CCT TELECOM

中建電訊集團有限公司

2008 Annual Report

Stock Code : 138

contents

chairman’s letter

The year 2008 has turned out to be a traumatic year for every economy and every industry globally. The unprecedented financial tsunami originated from the sub-prime crisis in the U.S. has widely swept through all regions and created a serious credit crunch and a sudden squeeze in global consumption. The rippling effects from the financial tsunami on the global economy have badly shaken consumer confidence and damaged the global capital market, which have resulted in recession in the developed countries. As with many other industries and businesses, the operations and performance of the Company was adversely affected by the financial tsunami.

On behalf of the board of directors of the Company, I herein present the annual results of the Group for the year ended 31 December 2008.

During the year under review, the Group’s turnover was HK$2,935 million, decreased by approximately HK$794 million, or 21.3% as compared with last year.

As disclosed in the Company’s announcements dated 6 November 2008 and 15 January 2009, the Group’s largest single customer in the U.S. (the “U.S. Customer”) has discontinued its retail telephony activities in North America (the “Discontinuation”). As a result of the Discontinuation, the Group has written off impairment loss in the amount of HK$332 million on certain under-utilised fixed assets and intangible assets and has incurred restructuring costs in the total amount of HK$44 million associated with the Discontinuation. These exceptional impairment loss and restructuring costs have hit the financial performance of the Group’s telecom product business for the year ended 31 December 2008, substantially increasing its loss for the year.

Under the global economic contraction environment, our manufacturing business was faced with the most difficult times since its inception. Affected by the contracting demand of the telecom products, high operating costs especially in the first half of 2008 and the exceptional impairment loss and restructuring costs arising from the Discontinuation, the operating loss of the Group’s telecom product business reached approximately HK$623 million for the year ended 31 December 2008. Excluding the exceptional items, the operating loss of the telecom product business in the second half of the year was HK$102 million, which has substantially reduced from the operating loss of HK$145 million in the first half of the year. The improvement in the operating result before the exceptional items of the Group’s telecom product business in the second half of the year is encouraging and signifies the success of the measures and initiatives taken by the Group to improve its competitiveness.

The financial turmoil in the U.S. has shattered global capital market and as a result, the stock market in Hong Kong has plummeted since the beginning of 2008. As a result of the deep market downturn, the Group’s securities business incurred a net realized loss of approximately HK$149 million and recorded an unrealized mark-to-market losses in the value of the listed shares and financial instruments of approximately HK$396 million, which adversely affected the Group’s results for 2008.

Due to the exceptional items associated with the Discontinuation, the losses of its telecom product business and its securities business in an extremely adverse business environment, the Group reported a loss of approximately HK$1,289 million for the year ended 31 December 2008, as compared to a net profit of approximately HK$397 million for the year ended 31 December 2007.

ACQUISITION OF FORESTRY PROJECT THROUGH CCT RESOURCES

CCT Resources, in which the Group has substantial shareholdings and whose shares are listed on the GEM of the Stock Exchange, achieved an important milestone by completing the acquisition of the forest project in Indonesia in August 2008. Thereafter, CCT Resources and its subsidiaries (the “CCT Resources Group”) will be engaged in the upstream and downstream forestry operations in the natural forests with total areas of approximately 313,500 hectares in the Papua Province of Indonesia. The forests will be developed and harvested according to the business plans and the forestry operations are expected to start in the first half of 2009.

REPURCHASE OF SHARES OF CCT TELECOM

In order to reorganize the capital structure of the Company whilst maintaining a strong balance sheet and provide an opportunity for the shareholders of the Company to realize at least part of their investment in the Company at a premium to the market price, the Company announced a conditional cash offer to repurchase up to 280,000,000 shares of the Company at HK$0.50 per share (the "Offer") on 6 January 2009. All the conditions of the Offer were fulfilled on 16 February 2009. As at 2 March 2009, being the latest acceptance time of the Offer, acceptances in respect of 198,558,635 shares of the Company have been received by the Company. In accordance with the terms of the Offer, the Company repurchased a total of 198,558,635 shares in aggregate at the offer price of HK$0.50 per share. The Offer was completed and 198,558,635 shares of the Company were cancelled on 11 March 2009. The total consideration under the Offer of approximately HK$99.28 million was paid by the Company on 11 March 2009. Upon the completion of the Offer and cancellation of the repurchased 198,558,635 shares by the Company on 11 March 2009, the issued share capital of the Company reduced to 655,056,191 shares.

