee also reviewed the internal control and risk management system of the Group with the internal auditors of the Company. The Audit Committee also reviewed both the interim results for the period ended 30 June 2007 and the annual results for the year ended 31 December 2007 of the Company before announcement of both results.

NOMINATION OF THE DIRECTORS

The Company has not set up the nomination committee, the establishment of which is only a recommended best practice of the Code.

The Board is empowered under the bye-laws of the Company to appoint any person as a Director either to fill a casual vacancy on or as an additional member to the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience relevant to the Company's businesses. It is believed that the members of the Board would collectively have the required professional knowledge and skills in discharging the Board's responsibility in identifying, recruiting and evaluating new nominees to the Board and the assessment of qualifications of nominated candidates for directorship. During the financial year under review, no new director was appointed to the Board.

On 5 February 2008, Mr. Chen Li was appointed as an INED of the Company to replace Mr. Samuel Olenick who resigned as an INED of the Company on the same day. Mr. Chen's biography is set out in the section headed "Directors and Senior Management" in this Annual Report.

AUDITORS' REMUNERATION

During the financial year ended 31 December 2007, the remuneration paid to the external auditors of the Company, Messrs. Ernst & Young, is set out as follows:

Services rendered	**Fees paid/payable**
	HK$'000
Audit services	6,550
Non-audit services:	
Tax compliance services	236
Other services	3,350
Total	10,136

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company and ensure that they are prepared in accordance with the statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such financial statements. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects.

The statement of the external auditors of the Company, Messrs. Ernst & Young, with regard to their reporting responsibilities on the Company's financial statements is set out in the section headed "Independent Auditors' Report" in this Annual Report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to the events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Board therefore continues to adopt the going concern approach in preparing the accounts.

INTERNAL CONTROL AND INTERNAL AUDIT

The Board is entrusted with the overall responsibility for establishing and maintaining the Group's internal control system and reviewing their effectiveness. The Group's internal control system has been designed for safeguarding assets, maintaining proper accounting records and ensuring reliability of the financial information. Through the Company's internal audit department, the Board has conducted a review of the effectiveness of the internal control system of the Group which covers all material controls, including operational, financial and compliance controls and risk management functions. The internal audit team of the Company reviews the major operational, financial and compliance controls and risk management functions of the Group on a continuing basis and aims to cover all major operations of the Group on a rotational basis. The internal audit team of the Company presents their internal audit plan annually to the CEO for approval and they also discuss and agree their audit plan with the Audit Committee at the Audit Committee's meeting. The reports and findings prepared by the internal audit team of the Company have been circulated to the CEO, the Group Finance Director and the Audit Committee for review.

report of the directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the manufacture, sale, design and development of telecom and electronic products and accessories, the manufacture of plastic and power supply components, the manufacture and sale of infant and child products, provision of e-commerce services, investment in securities and property investment and development. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 51 to 133.

An interim dividend of HK$0.025 per ordinary share was paid on 31 October 2007.

The directors recommend the payment of a final dividend of HK$0.030 (2006: HK$0.025) per ordinary share in respect of the year to shareholders on the register of members of the Company on 23 May 2008 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 134. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and the investment properties of the Company and the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

There were no movements in the Company's authorised share capital and share options during the year. Details of movements in the Company's issued share capital and convertible bonds during the year are set out in notes 35 and 32 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed Shares during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 37(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda, amounted to HK$2,663 million, of which HK$24 million has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$77 million, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$7 million (2006: HK$10 million).

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers, respectively, during the financial year is as follows:

	Percentage of the Group's total			
	Sales		Purchases	
	2007	2006	**2007**	2006
Largest customer	**47%**	44%		
Five largest customers in aggregate	**82%**	75%		
Five largest suppliers in aggregate			**<30%**	< 30%

None of the directors of the Company or any of their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The Directors during the year and up to the date of this Annual Report were as follows:

Executive Directors:

Mak Shiu Tong, Clement

Tam Ngai Hung, Terry

Cheng Yuk Ching, Flora

William Donald Putt

Independent non-executive Directors:

Tam King Ching, Kenny

Lau Ho Man, Edward

Chen Li *(Appointed on 5 February 2008)*

Samuel Olenick *(Resigned on 5 February 2008)*

In accordance with the bye-laws of the Company, Messrs. Tam King Ching, Kenny, Lau Ho Man, Edward and Chen Li will retire and, being eligible, offer themselves for re-election at the forthcoming AGM of the Company.

The INEDs of the Company are not appointed for any specific terms. According to the bye-laws of the Company, all Directors (except the Chairman and the managing Director) are subject to retirement by rotation and re-election at least once every three years at the AGM of the Company.

The Company has received from each of the INEDs of the Company an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and, as at the date of this Annual Report, still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on page 18 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

During the year, no Director had a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 44 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Company on 28 February 2002. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period of 10 years from the date of its adoption. As at 31 December 2007, there were no share options outstanding under the Share Option Scheme. No share options has been granted, exercised, cancelled and has lapsed under the Share Option Scheme during the year.

The purpose of the Share Option Scheme is to provide incentives and rewards to the eligible participants who contribute to the success of the operation 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, in the opinion of 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 the Shares subject to any other share option scheme(s) of the Company, must not exceed 10% of the issued share capital of the Company as at the date of adoption of the Share Option Scheme or 30% of the issued share capital of the Company from time to time. The general limit on the 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 on 23 May 2007. As at the date of this Annual Report, the total number of Shares available for issue in respect thereof is 121,931,873, which represents approximately 15.30% 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 in issue as at the date of grant. Any further grant of the share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the Shareholders' approval 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, excluding the INED(s) of the Company who is/are the grantee(s) of the share options. In addition, any share option granted to a substantial Shareholder or an INED of the Company, or to any of their respective associates, in excess of 0.1% of the Shares in issue as at the date of grant or with an aggregate value (based on the closing price of the Shares as at the date of grant) in excess of HK$5 million, within any 12-month period, is subject to the issue of a circular by the Company and the Shareholders' approval in advance at a general meeting.

The offer of a grant of the share options may be accepted within 28 days from the date of 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 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 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.

DIRECTORS' INTERESTS

As at 31 December 2007, the Directors and the chief executive of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code adopted by the Company:

(a) Interests and short positions in the Shares and the underlying Shares of the convertible bonds of the Company as at 31 December 2007

(i) Long positions in the Shares:

Name of the Director	Number of the Shares beneficially held and nature of interest Personal	Family	Corporate	Total	Approximate percentage of the total issued share capital (%)
Mak Shiu Tong, Clement	715,652	—	238,283,758	238,999,410	29.98
Tam Ngai Hung, Terry	500,000	—	—	500,000	0.06
Cheng Yuk Ching, Flora (Note)	14,076,713	160,000	—	14,236,713	1.79
William Donald Putt	591,500	—	—	591,500	0.07
Samuel Olenick *(resigned on 5 February 2008)*	—	—	545,000	545,000	0.07

Note: Included in the shareholdings in which Ms. Cheng Yuk Ching, Flora was interested, 160,000 Shares were held by the spouse of Ms. Cheng Yuk Ching, Flora who is deemed to be interested in such Shares under the provisions of Part XV of the SFO.

(ii) Long positions in the underlying Shares of the convertible bonds of the Company:

Name of the Director	Description of equity derivatives	Notes	Number of the total underlying Shares	Approximate percentage of the total issued share capital (%)
Mak Shiu Tong, Clement	2010 convertible bonds	(1)	29,942,649	3.76
	2009 convertible bonds	(2)	26,548,672	3.33

Notes:

(1) The 2010 convertible bonds with an outstanding principal amount of HK$18,085,360 as at 31 December 2007, were issued by the Company to New Capital Industrial Limited (a company controlled by Mr. Mak Shiu Tong, Clement) on 25 April 2005. The 2010 convertible bonds, due on 25 April 2010, are interest-free and convertible into the Shares at the conversion price of HK$0.604 per Share (subject to adjustments according to the terms of the 2010 convertible bonds). The interest of Mr. Mak Shiu Tong, Clement in these underlying Shares has also been disclosed under the section headed "Substantial Shareholders' Interests" below.

(2) The 2009 convertible bonds with an outstanding principal amount of HK$30,000,000 as at 31 December 2007, were issued by the Company to Capital Winner Investments Limited (a company controlled by Mr. Mak Shiu Tong, Clement) on 23 June 2006. The 2009 convertible bonds, due on 23 June 2009, are interest-free and convertible into the Shares at the conversion price of HK$1.13 per Share (subject to adjustments according to the terms of the 2009 convertible bonds).

(b) Interests and short positions in the shares and the underlying shares of an associated corporation — CCT Tech as at 31 December 2007

Long positions in the shares of CCT Tech:

Name of the Director	Number of the shares held	Approximate percentage of the total issued share capital (%)
Mak Shiu Tong, Clement	120,000,000	0.18
Tam Ngai Hung, Terry	20,000,000	0.03
Cheng Yuk Ching, Flora	18,000,000	0.03
Chen Li *(appointed on 5 February 2008)*	10,000,000	0.02

(c) Interests and short positions in the shares and the underlying shares of the share options of an associated corporation — Tradeeasy as at 31 December 2007

(i) Long positions in the shares of Tradeeasy:

None of the Directors had any interest and short position in respect of the shares, debentures, convertible bonds and equity derivatives of Tradeeasy as at 31 December 2007.