PROPOSED FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK$0.03 per share for the year 2008 to the shareholders whose names appear on the register of members of the Company on Tuesday, 2 June 2009, 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 distributable reserve and will be paid on or around Tuesday, 16 June 2009 following the shareholders' approval at the forthcoming annual general meeting of the Company. Taking into account the HK$0.025 per share 2008 interim dividend paid in October 2008, the total dividend per ordinary share amounted to HK$0.055 per share for this financial year 2008, compared with the total dividend of HK$0.055 per ordinary share distributed in respect of the financial year 2007.

OUTLOOK

The rippling effects from the financial crisis and the uncertainties on the effectiveness of steps and measures taken by the governments around the world to address the financial crisis will continue to impact the world economy in 2009. We expect the outlook of the manufacturing industry to remain uncertain and challenging for 2009. The Discontinuation is expected to have an adverse impact on the Group's turnover in 2009. However, the Discontinuation has allowed us to eliminate the loss-making U.S. business and to further streamline and restructure our operations to enhance our competitiveness and improve productivity. We have taken all necessary actions to adjust our scale to the appropriate business level. We continue to emphasize cost controls in every areas of business and will continue to diversify our customer base and mitigate market and customer risks. We will continue to make improvement to our operation to gain our competitive edge and seek opportunities to leverage on current economy crisis to develop our business to prepare the Group for next growth cycle.

The stock market in Hong Kong is still volatile and uncertain and will be affected by external factors and performance of the overseas and PRC markets. However, we are optimistic in the long-term economic outlook in Hong Kong and the PRC. We are confident that the financial crisis together with its rippling effects will eventually go away and the stock market will recover in the future. We believe that our securities business will return to positive contribution as when the investment market in Hong Kong recovers in the future.

The PRC economy still faces a lot of challenges. However, with effect of a series of fiscal policies issued by the Central Government of China, the real estate market in the PRC will develop in a more steady way. We will adopt more prudent strategies in respect of property development projects to preserve our capital resources. Given the optimistic long-term economic outlook in the PRC, we are confident of the prospect of our property development business and believe that it will become a key driver for our revenue and profitability growth in the future.

In view of the uncertain economic environment, the Group will continue to adopt measures to protect its cashflow and strengthen our financial position. Stringent measures have been taken to control costs and control capital expenditure right across the whole operations and encouraging improvement in the gross margin of our manufacturing business has shown in the first few months of 2009. With our experienced management team, strong research and development capability and sound financial fundamentals, we believe that we are capable of overcome the external pressures and challenges amid the more uncertain global economic environment and we will continue with our best efforts for a successful year of 2009.

ACKNOWLEDGEMENTS

I would like to take this opportunity to express my gratitude to management, despite a most difficult environment, for their valuable input and critical analysis, all employees for their hard-working and our shareholders, customers and suppliers and bankers for their continued support and confidence in the Group.

Mak Shiu Tong, Clement
Chairman

Hong Kong, 21 April 2009

review of operations

During the period under review, the principal businesses of the Group are (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 business; (v) property development and holding; and (vi) the forestry resources business of CCT Resources.

TELECOM PRODUCT BUSINESS

The telecom product business is carried out by the Company's listed subsidiary, CCT Tech International Limited and its subsidiaries (the "CCT Tech Group").

The year 2008 was an extremely difficult year for every industry and business, especially for manufacturing industry. The financial turmoil originated from the housing and financial market in the U.S. has led to a severe global credit crunch and global economic downturn which has resulted in a recession in the developed economy.

Despite our efforts to further diversify customer base and mitigate market and customer risks, revenue of the telecom product business for the year ended 31 December 2008 still recorded a significant drop from approximately HK$3,374 million in 2007 to approximately HK$2,776 million in 2008, represented a drop of 17.7%, due to lower demand under economic downturn.

The Discontinuation did not have any significant effect on the turnover of the Group's telecom product business in 2008 as it only occurred in November last year. The customers of the Group comprise many major international distributors and operators and the U.S. Customer is only one of them. The Group's turnover derived from sales to the U.S. Customer for the year ended 31 December 2008 represents approximately 35.2% of the total turnover of the Group for the year ended 31 December 2008, compared with approximately 44.3% of the reclassified total turnover of the Group for the year ended 31 December 2007. The decrease in the relative proportion of sales to the U.S. Customer in 2008 reflects the success of our diversification strategy by reducing our reliance on any single customer. The Discontinuation is expected to have a direct negative impact on the Group's turnover for the future years commencing 1 January 2009. However, it is expected that the loss in turnover from the U.S. Customer will be partially offset by the expected growth in sales to customers in Europe and the Asian-Pacific regions. As the sales to the U.S. Customer were loss-making, the Discontinuation has enabled the Group to eliminate the loss-making U.S. business and this is expected to have a positive impact on the Group's performance for the future financial years commencing 1 January 2009. Due to the Discontinuation, certain production facilities of the Group have become under-utilised and the value of such under-utilised fixed assets and certain intangible assets relating to the business of the U.S. Customer has been impaired. Furthermore, the Group has incurred certain restructuring costs in order to cope with the Discontinuation. As a result, impairment losses and restructuring costs in the aggregate amount of HK$376 million have incurred associated with the Discontinuation and were charged to the Group's consolidated income statement for the year ended 31 December 2008.

Affected by the financial crisis, the sales orders from our customers slowed down in 2008 and as a result turnover decreased. High production costs especially in the first half of the year, fueled by high material costs, surge in labour costs and the appreciation of Renminbi against U.S. dollar, and the exceptional items related to the Discontinuation adversely affected the performance of the telecom product business. As a result, the telecom product business of the Group reported an operating loss of approximately HK$623 million for the year ended 31 December 2008, a significant increase of 210.0% as compared to an operating loss of approximately HK$201 million in the corresponding previous year. If the exceptional items are excluded, the loss of the Group's telecom product business in the second half of 2008 in fact showed a significant decrease of 29.7% from that in the first half of 2008, reflecting encouraging improvement in the operating performance of the telecom product business.

Against such uncertain conditions, the Group has taken decisive actions towards cost optimization. We have consolidated manufacturing operations, undergone capacity review and taken necessary actions in each location. In order to combat the adverse business environment, the Group has implemented a number of initiatives which include re-engineering of our products, and costs reduction and controls in order to improve our competitiveness and efficiency. Additional initiatives like (i) exploring new markets and expand its sales to Europe, the Middle East, the Asian Pacific Regions, and other countries outside North America; (ii) trimming down costs and overheads relating to non-performing business units; (iii) stringent control on capital expenditures and employee recruitments; and (iv) a salary reduction plan for senior management have been implemented. These measures have shown positive effect and as a result the gross margins in the second half of 2008 has improved from that in the first half.

These prudent moves have enabled the Group to rationalise both variable and fixed operational expenses at a lower level and to retain a sharper focus on its remaining production capacity. The exceptional loss and costs relating to the Discontinuation though have a short-term adverse impact on the Group's results for 2008, they will improve the cost structure and efficiency of the Group in the longer term.

Measures have been implemented to look right across the whole operations for ways to drive better efficiencies and lift productivity and these measures have gradually shown positive effect.

MANUFACTURING OF PLASTIC AND ELECTRONIC COMPONENTS

The Group's component business (including manufacture of plastic casing, power supply and transformers) mainly provides vertical support to its telecom product business. Some of the plastic component products are sold to independent third parties. Same as the telecom product business, the component business encountered similar business challenges and production issues like lower demand, high production costs and appreciation of Renminbi in 2008. In addition, due to the Discontinuation, certain production facilities of our component business have also became under-utilised and their value has impaired. As a result, the component business suffered a loss in 2008. Measures and actions have been taken by the Group to control costs and regain the competitiveness of its component business and encouraging signs have shown in the first few months of 2009 signaling the effectiveness of the Group's strategies to combat the operational challenges.

INFANT AND CHILD PRODUCT BUSINESS

Despite the adverse business environment, the Group's infant and child product business still reported an operating profit of approximately HK$8 million for the year ended 31 December 2008. The management was able to maintain profitability in the infant and child product business by taking measures to control costs and improve efficiency. We will continue to devote efforts to offer our customers high quality products at competitive prices. Although the financial tsunami on the global economy has badly affected global consumption, the demand of quality infant and child products is still high. We believe that the infant and child product business has excellent growth potential and will devote additional efforts and resources to develop new business opportunities.