(ii) Long positions in the underlying shares of the share options of Tradeeasy:

Name of the Director	Date of grant of the share options	Exercise period of the share options	Exercise price per share HK$	Number of the share options outstanding	Number of the total underlying shares	Approximate percentage of the total issued share capital (%)
Mak Shiu Tong, Clement	14/8/2006	14/8/2006 – 13/8/2011	0.038	45,000,000	45,000,000	3.81
Tam Ngai Hung, Terry	14/8/2006	14/8/2006 – 13/8/2011	0.038	28,000,000	28,000,000	2.37
Cheng Yuk Ching, Flora	14/8/2006	14/8/2006 – 13/8/2011	0.038	5,000,000	5,000,000	0.42
William Donald Putt	14/8/2006	14/8/2006 – 13/8/2011	0.038	5,000,000	5,000,000	0.42

Save as disclosed above, as at 31 December 2007, none of the Directors and the chief executive of the Company and/or any of their respective associates had any interest and short position in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code adopted by the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

During the year, share options of CCT Tech have been granted to the Directors under the share option scheme of CCT Tech and details of the movements were as follows:

Name of the Director	Number of the share options: Outstanding as at 1 January 2007	Granted during the year	Exercised during the year	Lapsed/Cancelled during the year	Outstanding as at 31 December 2007	Date of grant of the share options	Exercise period of the share options	Exercise price per share HK$
Mak Shiu Tong, Clement	—	120,000,000	(120,000,000)	—	—	8/6/2007	8/6/2007 – 7/12/2007	0.055
Tam Ngai Hung, Terry	—	120,000,000	(120,000,000)	—	—	8/6/2007	8/6/2007 – 7/12/2007	0.055
Cheng Yuk Ching, Flora	—	120,000,000	(120,000,000)	—	—	8/6/2007	8/6/2007 – 7/12/2007	0.055
William Donald Putt	—	10,000,000	—	(10,000,000)	—	8/6/2007	8/6/2007 – 7/12/2007	0.055
Tam King Ching, Kenny	—	10,000,000	—	(10,000,000)	—	8/6/2007	8/6/2007 – 7/12/2007	0.055
Lau Ho Man, Edward	—	10,000,000	—	(10,000,000)	—	8/6/2007	8/6/2007 – 7/12/2007	0.055
Samuel Olenick *(resigned on 5 February 2008)*	—	10,000,000	—	(10,000,000)	—	8/6/2007	8/6/2007 – 7/12/2007	0.055
Chen Li *(appointed on 5 February 2008)*	—	10,000,000	(10,000,000)	—	—	8/6/2007	8/6/2007 – 7/12/2007	0.055

Save as disclosed above and under the section headed "Directors' Interests" above, at no time during the year was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the Directors (including their respective spouse and children under 18 years of age) to acquire benefits by means of the acquisition of the shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2007, the following persons had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

(i) Long positions in the Shares as at 31 December 2007:

Name of the Shareholder	Number of the Shares held	Approximate percentage of the total issued share capital (%)
Capital Force International Limited (Note)	96,868,792	12.15
New Capital Industrial Limited (Note)	141,414,966	17.74
	238,283,758	29.89

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

(ii) Long positions in the underlying Shares of the 2010 convertible bonds of the Company as at 31 December 2007:

Name of the holder of the 2010 convertible bonds	Amount of the 2010 convertible bonds HK$	Number of the total underlying Shares	Approximate percentage of the total issued share capital (%)
New Capital Industrial Limited (Note)	18,085,360	29,942,649	3.76

Note: The details of the interest of Mr. Mak Shiu Tong, Clement in these underlying Shares have also been disclosed under the section headed "Directors' Interests" above.

Save as disclosed above, as at 31 December 2007, there were no other persons who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions under the Code set out in Appendix 14 to the Listing Rules throughout the financial year under review, except for the deviations from code provisions A.2.1, A.4.1 and A.4.2. Detailed information of such deviations and their respective considered reasons as well as other information on the corporate governance practices of the Company are set out in the section headed "Corporate Governance Report" in this Annual Report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float of not less than 25% of the total issued share capital of the Company as required under the Listing Rules throughout the financial year under review and up to the date of this Annual Report.

AUDITORS

The financial statements for the year ended 31 December 2007 have been audited by Messrs. Ernst & Young, who retire and, being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming AGM of the Company.

ON BEHALF OF THE BOARD

Mak Shiu Tong, Clement
Chairman

Hong Kong
14 April 2008

independent auditors' report

ERNST & YOUNG
安永會計師事務所

To the shareholders of CCT Telecom Holdings Limited

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

We have audited the financial statements of CCT Telecom Holdings Limited set out on pages 51 to 133, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong
14 April 2008

consolidated income statement

Year ended 31 December 2007

HK$ million	Notes	2007	2006
REVENUE	5	**4,066**	4,199
Cost of sales		**(3,778)**	(3,789)
Gross profit		**288**	410
Other income and gains		**667**	444
Selling and distribution costs		**(56)**	(63)
Administrative expenses		**(324)**	(284)
Other expenses		**(118)**	(80)
Finance costs	7	**(43)**	(40)
PROFIT BEFORE TAX	6	**414**	387
Tax	10	**(17)**	(21)
PROFIT FOR THE YEAR		**397**	366
Profit/(loss) attributable to:			
Equity holders of the parent	11	**484**	358
Minority interests		**(87)**	8
		397	366
DIVIDENDS	12		
Paid interim		**20**	16
Proposed final		**24**	20
Total		**44**	36
EARNINGS PER SHARE ATTRIBUTABLE TO			
ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**HK$0.61**	HK$0.49
Diluted		**HK$0.57**	HK$0.43

consolidated balance sheet

31 December 2007

HK$ million	Notes	2007	2006
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,287**	1,222
Investment properties	15	**315**	490
Prepaid land lease payments	16	**219**	225
Other intangible assets	17	**32**	45
Goodwill	18	**55**	128
Long term receivable	33	**—**	312
Available-for-sale financial assets	20	**11**	11
Deferred tax assets	34	**2**	4
Total non-current assets		**1,921**	2,437
CURRENT ASSETS			
Inventories	22	**223**	233
Trade and bills receivables	23	**718**	837
Prepayments, deposits and other receivables	24	**276**	42
Financial assets at fair value through profit or loss	25	**398**	226
Held-to-maturity financial assets	21	**—**	2
Pledged time deposits	26	**250**	88
Cash and cash equivalents	26	**1,673**	865
Total current assets		**3,538**	2,293
CURRENT LIABILITIES			
Trade and bills payables	27	**851**	886
Tax payable		**31**	25
Other payables and accruals	28	**300**	177
Derivative financial instruments	29	**62**	—
Interest-bearing bank and other borrowings	30	**212**	207
Total current liabilities		**1,456**	1,295
NET CURRENT ASSETS		**2,082**	998
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,003**	3,435

HK$ million	Notes	2007	2006
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	30	**224**	296
Long term payable	33	**—**	256
Derivative financial instrument	33	**—**	71
Deferred tax liabilities	34	**4**	3
Total non-current liabilities		**228**	626
Net assets		**3,775**	2,809
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	35	**80**	78
Reserves	37(a)	**3,121**	2,654
Proposed final dividend	12	**24**	20
		3,225	2,752
Minority interests		**550**	57
Total equity		**3,775**	2,809

Mak Shiu Tong, Clement
Chairman

Tam Ngai Hung, Terry
Director

consolidated statement of changes in equity

Year ended 31 December 2007

		Attributable to equity holders of the parent												
HK$ million	Notes	Issued capital	Share premium account	Capital reserve (Note 37(a))	Distributable reserve	Investment revaluation reserve	Equity component of convertible bonds	Share option reserve	Exchange fluctuation reserve	Retained Profits	Proposed final dividend	Total	Minority interests	Total equity
At 1 January 2006		65	–	741	1,417	320	31	–	1	54	13	2,642	68	2,710
Change in fair value of available-for-sale financial assets		–	–	–	–	(1)	–	–	–	–	–	(1)	–	(1)
Exchange realignment		–	–	–	–	–	–	–	3	–	–	3	–	3
Total income and expense recognised directly in equity		–	–	–	–	(1)	–	–	3	–	–	2	–	2
Profit for the year		–	–	–	–	–	–	–	–	358	–	358	8	366
Total income and expense for the year		–	–	–	–	(1)	–	–	3	358	–	360	8	368
Realisation of revaluation reserve upon disposal of investment		–	–	–	–	(318)	–	–	–	–	–	(318)	–	(318)
Equity-settled share option arrangements		–	–	–	–	–	–	2	–	–	–	2	–	2
Restatement of fair value losses on financial assets at fair value through profit or loss upon business combination	38	–	–	–	–	–	–	–	–	35	–	35	–	35
Acquisition of subsidiaries	38	–	–	–	–	–	–	–	–	–	–	–	11	11
Deemed acquisition of minority interests upon conversion of convertible notes		–	–	–	–	–	–	–	–	–	–	–	(30)	(30)
Issue of convertible bonds	32	–	–	–	–	–	5	–	–	–	–	5	–	5
Issue of new shares upon conversion of convertible bonds	35	13	67	–	–	–	(23)	–	–	–	–	57	–	57
2005 final dividend declared		–	–	–	–	–	–	–	–	(2)	(13)	(15)	–	(15)
2006 interim dividend	12	–	–	–	–	–	–	–	–	(16)	–	(16)	–	(16)
Proposed 2006 final dividend	12	–	–	–	–	–	–	–	–	(20)	20	–	–	–
At 31 December 2006 and 1 January 2007		78	67*	741*	1,417*	1*	13*	2*	4*	409*	20	2,752	57	2,809
Exchange realignment		–	–	–	–	–	–	–	15	–	–	15	–	15
Total income and expense recognised directly in equity		–	–	–	–	–	–	–	15	–	–	15	–	15
Profit for the year		–	–	–	–	–	–	–	–	484	–	484	(87)	397
Total income and expense for the year		–	–	–	–	–	–	–	15	484	–	499	(87)	412
Equity-settled share option arrangements		–	–	–	–	–	–	5	–	–	–	5	–	5
Arising from disposal of interest in a subsidiary		–	–	–	–	–	–	–	–	–	–	–	514	514
Deemed disposal of interest in a subsidiary upon exercise of share options in the subsidiary		–	–	4	–	–	–	(4)	–	–	–	–	45	45
Deemed disposal of interest in a subsidiary upon placement of shares by the subsidiary		–	–	–	–	–	–	–	–	–	–	–	21	21
Issue of new shares upon conversion of convertible bonds	35	2	10	–	–	–	(3)	–	–	–	–	9	–	9
2006 final dividend declared		–	–	–	–	–	–	–	–	–	(20)	(20)	–	(20)
2007 interim dividend	12	–	–	–	–	–	–	–	–	(20)	–	(20)	–	(20)
Proposed 2007 final dividend	12	–	–	–	–	–	–	–	–	(24)	24	–	–	–
At 31 December 2007		80	77*	745*	1,417*	1*	10*	3*	19*	849*	24	3,225	550	3,775

* These reserve accounts comprise the consolidated reserves of HK$3,121 million (2006: HK$2,654 million) in the consolidated balance sheet.

consolidated cash flow statement

Year ended 31 December 2007

HK$ million	Notes	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**414**	387
Adjustments for:			
Finance costs	7	**43**	40
Interest income	5,6	**(98)**	(39)
Depreciation	6	**135**	128
Equity-settled share option expense		**12**	2
Amortisation of prepaid land lease payments	6	**6**	5
Goodwill impairment	6	**25**	21
Amortisation of deferred expenditure	6	**36**	47
Impairment of trade receivables	6	**22**	8
Write-off of other receivables	6	**6**	—
Write-off and impairment of deferred development costs	6	**14**	15
Write-off or impairment of items of property, plant and equipment	6	**14**	11
Gain on disposal of items of property, plant and equipment, net	6	**—**	(1)
Fair value gain on an investment properties	6	**(19)**	(39)
Gain on disposal of an investment property	6	**(34)**	—
Gain on partial disposal of subsidiaries	6	**(456)**	—
Gain on derecognition of derivative financial instrument	6	**(71)**	—
Write-down of inventories to net realisable value	6	**14**	46
Fair value gain on financial assets at fair value through profit or loss	6	**(18)**	(13)
Gain on disposal of available-for-sale financial assets	6	**—**	(318)
Loss on disposal of held-to-maturity financial assets	6	**—**	1
Gain on deemed acquisition of minority interests upon conversion of convertible notes	6	**—**	(30)
Gain on deemed disposal of interest in a subsidiary upon exercise of share options in the subsidiary	6	**(21)**	—
Gain on deemed disposal of interest in a subsidiary upon placement of shares by the subsidiary	6	**(21)**	—
Fair value loss on derivative financial instruments	6	**36**	21
		39	292
(Increase)/decrease in inventories		**(4)**	15
Decrease/(increase) in trade and bills receivables		**97**	(5)
(Increase)/decrease in prepayments, deposits and other receivables		**(240)**	10
Increase/(decrease) in trade and bills payables and other payables and accruals		**88**	(71)
Cash generated (used in)/from operations		**(20)**	241
Interest received		**98**	31
Interest paid		**(26)**	(34)
Hong Kong profits tax paid		**(1)**	(15)
PRC tax paid		**(7)**	(8)
Net cash inflow from operating activities		**44**	215

HK$ million	Notes	2007	2006
Net cash inflow from operating activities		**44**	215
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(205)**	(126)
Proceeds from disposal of items of property, plant and equipment		**5**	7
Purchases of investment properties		**—**	(147)
Proceeds from disposal of an investment property		**228**	—
Additions to prepaid land lease payments		**—**	(10)
Additions to intangible assets		**(36)**	(53)
Acquisition of subsidiaries	38	**—**	4
Proceeds from partial disposal of subsidiaries		**748**	—
Decrease in a long term receivable		**312**	—
Proceeds from disposal of held-to-maturity financial assets		**2**	15
Net purchases of financial assets at fair value through profit or loss		**(154)**	(156)
Proceeds from disposal of available-for-sale financial assets		**—**	557
Increase in derivative financial instruments		**26**	—
Increase in pledged time deposits		**(162)**	(17)
Net cash inflow from investing activities		**764**	74
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares by/placement of shares in subsidiaries		**101**	—
New bank loans		**116**	236
New/(repayment of) trust receipts loans, net		**19**	(40)
Repayment of bank loans		**(200)**	(110)
Capital element of finance lease rental payments		**(6)**	(7)
Dividends paid		**(40)**	(31)
Net cash (outflow)/inflow from financing activities		**(10)**	48
NET INCREASE IN CASH AND CASH EQUIVALENTS		**798**	337
Cash and cash equivalents at beginning of year		**865**	528
Effect of foreign exchange rate changes, net		**10**	—
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,673**	865
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	**564**	419
Non-pledged time deposits with original maturity of less than three months when acquired	26	**1,109**	446
		1,673	865

balance sheet

31 December 2007

HK$ million	Notes	2007	2006
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2**	2
Interests in subsidiaries	19	**1,374**	2,140
Long term receivable	33	**—**	312
Total non-current assets		**1,376**	2,454
CURRENT ASSETS			
Due from a subsidiary	19	**699**	—
Prepayments, deposits and other receivables	24	**1**	1
Financial assets at fair value through profit or loss	25	**—**	226
Held-to-maturity financial assets	21	**—**	2
Pledged time deposits	26	**—**	5
Cash and cash equivalents	26	**794**	346
Total current assets		**1,494**	580
CURRENT LIABILITIES			
Other payables and accruals	28	**7**	15
Total current liabilities		**7**	15
NET CURRENT ASSETS		**1,487**	565
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,863**	3,019
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	30	**43**	49
Long term payable	33	**—**	256
Derivative financial instrument	33	**—**	71
Total non-current liabilities		**43**	376
Net assets		**2,820**	2,643
EQUITY			
Issued capital	35	**80**	78
Reserves	37(b)	**2,716**	2,545
Proposed final dividend	12	**24**	20
Total equity		**2,820**	2,643

Mak Shiu Tong, Clement
Chairman

Tam Ngai Hung, Terry
Director

notes to financial statements

31 December 2007

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, 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, certain derivative financial instruments and financial assets at fair value through profit or loss, 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 (collectively referred to as the "Group") for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
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*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements — Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 46 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to its employees in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group's existing policy of accounting for derivatives complies with the requirements of the interpretation, the interpretation has had no effect on these financial statements.

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

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

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.

Amendments to HKFRS 2	*Share-based Payments — Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[5]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[5]
HK(IFRIC)-Int 11	*HKFRS 2 — Group and Treasury Share Transactions*[2]
HK(IFRIC)-Int 12	*Service Concession Arrangements*[4]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 14	*HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*[4]

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 March 2007

[3] Effective for annual periods beginning on or after 1 July 2008

[4] Effective for annual periods beginning on or after 1 January 2008

[5] Effective for annual periods beginning on or after 1 July 2009

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

HKFRS 2 has been amended to restrict the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

HKFRS 3 has been revised to introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 has been revised to introduce changes in the presentation and disclosure of financial statements and does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HKAS 27 has been revised to require a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes introduced by HKFRS 3 (revised) and HKAS 27 (revised) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group's current policy for share-based payment transactions aligns with the requirements of the interpretation, the interpretation is unlikely to have any financial impact on the Group.

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

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

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 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. The Group performs its annual impairment test of goodwill as at 31 December 2007. 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.

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

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.

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 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, but 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	2.5%–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.

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.

Leases (continued)

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 either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for “Revenue recognition” below.

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

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

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 less any allowance for impairment. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policy set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

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

Fair value

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged declined in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

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

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

Financial liabilities including trade and other payables, 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. The related interest expense is recognised within "finance costs" in the income statement.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible 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

The Group uses derivative financial instruments such as share accumulator contract and share swap contract. 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 are taken directly to the income statement.

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

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

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

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

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

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes model, further details of which are given in note 36 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit 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 benefit 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 expenses 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 that are readily convertible into known amounts of cash, 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 sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Revenue recognition

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

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

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

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements

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

Operating lease commitments — Group as lessor

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

Classification between investment properties and owner-occupied properties

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

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 have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 was HK$55 million (2006: HK$128 million). More details are given in note 18.

Estimation of fair value of investment properties

The fair value of the Group'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 2007 was HK$2 million (2006: HK$4 million). The amount of unrecognised tax losses at 31 December 2007 was HK$202 million (2006: HK$245 million). Further details are contained in note 34 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for deferred 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 2007, the best estimate of the carrying amount of capitalised development costs was HK$32 million (2006: HK$45 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, accessories and components;

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

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

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

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

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

4. SEGMENT INFORMATION (continued)

(a) Business Segments

The following tables present revenue and profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

Group

HK$ million	Telecom and electronic products 2007	Telecom and electronic products 2006	Infant and child products 2007	Infant and child products 2006	Securities investment 2007	Securities investment 2006	Property investment and development 2007	Property investment and development 2006	Corporate and others 2007	Corporate and others 2006	Consolidated 2007	Consolidated 2006
Segment revenue:												
Sales to external customers	3,374	3,882	115	112	486	149	4	3	43	34	4,022	4,180
Other revenue	18	34	2	—	—	—	—	—	1	2	21	36
Total revenue	3,392	3,916	117	112	486	149	4	3	44	36	4,043	4,216
Segment results	(201)	109	9	8	130	48	52	39	423	204	413	408
Interest income											44	19
Finance costs											(43)	(40)
Profit before tax											414	387
Tax											(17)	(21)
Profit for the year											397	366
Segment assets	2,970	3,186	83	68	845	226	554	499	1,005	747	5,457	4,726
Unallocated assets											2	4
Total assets											5,459	4,730
Segment liabilities	1,023	997	23	19	107	—	3	3	57	371	1,213	1,390
Unallocated liabilities											471	531
Total liabilities											1,684	1,921

4. SEGMENT INFORMATION (continued)

(a) Business Segments (continued)

Group (continued)

HK$ million	Telecom and electronic products 2007	Telecom and electronic products 2006	Infant and child products 2007	Infant and child products 2006	Securities investment 2007	Securities investment 2006	Property investment and development 2007	Property investment and development 2006	Corporate and others 2007	Corporate and others 2006	Consolidated 2007	Consolidated 2006
Other segment information:												
Capital expenditure	244	172	2	2	—	—	3	177	3	18	252	369
Depreciation	130	112	2	2	—	—	—	—	4	16	136	130
Amortisation	41	51	—	—	—	—	—	—	1	1	42	52
Impairment losses recognised directly in the income statements	—	—	—	—	—	—	—	—	25	21	25	21
Fair value loss on derivative financial instruments	—	—	—	—	36	—	—	—	—	21	36	21
Other non-cash expenses	54	69	—	—	—	—	—	—	16	11	70	80
Fair value gain on investment properties	—	—	—	—	—	—	19	39	—	—	19	39
Gain on disposal of an investment property	—	—	—	—	—	—	34	—	—	—	34	—
Gain on disposal of available-for-sale financial assets	—	—	—	2	—	—	—	—	—	316	—	318
Fair value gain on financial assets at fair value through profit or loss	—	—	—	—	18	13	—	—	—	—	18	13
Gain on deemed disposal of interests in subsidiaries	—	—	—	—	—	—	—	—	42	—	42	—
Gain on deemed acquisition of minority interests upon conversion of convertible bonds	—	—	—	—	—	—	—	—	—	30	—	30
Gain on partial disposal of subsidiaries	—	—	—	—	—	—	—	—	456	—	456	—
Gain on derecognition of derivative financial instrument	—	—	—	—	—	—	—	—	71	—	71	—

4. SEGMENT INFORMATION (continued)

(b) Geographical Segments

The following table presents revenue information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

Group

	United States of America		Asia Pacific		Europe		Consolidated	
HK$ million	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Segment revenue:								
Sales to external customers	**1,793**	2,142	**1,736**	1,405	**493**	633	**4,022**	4,180
Other revenue	**—**	—	**21**	36	**—**	—	**21**	36
Total revenue	**1,793**	2,142	**1,757**	1,441	**493**	633	**4,043**	4,216

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

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered, gross income from treasury investment which includes interest income on bank deposits and other financial assets, gross income from securities investment (which includes gross proceeds from the sale of investments and dividend income) and rental income from investment properties.

Revenue from the following activities has been included in turnover:

HK$ million	**2007**	2006
Revenue		
Manufacture and sale of telecom and electronic products	**3,374**	3,882
Manufacture and sale of infant and child products	**115**	112
Gross income from securities investment	**438**	137
Provision of e-commerce service	**43**	34
Rental income from investment properties (note 6)	**4**	3
Interest income from held-to-maturity financial assets and financial assets at fair value through profit or loss	**48**	12
Bank interest income	**44**	19
	4,066	4,199

6. PROFIT BEFORE TAX

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

HK$ million	Notes	Group 2007	Group 2006
Cost of inventories sold		**3,408**	3,693
Depreciation	14	**136**	130
Less: Amount capitalised in deferred development costs		**(1)**	(2)
		135	128
Amortisation of prepaid land lease payments	16	**6**	5
Minimum lease payments under operating leases in respect of land and buildings		**12**	6
Research and development costs:			
Deferred expenditure amortised*	17	**36**	47
Current year expenditure		**76**	58
Goodwill impairment**	18	**25**	21
Auditors' remuneration		**7**	7

6. PROFIT BEFORE TAX (continued)

HK$ million	Notes	Group 2007	Group 2006
Employee benefits expense (excluding directors' remuneration — note 8)			
Wages and salaries		**477**	419
Equity-settled share option expense		**9**	—
Pension scheme contributions****		**5**	4
Less: Amount capitalised in deferred development costs		**(21)**	(20)
		470	403
Impairment of trade receivables**	23	**22**	8
Write-off of other receivables**		**6**	—
Gain on disposal of items of property, plant and equipment, net**		**—**	(1)
Write-off or impairment of items of property, plant and equipment**	14	**14**	11
Write-off or impairment of deferred development costs**	17	**14**	15
Write-down of inventories to net realisable value*		**14**	46
Foreign exchange differences, net		**5**	(7)
Loss on disposal of held-to-maturity financial assets**		**—**	1
Fair value loss on derivative financial instruments**		**36**	21
and after crediting:			
Fair value gain on investment properties***	15	**19**	39
Gain on disposal of an investment property***		**34**	—
Gain on partial disposal of subsidiaries***		**456**	—
Gain on derecognition of derivative financial instrument***		**71**	—
Gain on deemed acquisition of minority interests upon conversion of convertible notes***		**—**	30
Gain on deemed disposal of interest in a subsidiary upon exercise of share options in the subsidiary***		**21**	—
Gain on deemed disposal of interest in a subsidiary upon placement of shares by the subsidiary***		**21**	—
Gain on disposal of available-for-sale financial assets***		**—**	318
Fair value gain on financial assets at fair value through profit or loss***		**18**	13
Gross rental income from investment properties	5	**4**	3
Interest income on long term receivable***		**6**	8

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

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

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

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

7. FINANCE COSTS

HK$ million	Group 2007	Group 2006
Interest on bank loans and overdrafts wholly repayable within five years	**14**	12
Interest on bank loans wholly repayable after five years	**12**	11
Interest on convertible bonds	**3**	4
Interest on other liability	**14**	13
Total interest expense on financial liabilities not at fair value through profit or loss	**43**	40

8. DIRECTORS' REMUNERATION

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

HK$ million	Group 2007	Group 2006
Fees:		
Executive directors	**—**	—
Independent non-executive directors	**1**	1
	1	1
Executive directors' other emoluments:		
Salaries, allowances and benefits in kind	**21**	22
Performance related bonuses*	**34**	25
Employee share option benefits	**3**	2
Pension scheme contributions	**1**	1
	59	50
	60	51

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

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

8. DIRECTORS' REMUNERATION (continued)

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

(a) Independent Non-executive Directors

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

	2007 **HK$'000**	2006 HK$'000
Samuel Olenick	**240**	240
Tam King Ching, Kenny	**240**	240
Lau Ho Man, Edward	**240**	240
	720	720

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(b) Executive Directors

HK$ million	Salaries, allowances and benefits in kind	Performance related bonuses	Employee share option benefits	Pension scheme contributions	Total remuneration
2007					
Mak Shiu Tong, Clement ("Mr. Mak")	14	18	1	1	34
Tam Ngai Hung, Terry	4	8	1	—	13
Cheng Yuk Ching, Flora	3	8	1	—	12
William Donald Putt	—	—	—	—	—
	21	34	3	1	59

8. DIRECTORS' REMUNERATION (continued)

(b) Executive Directors (continued)

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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2006: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2006: two) non-director, highest paid employees for the year are as follows:

	Group	
HK$ million	**2007**	2006
Salaries, allowances and benefits in kind	**5**	6
Performance related bonuses	**1**	1
Employee share option benefits	**1**	—
Pension scheme contributions	**—**	—
	7	7

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

	Number of employees	
	2007	2006
HK$2,000,001–HK$2,500,000	**1**	—
HK$2,500,001–HK$3,000,000	**—**	1
HK$4,000,001–HK$4,500,000	**1**	—
HK$4,500,001–HK$5,000,000	**—**	1
	2	2

9. FIVE HIGHEST PAID EMPLOYEES (continued)

During the year, the non-director, highest paid employees were granted share options, in respect of their services to the Group under the share option scheme of the Company's subsidiary, CCT Tech International Limited, which is listed on the Main Board of the Stock Exchange. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the year is included in the above five highest paid employees disclosures.

No share options were granted to the non-director, highest paid employees in respect of their services to the Group for the prior year.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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.

	Group	
HK$ million	**2007**	2006
Group:		
Current — Hong Kong:		
Charge for the year	**6**	10
Overprovision in prior years	**(1)**	—
Current — Elsewhere		
Charge for the year	**9**	12
Deferred — note 34	**3**	(1)
Total tax charge for the year	**17**	21

10. TAX (continued)

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

Group — 2007

HK$ million	Hong Kong	%	The PRC, excluding Hong Kong	%	Total	%
Profit/(loss) before tax	631.5		(218.0)		413.5	
Tax at the statutory or appropriate tax rate	110.5	17.5	(71.9)	33.0	38.6	9.3
Lower tax rate for specific provinces or local authority	—	—	3.9	(1.8)	3.9	0.9
Adjustment in respect of current tax of previous periods	(0.8)	(0.1)	0.1	—	(0.7)	(0.2)
Income not subject to tax	(113.6)	(18.0)	(1.4)	0.6	(115.0)	(27.8)
Expenses not deductible for tax	17.4	2.7	18.3	(8.4)	35.7	8.6
Tax losses utilised from previous periods	(16.5)	(2.6)	(0.6)	0.3	(17.1)	(4.1)
Tax losses not recognised	9.0	1.4	67.4	(30.9)	76.4	18.5
Tax exemption	—	—	(4.8)	2.2	(4.8)	(1.1)
Tax charge at the Group's effective rate	6.0	0.9	11.0	(5.0)	17.0	4.1

Group — 2006

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

10. TAX (continued)

Subsequent to the balance sheet date, the Company received a letter in late February 2008 from the Hong Kong Inland Revenue Department (the "IRD") in respect of a review on the tax affairs of the Group for the past years. Protective tax assessments in the aggregate amount of HK$34 million for the year of assessment 2001/2002 have been issued by the IRD to certain subsidiaries of the Company. Objection has been lodged by those subsidiaries against the protective tax assessments. The directors of the Company believe that there are valid grounds to contest the protective tax assessments. In view that the tax review by the IRD is only at the initial stage, there is still uncertainty about the outcome of the case. Up to the date of approval of these financial statements, the directors of the Company consider that adequate tax provision has been made in the financial statements.

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 2007 includes a profit of HK$208 million (2006: HK$32 million) which has been dealt with in the financial statements of the Company (note 37(b)).

12. DIVIDENDS

HK$ million	**2007**	2006
Paid interim — HK$0.025 (2006: HK$0.020) per ordinary share	**20**	16
Proposed final — HK$0.030 (2006: HK$0.025) per ordinary share	**24**	20
Total	**44**	36

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

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

The calculation of the basic earnings per share amounts for the year is based on the profit for the year attributable to ordinary equity holders of the parent of HK$484 million (2006: HK$358 million), and the weighted average number of 796,359,311 (2006: 732,918,201) ordinary shares in issue during the year.

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

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

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

HK$ million	2007	2006
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**484**	358
Interest on convertible bonds (note 7)	**3**	4
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**487**	362

	Number of shares	
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**796,359,311**	732,918,201
Effect of dilution — weighted average number of ordinary shares:		
Convertible bonds	**57,261,612**	108,046,640
	853,620,923	840,964,841

14. PROPERTY, PLANT AND EQUIPMENT

Group

HK$ million	Leasehold land and buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total
31 December 2007							
At 31 December 2006 and 1 January 2007:							
Cost	1,086	480	194	149	24	20	1,953
Accumulated depreciation and impairment	(222)	(258)	(131)	(106)	(14)	—	(731)
Net carrying amount	864	222	63	43	10	20	1,222
At 1 January 2007, net of accumulated depreciation and impairment	864	222	63	43	10	20	1,222
Additions	6	96	20	28	6	59	215
Disposals	—	(4)	—	—	(1)	—	(5)
Depreciation provided during the year	(49)	(47)	(24)	(12)	(4)	—	(136)
Impairment	(14)	—	—	—	—	—	(14)
Transfer	7	—	—	—	—	(7)	—
Exchange realignment	—	5	—	—	—	—	5
At 31 December 2007, net of accumulated depreciation and impairment	814	272	59	59	11	72	1,287
At 31 December 2007:							
Cost	1,099	579	214	174	27	72	2,165
Accumulated depreciation and impairment	(285)	(307)	(155)	(115)	(16)	—	(878)
Net carrying amount	814	272	59	59	11	72	1,287

14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

HK$ million	Furniture and office equipment
31 December 2007	
At 31 December 2006 and 1 January 2007, net of accumulated depreciation	**2**
Depreciation provided during the year	**—**
At 31 December 2007, net of accumulated depreciation	**2**
At 31 December 2007:	
Cost	**3**
Accumulated depreciation	**(1)**
Net carrying amount	**2**
31 December 2006	
At 31 December 2005 and 1 January 2006, net of accumulated depreciation	3
Depreciation provided during the year	(1)
At 31 December 2006, net of accumulated depreciation	2
At 31 December 2006:	
Cost	5
Accumulated depreciation	(3)
Net carrying amount	2

The net book value of the fixed assets of the Group held under finance leases included in the total amounts of plant and machinery and motor vehicles as at 31 December 2007 amounted to approximately HK$10 million (2006: HK$11 million) and HK$3 million (2006: HK$4 million), respectively.

14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

HK$ million	Hong Kong	Elsewhere	Total
Medium term leases	29	785	814

At 31 December 2007, certain of the Group's land and buildings with an aggregate carrying value of approximately HK$490 million (2006: HK$517 million) were pledged to secure general banking facilities granted to the Group (note 30).

15. INVESTMENT PROPERTIES

	Group	
HK$ million	**2007**	2006
Carrying amount at 1 January	**490**	257
Additions	**—**	177
Disposals	**(194)**	—
Fair value gain on investment properties	**19**	39
Transfer from an owner-occupied property (note 14)	**—**	17
Carrying amount at 31 December	**315**	490

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

	HK$ million
Long term leases	279
Medium term leases	36
	315

The Group's investment properties were revalued on 31 December 2007 by Grant Sherman Appraisal Limited, independent professionally qualified valuers, on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 42(a) to the financial statements.

At 31 December 2007, the Group's investment properties with a value of HK$314 million (2006: HK$487 million) were pledged to secure general banking facilities granted to the Group (note 30).

15. INVESTMENT PROPERTIES (continued)

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

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

16. PREPAID LAND LEASE PAYMENTS

	Group	
HK$ million	**2007**	2006
Carrying amount at 1 January	**230**	225
Additions	**—**	10
Recognised during the year	**(6)**	(5)
Carrying amount at 31 December	**224**	230
Current portion included in prepayments, deposits and other receivables	**(5)**	(5)
Non-current portion	**219**	225

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

17. OTHER INTANGIBLE ASSETS

Group

HK$ million	Deferred development costs
31 December 2007	
Cost at 1 January 2007, net of accumulated amortisation and impairment	**45**
Additions — internal development	**37**
Write-off	**(12)**
Impairment	**(2)**
Amortisation provided during the year	**(36)**
At 31 December 2007	**32**
At 31 December 2007:	
Cost	**94**
Accumulated amortisation and impairment	**(62)**
Net carrying amount	**32**
31 December 2006	
Cost at 1 January 2006, net of accumulated amortisation and impairment	45
Acquisition of subsidiaries (note 38)	7
Additions — internal development	55
Write off	(15)
Amortisation provided during the year	(47)
At 31 December 2006	45
At 31 December 2006:	
Cost	102
Accumulated amortisation and impairment	(57)
Net carrying amount	45

18. GOODWILL

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

Group

HK$ million	
31 December 2007	
At 1 January 2007:	
Cost	**156**
Accumulated impairment	**(28)**
Net carrying amount	**128**
Cost at 1 January 2007, net of accumulated impairment	**128**
Release of goodwill upon partial disposal of subsidiaries	**(48)**
Impairment during the year	**(25)**
Net carrying amount at 31 December 2007	**55**
At 31 December 2007:	
Cost	**108**
Accumulated impairment	**(53)**
Net carrying amount	**55**

18. GOODWILL (continued)

Group

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

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

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

18. GOODWILL (continued)

Telecom and electronic products cash-generating unit

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

Provision of e-commerce services cash-generating unit

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

Property holding cash-gererating unit

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

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

HK$ million	**2007**	2006
Telecom and electronic products	**55**	103
Provision of e-commerce services	**—**	20
Property holding	**—**	5
Carrying amount of goodwill	**55**	128

Key assumptions were used in the value in use calculation of the telecom and electronic products cash-generating unit and the provision of e-commerce services cash-generating unit for 31 December 2007. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

19. INTERESTS IN SUBSIDIARIES

HK$ million	Company 2007	2006
Unlisted shares, at cost	**45**	45
Due from subsidiaries	**2,921**	3,131
	2,966	3,176
Impairment	**(893)**	(1,036)
	2,073	2,140
Less: Portion of amounts due from subsidiaries classified as current asset	**(699)**	—
	1,374	2,140

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for a balance of HK$699 million (2006: Nil) due from a subsidiary which is unsecured and repayable on demand, and bears interest at 3% above the Hong Kong dollar prime rate as determined by The Hongkong and Shanghai Banking Corporation Limited per annum. The carrying amounts of the 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	Percentage of equity attributable to the Company Indirect	Principal activities
Canford Holdings Limited	Hong Kong	HK$2 Ordinary	—	100	Property holding
CCT Marketing Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	50.49	Trading of telecom products
CCT Telecom (HK) Limited	Hong Kong	HK$2,600,000 Ordinary	—	50.49	Sourcing of telecom products, raw materials and components
CCT Telecom Securities Limited	Hong Kong	HK$1 Ordinary	—	100	Securities investment
CCT Tech International Limited ("CCT Tech")[@]	Bermuda/ Hong Kong	HK$654,139,940 Ordinary	—	50.49	Investment holding
Electronic Sales Limited	Hong Kong	HK$5,948,000 Ordinary	—	100	Sale of power supply components
Goldbay Investments Limited	Hong Kong	HK$2 Ordinary	—	100	Property holding

19. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Neptune Holding Limited	Hong Kong	HK$10,000,000 Non-voting* class 'A' shares HK$1,000,000 Voting class 'B' shares	—	100	Trading of plastic casings and parts
Rich Full International Industries Limited	Hong Kong	HK$1 Ordinary	—	100	Property holding
Topcon Investments Limited	Hong Kong	HK$1 Ordinary	—	100	Property holding
Wiltec Industries (HK) Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	100	Sale of infant and child products
Huiyang CCT Telecommunications Products Co., Ltd.	PRC	HK$120,000,000 Registered^	—	50.49	Manufacturing of telecom products
Huiyang CCT Plastic Products Co., Ltd.	PRC	HK$48,600,000 Registered^	—	100	Manufacturing of plastic casings and parts
CCT Telecom (An Shan) Property Development Company Limited	PRC	HK$160,000,000 Registered^	—	100	Property development
CCT Land Development (Chao Yang) Company Limited	PRC	US$15,433,900 Registered^	—	100	Property development
CCT Tech (Chao Yang) Company Limited	PRC	US$6,950,000 Registered^	—	50.49	Manufacturing of telecom and electronic products
CCT (Chao Yang) Plastic Products Company Limited	PRC	US$11,577,000 Registered^	—	100	Manufacturing of plastic casings and parts
Tradeeasy Holdings Limited@@	Cayman Islands/ Hong Kong	HK$11,798,890 Ordinary	—	54.53	Provision of e-commerce services

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

@ Listed on the Main Board of the Stock Exchange.

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

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

19. INTERESTS IN SUBSIDIARIES (continued)

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

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
HK$ million	**2007**	2006
Unlisted equity investment, at cost less impairment	**2**	2
Other assets, at fair value	**9**	9
	11	11

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

21. HELD-TO-MATURITY FINANCIAL ASSETS

	Group and Company	
HK$ million	**2007**	2006
Unlisted held-to-maturity financial assets, at amortised cost	**—**	2

The held-to-maturity financial assets at 31 December 2006 had maturities of one year and carried an effective interest rate of 2.25% per annum. The held-to-maturity financial assets were realised in 2007 and there were no held-to-maturity financial assets outstanding as at 31 December 2007.

22. INVENTORIES

HK$ million	Group 2007	Group 2006
Raw materials	**61**	78
Work in progress	**55**	57
Finished goods	**107**	98
	223	233

23. TRADE AND BILLS RECEIVABLES

HK$ million	Group 2007	Group 2006
Trade receivables	**746**	851
Impairment	**(28)**	(14)
	718	837

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. At the balance sheet date, the Group has certain concentration of credit risk as 58% (2006: 45%) and 85% (2006: 83%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

Trade and bills receivables are non-interest-bearing.

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			
	2007		2006	
HK$ million	Balance	Percentage	Balance	Percentage
Current to 30 days	**217**	**30**	294	35
31 to 60 days	**223**	**31**	249	30
61 to 90 days	**199**	**28**	243	29
Over 90 days	**79**	**11**	51	6
	718	**100**	837	100

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

23. TRADE AND BILLS RECEIVABLES (continued)

The movements in provision for impairment of trade receivables are as follows:

	Group	
HK$ million	**2007**	2006
At 1 January	**14**	18
Impairment losses recognised (note 6)	**22**	8
Amount written off as uncollectible	**(8)**	(12)
At 31 December	**28**	14

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$28 million (2006: HK$14 million) with a carrying amount of HK$586 million (2006: HK$401 million): The individually impaired trade receivables relate to customers that were in default and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

An analysis of trade and bills receivables that were past due but not impaired is as follows:

	Group	
HK$ million	**2007**	2006
Neither past due nor impaired	**549**	615
Past due but not impaired		
— within 6 months	**161**	205
— 7 to 12 months	**7**	16
— over 1 year	**1**	1
	718	837

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
HK$ million	**2007**	2006	**2007**	2006
Prepayments	**238**	10	**—**	—
Deposits and other receivables	**38**	32	**1**	1
	276	42	**1**	1

The above balance included prepayments for the acquisition of land use rights in Mainland China amounting to approximately HK$225 million (2006: Nil) in relation to the Group's property development business.

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
HK$ million	**2007**	2006	**2007**	2006
Listed equity investments in Hong Kong, at market value	**227**	71	**—**	71
Equity-linked deposits/notes, at fair value	**153**	155	**—**	155
Fund investments, at fair value	**18**	—	**—**	—
	398	226	**—**	226

The above equity investments, equity-linked deposits/notes and fund investments at 31 December 2007 were classified as held for trading.

The market value of the Group's equity investments at the date of approval of these financial statements was approximately HK$189 million.

26. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
HK$ million	**2007**	2006	**2007**	2006
Cash and bank balances	**564**	419	**17**	10
Time deposits	**1,359**	534	**777**	341
	1,923	953	**794**	351
Less: Time deposits pledged for bank facilities (note 30)	**(88)**	(88)	**—**	(5)
Time deposits pledged for stock accumulator contracts	**(162)**	—	**—**	—
Cash and cash equivalents	**1,673**	865	**794**	346

26. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS (continued)

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$20 million (2006: HK$11 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 deposit rates. Short term time deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

27. TRADE AND BILLS PAYABLES

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

	Group			
	2007		2006	
HK$ million	**Balance**	**Percentage**	Balance	Percentage
Current to 30 days	**184**	**22**	232	26
31 to 60 days	**229**	**27**	233	26
61 to 90 days	**159**	**18**	168	19
Over 90 days	**279**	**33**	253	29
	851	**100**	886	100

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

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
HK$ million	**2007**	2006	**2007**	2006
Other payables	**175**	86	**—**	10
Accruals	**125**	91	**7**	5
	300	177	**7**	15

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

29. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
HK$ million	**2007**	2006
Stock accumulator contracts	**35**	—
Share swap contract	**27**	—
	62	—

The carrying amounts of the above stock accumulator contracts and share swap contract are the same as their fair values.

30. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2007			2006		
	Effective interest rate (%)	**Maturity**	**HK$ million**	Effective interest rate (%)	Maturity	HK$ million
Current						
Finance lease payables (note 31)	**2.50–3.20**	**2008**	**3**	2.50–5.75	2007	4
Bank loans — unsecured	**6.00–7.00**	**2008**	**26**	6.01–7.00	2007	26
Bank loans — secured	**4.20–7.25**	**2008**	**183**	4.74–7.25	2007	177
			212			207
Non-current						
Finance lease payables (note 31)	**3.20–4.75**	**2010**	**5**	N/A	N/A	—
Bank loans — secured	**4.2–6.72**	**2009–2016**	**176**	4.74–6.25	2008–2016	247
2010 Convertible Bonds (note 32(a))	**7.25**	**2010**	**15**	7.25	2010	23
2009 Convertible Bonds (note 32(b))	**5.68**	**2009**	**28**	5.68	2009	26
			224			296
			436			503

30. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Company

	2007			2006		
	Effective interest rate (%)	Maturity	HK$ million	Effective interest rate (%)	Maturity	HK$ million
Non-current						
2010 Convertible Bonds (note 32(a))	**7.25**	**2010**	**15**	7.25	2010	23
2009 Convertible Bonds (note 32(b))	**5.68**	**2009**	**28**	5.68	2009	26
			43			49

	Group		Company	
HK$ million	2007	2006	2007	2006
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**209**	203	**—**	—
In the second year	**51**	59	**—**	—
In the third to fifth years, inclusive	**64**	100	**—**	—
Beyond five years	**61**	88	**—**	—
	385	450	**—**	—
Other borrowings repayable:				
Within one year or on demand	**3**	4	**—**	—
In the second year	**32**	—	**28**	—
In the third to fifth years, inclusive	**16**	49	**15**	49
	51	53	**43**	49
	436	503	**43**	49

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

(i) mortgage over the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$314 million (2006: HK$487 million) (note 15);

(ii) mortgage over the Group's land and buildings situated in Hong Kong and the PRC, which had an aggregate carrying value at the balance sheet date of approximately HK$490 million (2006: HK$517 million) (note 14); and

(iii) the pledge of certain of the Group's time deposits amounting to HK$88 million (2006: HK$88 million) (note 26).

30. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

(b) The Group's bank and other borrowings with carrying amounts of HK$216 million (2006: HK$304 million), HK$7 million (2006: HK$22 million) and HK$213 million (2006: HK$177 million) are denominated in Hong Kong dollars, RMB and United States dollars, respectively.

Except for the convertible bonds, the carrying amounts of the Group's and the Company's borrowings approximate to their fair values. The fair value of the Group's and the Company's convertible bonds with a carrying amount of HK$43 million (2006: HK$49 million) was HK$41 million (2006: HK$44 million) at the balance sheet date.

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

31. FINANCE LEASE PAYABLES

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

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

Group

HK$ million	**Minimum lease payments 2007**	Minimum lease payments 2006	**Present value of minimum lease payments 2007**	Present value of minimum lease payments 2006
Amounts payable:				
Within one year	**4**	4	**3**	4
In the second year	**4**	—	**4**	—
In the third to fifth years, inclusive	**1**	—	**1**	—
Total minimum finance lease payments	**9**	4	**8**	4
Future finance charges	**(1)**	—		
Total net finance lease payables	**8**	4		
Portion classified as current liabilities — note 30	**(3)**	(4)		
Non-current portion — note 30	**5**	—		

32. CONVERTIBLE BONDS

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

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

During the prior years, the 2010 Convertible Bonds with a nominal value of approximately HK$127 million were converted into 204,834,544 shares in the Company of HK$0.10 each. During the year ended 31 December 2007, the 2010 Convertible Bonds with a nominal value of approximately HK$10 million were converted into 17,258,012 shares in the Company of HK$0.10 each (note 35).

(b) On 23 June 2006, the Company issued a convertible bond with a nominal value of HK$30 million (the "2009 Convertible Bond") as part of consideration for the acquisition of a property as further detailed in note 44(a) to the financial statements.

The 2009 Convertible Bond is convertible at the option of the bondholder into ordinary shares in the Company at the conversion price of HK$1.13 per share (subject to adjustment as provided in the terms and conditions of the 2009 Convertible Bond) at any time from the date of issue of 2009 Convertible Bond to the fifth business day immediately prior to the maturity thereof. The 2009 Convertible Bond is unsecured, interest-free and has a maturity date of 23 June 2009. Unless converted into the shares of the Company or early repaid by the Company, the outstanding balance of the 2009 Convertible Bond shall be redeemed in full on maturity. The Company may at its sole discretion repay, in whole or in part, the outstanding balance of the 2009 Convertible Bond not yet repaid or converted into the shares of the Company any time before maturity by giving the holders of the convertible bonds a prior written notice of 14 days. There was no conversion of the 2009 Convertible Bond during the year ended 31 December 2007.

32. CONVERTIBLE BONDS (continued)

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

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

HK$ million	Group and Company 2006
Nominal value of convertible bonds issued during the year	30
Equity component (note 37(b))	(5)
Liability component at the issuance date	25
Interest expense	1
Liability component at 31 December (note 30)	26

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

		Group and Company	
HK$ million	Notes	2007	2006
Long term receivable	(a)	—	312
Long term payable	(b)	—	256
Derivative financial instrument	(c)	—	71

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

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

During the year, Deutsche Bank and the three investors disposed of a total of 13,799,807,849 CCT Tech Sale Shares to third parties. The related Put Options were unwound and the related long term receivable plus interest up to the date of unwind was refunded to the Company. As at 31 December 2007, there were 192,151 CCT Tech Sale Shares not yet disposed of by one of the three investors.

In 2006, the Group determined that the financial asset derecognition conditions in relation to the CCT Tech Sale Shares as stipulated in HKAS 39 have not been fulfilled. Accordingly, the Company continued to consolidate the results of the CCT Tech group for the years ended 31 December 2006 and 2007 as if the Sale Shares had not been disposed of up to the respective dates of unwind of the Put Options attributable to the CCT Tech Sale Shares.

(a) Long Term Receivable

Long term receivable as at 31 December 2006 represented the sum of the Initial Exchange Amount of HK$304 million and the accrued interest of HK$8 million on the Initial Exchange Amount receivable by the Company. Under the terms of the Put Agreement, if any of the CCT Tech Sale Shares are disposed of by Deutsche Bank or any of the three investors, the related Put Options will be unwound and the related long term receivable plus interest up to the date of unwind will be refunded to the Company. The amount of the long term receivable not being refunded will be used to offset against the long term payable upon the exercise of the Put Options.

During the year, as a total of 13,799,807,849 CCT Tech Sale Shares were disposed of by Deutsche Bank and the three investors through the stock market, the related portion of the long term receivable and the accrued interest were refunded to the Company. As at 31 December 2007, the long term receivable in relation to the 192,151 outstanding CCT Tech Sale Shares amounted to approximately HK$4,000.

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

(b) Long Term Payable

Long term payable as at 31 December 2006 represented the liability of the Company in respect of the repurchase obligations of the CCT Tech Sale Shares under the Put Agreement. Under the terms of the Put Agreement, if Deutsche Bank or any of the three investors disposes of all or part of the CCT Tech Sale Shares to third parties, the related Put Options will be unwound. The attributable amount of the long term payable will be recognised in the consolidated income statement and included in the calculation of the gain or loss on disposal of the relevant CCT Tech Sale Shares.

During the year, as a total of 13,799,807,849 CCT Tech Sale Shares were disposed of by Deutsche Bank and the three investors, the related portion of the long term payable was recognised in the consolidated income statement and included in the calculation of the results on disposal of the relevant CCT Tech Sale Shares. As at 31 December 2007, the long term payable in relation to the 192,151 outstanding CCT Tech Sale Shares amounted to approximately HK$4,000.

(c) Derivative Financial Instrument

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

During the year, the Put Options relating to the 13,799,807,849 CCT Tech Sale Shares were unwound following the disposal of the aforesaid shares by Deutsche Bank and the three investors. Accordingly, the carrying amount of the Put Options unwound was recognised in the consolidated income statement. As at 31 December 2007, the fair value of the Put Options in relation to the 192,151 outstanding CCT Tech Sale Shares was insignificant.

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

34. DEFERRED TAX

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

Deferred Tax Liabilities

Group

HK$ million	2007 Depreciation allowance in excess of related depreciation
Gross deferred tax liabilities at 1 January 2007	3
Deferred tax charged to the income statement — note 10	1
Group referred tax liabilities at 31 December 2007	4

Deferred Tax Assets

Group

HK$ million	2007 Losses available for offsetting against future taxable profits
At 1 January 2007	4
Deferred tax charged to the income statement during the year — note 10	(2)
Gross deferred tax assets at 31 December 2007	2

34. DEFERRED TAX (continued)

Deferred Tax Liabilities

Group

HK$ million	2006 Depreciation allowance in excess of related depreciation
Gross deferred tax liabilities at 1 January 2006 and 31 December 2006	3

Deferred Tax Assets

Group

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

The Group and the Company has tax losses arising in Hong Kong of HK$202 million (2006: HK$245 million) and HK$107 million (2006: HK$173 million), respectively, 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 it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

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

35. SHARE CAPITAL

Shares

HK$ million	Company 2007	Company 2006
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200**	200
Issued and fully paid:		
797,123,505 (2006: 779,865,493) ordinary shares of HK$0.10 each	**80**	78

During the year, the 2010 Convertible Bonds with a nominal value of approximately HK$10 million were converted into 17,258,012 shares in the Company of HK$0.10 each at a conversion price of HK$0.604 per share. Further details relating to the 2010 Convertible Bonds were set out in note 32(a) to the financial statements.

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

	Number of ordinary shares of HK$0.10 each in issue	Issued capital HK$ million	Share premium account HK$ million	Total HK$ million
At 1 January 2006	655,693,308	65	—	65
Exercise of share options	—	—	—	—
Issue of new shares upon conversion of convertible bonds	124,172,185	13	67	80
At 31 December 2006 and 1 January 2007	779,865,493	78	67	145
Issue of new shares upon conversion of convertible bonds (note 32(a))	17,258,012	2	10	12
At 31 December 2007	797,123,505	80	77	157

Share Options

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

36. SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Company on 28 February 2002. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period of 10 years from the date of its adoption. As at 31 December 2007, there were no share options outstanding under the Share Option Scheme. No share options have been granted, exercised, cancelled and have lapsed under the Share Option Scheme during the year.

The purpose of the Share Option Scheme is to provide incentives and rewards to the eligible participants who contribute to the success of the operation 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, in the opinion of 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 the shares subject to any other share option scheme(s) of the Company, must not exceed 10% of the issued share capital of the Company as at the date of adoption of the Share Option Scheme or 30% of the issued share capital of the Company from time to time. The general limit on the 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 on 23 May 2007. As at the date of this Annual Report, the total number of shares available for issue in respect thereof is 121,931,873, which represents approximately 15.30% 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 in issue as at the date of grant. Any further grant of the share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the shareholders' approval 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, excluding the INED(s) of the Company who is/are the grantee(s) of the share options. In addition, any share option granted to a substantial shareholder or an INED of the Company, or to any of their respective associates, in excess of 0.1% of the shares in issue as at the date of grant or with an aggregate value (based on the closing price of the shares as at the date of grant) in excess of HK$5 million, within any 12-month period, is subject to the issue of a circular by the Company and the shareholders' approval in advance at a general meeting.

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

36. SHARE OPTION SCHEME (continued)

The exercise price of the share options is determinable by the Board, but may not be less than the highest of (i) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the Shares 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.

37. RESERVES

(a) Group

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

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

(b) Company

HK$ million	Notes	Share premium account	Capital reserve	Distributable reserve	Equity component of convertible bonds	Retained profits	Total
At 1 January 2006		—	741	1,417	31	313	2,502
Issue of convertible bonds	32	—	—	—	5	—	5
Issue of shares upon conversion of convertible bonds		67	—	—	(23)	—	44
Profit for the year	11	—	—	—	—	32	32
2005 final dividend		—	—	—	—	(2)	(2)
2006 interim dividend	12	—	—	—	—	(16)	(16)
Proposed 2006 final dividend	12	—	—	—	—	(20)	(20)
At 31 December 2006 and 1 January 2007		67	741	1,417	13	307	2,545
Issue of shares upon conversion of convertible bonds		10	—	—	(3)	—	7
Profit for the year	11	—	—	—	—	208	208
2007 interim dividend	12	—	—	—	—	(20)	(20)
Proposed 2007 final dividend	12	—	—	—	—	(24)	(24)
At 31 December 2007		77	741	1,417	10	471	2,716

Note:

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

38. BUSINESS COMBINATION

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

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

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

38. BUSINESS COMBINATION (continued)

An analysis of net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries in 2006 is as follows:

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

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

39. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major Non-Cash Transactions

(a) During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the finance leases of HK$10 million (2006: HK$1 million).

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

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

40. CONTINGENT LIABILITIES

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

	Company	
HK$ million	**2007**	2006
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	**211**	301

As at 31 December 2007, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$165 million (2006: HK$247 million).

41. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group, are included in notes 26 and 30(a) to the financial statements.

42. OPERATING LEASE ARRANGEMENTS

(a) As Lessor

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

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

	Group	
HK$ million	**2007**	2006
Within one year	**1**	4
In the second to fifth years, inclusive	**2**	4
After five years	**2**	3
	5	11

(b) As Lessee

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

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

	Group	
HK$ million	**2007**	2006
Within one year	**9**	8
In the second to fifth years, inclusive	**9**	5
	18	13

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

	Group	
HK$ million	**2007**	2006
Within one year	**2**	2
In the second to fifth years, inclusive	**11**	9
After five years	**116**	117
	129	128

43. COMMITMENTS

In addition to the operating lease commitments detailed in note 42(b) above, the Group had the following commitments at the balance sheet date:

Capital commitments

	Group	
HK$ million	**2007**	2006
Contracted, but not provided for:		
Construction in progress	**18**	64
Purchases of plant and machinery and equipment	**10**	5
Land	**51**	—
	79	69

44. RELATED PARTY TRANSACTIONS

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

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

HK$ million	**2007**	2006
Short term employee benefits	**68**	64
Post-employment benefits	**—**	—
Total compensation paid to key management personnel	**68**	64

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

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

45. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2007

HK$ million

Group

Financial assets

	Financial assets at fair value through profit or loss — held for trading	Loans and receivables	Available-for-sale financial assets	Total
Available-for-sale financial assets	—	—	11	11
Trade and bills receivables	—	718	—	718
Financial assets included in prepayments, deposits and other receivables	—	38	—	38
Financial assets at fair value through profit or loss	398	—	—	398
Pledged time deposits	—	250	—	250
Cash and cash equivalents	—	1,673	—	1,673
	398	2,679	11	3,088

Financial liabilities

	Financial liabilities at fair value through profit or loss — designated as such upon initial recognition	Financial liabilities at amortised cost	Total
Trade and bills payables	—	851	851
Financial liabilities included in other payables and accruals (note 28)	—	175	175
Derivative financial instruments	62	—	62
Interest-bearing bank and other borrowings	—	436	436
	62	1,462	1,524

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2006 — Group

HK$ million

Financial assets

	Financial assets at fair value through profit or loss — held for trading	Held-to-maturity financial assets	Loans and receivables	Available-for-sale financial assets	Total
Long term receivable	—	—	312	—	312
Available-for-sale financial assets	—	—	—	11	11
Trade and bills receivables	—	—	837	—	837
Financial assets included in prepayments, deposits and other receivables	—	—	32	—	32
Financial assets at fair value through profit or loss	226	—	—	—	226
Held-to-maturity financial assets	—	2	—	—	2
Pledged time deposits	—	—	88	—	88
Cash and cash equivalents	—	—	865	—	865
	226	2	2,134	11	2,373

Financial liabilities

	Financial liabilities at fair value through profit or loss — designated as such upon initial recognition	Financial liabilities at amortised cost	Total
Trade and bills payables	—	886	886
Financial liabilities included in other payables and accruals (note 28)	—	86	86
Derivative financial instrument	71	—	71
Interest-bearing bank and other borrowings	—	503	503
Long term payable	—	256	256
	71	1,731	1,802

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2007

HK$ million	Company
Financial assets	**Loans and receivables**
Financial assets included in interests in subsidiaries (note 19)	2,921
Cash and cash equivalents	794
	3,715
Financial liabilities	**Financial liabilities at amortised cost**
Interest-bearing bank and other borrowings	43

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2006

HK$ million	Company			
Financial assets				
	Financial assets at fair value through profit or loss — held for trading	Held-to-maturity financial assets	Loans and receivables	Total
Financial assets included in interests in subsidiaries (note 19)	—	—	3,131	3,131
Long term receivable	—	—	312	312
Financial assets at fair value through profit or loss	226	—	—	226
Held-to-maturity financial assets	—	2	—	2
Pledged time deposits	—	—	5	5
Cash and cash equivalents	—	—	346	346
	226	2	3,794	4,022

Financial liabilities

	Financial liabilities at fair value through profit or loss — designated as such upon initial recognition	Financial liabilities at amortised cost	Total
Financial liabilities included in other payables and accruals (note 28)	—	10	10
Interest-bearing bank and other borrowings	—	49	49
Long term payable	—	256	256
Derivative financial instrument	71	—	71
	71	315	386

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors 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.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's borrowings with floating interest rates. The Group operates at a low gearing ratio and as the interest rates are stable and are maintained at relatively low level, the Group's interest rate risk is not significant.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Group	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$ million
2007		
HK$	100	(2)
United States dollars ("US$")	100	(2)
HK$	(100)	2
US$	(100)	2

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

	Group	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$ million
2006		
HK$	100	(3)
US$	100	(2)
HK$	(100)	3
US$	(100)	2

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales, purchases or expenditure by operating units in currencies other than the units' functional currency. During the year, the Group did not use any financial instruments for hedging purposes.

The following table demonstrates the sensitivity to a reasonably possible change in Australian dollars ("AUD"), US$ and Renminbi exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Group	
	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax HK$ million
2007		
If AUD strengthens against HK$	**18.568**	**13**
If AUD weakens against HK$	**(18.568)**	**(13)**
If US$ strengthens against RMB	**6.222**	**2**
If US$ weakens against RMB	**(6.222)**	**(2)**
2006		
If AUD strengthens against HK$	—	—
If AUD weakens against HK$	—	—
If US$ strengthens against RMB	3.280	1
If US$ weakens against RMB	(3.280)	(1)

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentration of credit risk is managed by counterparty.

There is no significant concentration of credit risk in relation to the Group's financial assets, other than trade receivables. Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

Liquidity risk

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

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

As at 31 December 2007

	Group				
HK$ million	Within one year or on demand	In the second year	In the third to fifth years, inclusive	Beyond five years	Total
Trade and bills payables	851	—	—	—	851
Other payables	175	—	—	—	175
Derivative financial instruments	62	—	—	—	62
Interest-bearing bank and other borrowings	212	83	80	61	436
	1,300	83	80	61	1,524

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

As at 31 December 2006

	Group				
HK$ million	Within one year or on demand	In the second year	In the third to fifth years, inclusive	Beyond five years	Total
Trade and bills payables	886	—	—	—	886
Other payables	86	—	—	—	86
Derivative financial instruments	—	71	—	—	71
Interest-bearing bank and other borrowings	207	59	149	88	503
Long term payable	—	256	—	—	256
	1,179	386	149	88	1,802

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as trading equity investments (note 25) as at 31 December 2007. The Group's listed investments are listed on the Stock Exchange and are valued at quoted market prices at the balance sheet date.

The market equity index for the following stock exchange, at the close of business of the nearest trading day in the year to the balance sheet date, and their respective highest and lowest points during the year were as follows:

	31 December 2007	**High/low 2007**	31 December 2006	High/low 2006
Hong Kong – Hang Seng Index	**27,813**	**31,958/ 18,659**	19,965	20,049/ 14,844

The following table demonstrates the sensitivity to a reasonably possible change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on then carrying amounts at the balance sheet date.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Equity price risk (continued)

	Carrying amounts of equity investments HK$ million	Increase/ (decrease) in equity price %	Increase/ (decrease) in profit before tax HK$ million
2007			
Investments listed in:			
Hong Kong — Held for trading	**227**	**59.54**	**135**
	227	**(59.54)**	**(135)**
2006			
Investments listed in:			
Hong Kong — Held for trading	71	26.73	19
	71	(26.73)	(19)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements.

The Group monitors capital using a gearing ratio, which is total borrowings divided by total capital plus total borrowings. The Group includes interest-bearing bank and other borrowing in the total borrowings. Capital includes equity attributable to the equity holders of the parent.

	Group	
HK$ million	**2007**	2006
Interest-bearing bank and other borrowings	**436**	503
Total borrowings	**436**	503
Total capital	**3,225**	2,752
Total capital and borrowings	**3,661**	3,255
Gearing ratio	**11.9%**	15.5%

47. POST BALANCE SHEET EVENTS

(a) In October 2007, Tradeeasy entered into an agreement (as amended subsequently in February and March 2008) for the acquisition of a forestry project in Indonesia (the "Forestry Project"). The total consideration for the acquisition of the Forestry Project amounts to approximately HK$916 million, which will be satisfied by way of cash and by way of an issue of convertible bonds by Tradeeasy. The Forestry Project principally involves the business of harvesting and extraction of timber, land clearing, plantation of oil palm and production of palm oil, operation of sawn mills, and production and export of sawn timber and other timber and wood products in the natural forest concessions of approximately 313,500 hectares in the Papua Province of Indonesia.

Details of the acquisition of the Forestry Project were set out in the joint announcements of the Company and Tradeeasy dated 23 October 2007 and 28 March 2008. The circulars of Tradeeasy and the Company will be dispatched to the respective shareholders of Tradeeasy and the Company on or before 30 May 2008. The acquisition of the Forestry Project, upon the issue of the circulars, is subject to other conditions precedent including approval by the respective shareholders of Tradeeasy and the Company.

(b) On 12 December 2007, Goldbay Investments Limited ("Goldbay", a wholly-owned subsidiary of the Company) entered into a binding preliminary sale and purchase agreement (the "Preliminary S&P Agreement") with an independent third party (the "Purchaser") for the sale of an investment property at a consideration of approximately HK$36 million. A formal sale and purchase agreement (the "Formal S&P Agreement") with similar terms of the Preliminary S&P was entered into between Goldbay and the Purchaser on 10 January 2008 and superseded the Preliminary S&P Agreement. The transaction was completed on 28 February 2008. The disposal of the investment property has no significant impact on the Group's financial results.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 April 2008.

five year financial summary

31 December 2007

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

RESULTS

	Year ended 31 December				
HK$ million	**2007**	2006	2005	2004	2003
REVENUE	**4,066**	4,199	3,980	4,057	3,441
PROFIT BEFORE TAX	**414**	387	271	205	153
Tax	**(17)**	(21)	(18)	(18)	(13)
PROFIT FOR THE YEAR	**397**	366	253	187	140
Profit/(loss) attributable to:					
Equity holders of the parent	**484**	358	225	107	94
Minority interests	**(87)**	8	28	80	46
	397	366	253	187	140

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
HK$ million	**2007**	2006	2005	2004	2003
TOTAL ASSETS	**5,459**	4,730	4,318	3,889	3,602
TOTAL LIABILITIES	**(1,684)**	(1,921)	(1,608)	(1,482)	(1,344)
	3,775	2,809	2,710	2,407	2,258
EQUITY:					
Equity attributable to equity holders of the parent	**3,225**	2,752	2,642	2,210	2,155
Minority interests	**550**	57	68	197	103
	3,775	2,809	2,710	2,407	2,258

glossary of terms

GENERAL TERMS

2009 Convertible Bonds	The convertible bonds issued by the Company to Capital Winner on 23 June 2006, with an outstanding principal amount of HK$30,000,000 as at 31 December 2007. The convertible bonds, due on 23 June 2009, are interest free, convertible into the Shares at the conversion price of HK$1.13 per Share (subject to adjustments according to the terms of the convertible bonds)
2010 Convertible Bonds	The convertible bonds issued by the Company on 25 April 2005, with an outstanding principal amount of HK$18,085,360 as at 31 December 2007. The convertible bonds, due on 25 April 2010, are interest free, convertible into the Shares at the conversion price of HK$0.604 per Share (subject to adjustments according to the terms of the convertible bonds)
AGM	Annual general meeting
Audit Committee	The audit committee of the Company
Board	The board of Directors
BVI	British Virgin Islands
Capital Winner	Capital Winner Investments Limited, a company controlled by Mr. Mak Shiu Tong, Clement
CCT Tech	CCT Tech International Limited, a company listed on the Main Board of the Stock Exchange and a non wholly-owned subsidiary of the Company
CEO	The chief executive officer of the Company
Chairman	The chairman of the Company
Code	The Code on Corporate Governance Practices under the Listing Rules
Company	CCT Telecom Holdings Limited
Director(s)	The director(s) of the Company
Group	The Company and its subsidiaries
HK or Hong Kong	The Hong Kong Special Administrative Region of PRC

HK$	Hong Kong dollar(s), the lawful currency of Hong Kong
INED(s)	Independent non-executive director(s)
Jade Assets	Jade Assets Company Limited, a wholly-owned subsidiary of the Company
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
Model Code	The Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules
New Capital	New Capital Industrial Limited, a company controlled by Mr. Mak Shiu Tong, Clement
N/A	Not applicable
Percentage Ratios	The assets ratio, the profits ratio, the revenue ratio, the consideration ratio and the equity capital ratio as defined under Rule 14.07 of the Listing Rules
PRC	The People's Republic of China
Remuneration Committee	The remuneration committee of the Company
RMB	Renminbi, the lawful currency of PRC
R&D	Research and development
SFO	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share(s)	The ordinary share(s) of HK$0.10 each in the share capital of the Company
Shareholder(s)	Holder(s) of the Share(s)
Share Option Scheme	A share option scheme adopted by the Company on 28 February 2002
SOHO	Small office and home office
Stock Exchange	The Stock Exchange of Hong Kong Limited
Tradeeasy	Tradeeasy Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange and a non wholly-owned subsidiary of the Company
US	The United States of America
US$	United States dollar(s), the lawful currency of US
%	Per cent.

FINANCIAL TERMS

Gearing Ratio	Total borrowings (representing bank & other borrowings, convertible bonds and finance lease payable) divided by total capital employed (i.e. total Shareholders' fund plus total borrowings)
Earnings Per Share or EPS	Profit attributable to the Shareholders divided by weighted average number of Shares in issue during the year
Current Ratio	Current assets divided by current liabilities

CGT TELECOM

中國電訊集團有限公司