SECURITIES BUSINESS

2008 is an unprecedented volatile year for global financial market. The turmoil in the credit market, triggered initially by a downturn in the U.S. housing market and associated failure of complicated financial products, finally led to a severe worldwide financial crisis. In response, global government authorities undertook massive fiscal stimulus and bailout measures combined with aggressive interest rate cuts to prevent a full-blown global financial meltdown. Under such adverse financial environment, the stock market in Hong Kong plummeted in 2008. The Hang Seng Index has fallen over 50% from its historical peak level in October 2007. As a result of the market downturn, the Group's securities business incurred a net realized loss of approximately HK$149 million and posted unrealized mark-to-market losses in the value of the listed shares and financial instruments of approximately HK$396 million for the year ended 31 December 2008. The Group, however, derived gains of HK$130 million from its securities business in 2007 due to buoyant stock market in that year.

Under such uncertain financial environment, the Group remained cautious in managing our investment portfolio during the year. As most of our investments in securities business are in H-shares and Hang Seng Index constituent stocks, we are confident that when the stock market in Hong Kong recovers in the future, the Group's securities will return to positive contribution and provide satisfactory returns in the following years.

PROPERTY DEVELOPMENT AND HOLDING BUSINESS

The financial tsunami that shattered the global financial market has also affected the PRC economy. Inside the PRC, negative factors such as deteriorating exports and imports, increasing unemployment and reducing foreign investments have posed significant challenges to the PRC real estate market. In 2008, the PRC real estate market experienced obvious slowdown in the pace of sales where both sales volume and average price fell. During the year under review, the Group disposed a piece of land in the PRC and recognised a gain on disposal of the property in the amount of approximately HK$6 million. The Group's property development projects are located in the Liaoning Province of the PRC where property price is relatively stable and whose real estate market still recorded growth in 2008. Under current uncertain market environment, the Group has adopted a conservative approach to the pace of project development and construction. We will develop the existing projects by phases in response to the market condition.

In line with the PRC government's effort to encourage domestic consumption as the main pillar of the economic growth going forward, the Group remains cautiously optimistic about the long- term outlook for the PRC economy. Underpinned by rapid urbanization, strong accumulation of wealth and a high savings rate in the PRC, the long-term outlook for the real estate market in China remains positive. We believe that the property development business will generate business growth and contribute satisfactory returns to the Group in the coming years.

With regard to our property holding in Hong Kong, the Group plans to hold certain properties for investment and dispose some of these properties as when opportunities arise. The properties held by the Group are luxury residential properties located in the prime residential areas in the southern side of the Hong Kong Island. Because of the scarcity of supply we believe the property holding business will generate satisfactory return as when the property market in Hong Kong recover in the future.

FORESTRY RESOURCES BUSINESS

The forestry project acquired by CCT Resources is huge in size and has excellent business potential. Despite the global economic downturn, the Group is still optimistic towards the long-term prospect of the forestry resources business. The PRC is still the world's largest wood consumer in terms of timber products. We believe that the forestry resources business is a high-growth business with huge potential and good future prospect.

Concrete business plans have been drawn up to develop the timber business. Experienced staff and workers have been hired. The timber operations are expected to start operations in the first half of 2009 and to generate revenue to CCT Resources in later part of this year.

directors and senior management

EXECUTIVE DIRECTORS

Mr. MAK Shiu Tong, Clement, aged 55, 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 32 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 chief executive officer and an executive director of CCT Tech, whose shares are listed on the main board of the Stock Exchange, and the chairman and an executive director of CCT Resources, whose shares are listed on the growth enterprise market of the Stock Exchange.

Mr. TAM Ngai Hung, Terry, aged 55, has served as an executive Director and the Group Finance Director since March 2001. Mr. Terry Tam was appointed as the deputy Chairman on 9 December 2005 and is also a member of the Remuneration Committee. Mr. Terry Tam is mainly responsible for the corporate finance and accounting function of the Group. Mr. Terry Tam has more than 31 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. Terry 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. He has previously held a number of senior positions in several listed companies. He is also an executive director of CCT Tech and CCT Resources, whose shares are listed on the main board and the growth enterprise market respectively of the Stock Exchange.

Ms. CHENG Yuk Ching, Flora, aged 55, 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 29 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 CCT Resources, whose shares are listed on the main board and the growth enterprise market respectively of the Stock Exchange.

Dr. William Donald PUTT, aged 71, 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 U.S.. Dr. Putt has over 36 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 U.S. 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 CCT Resources, 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 59, has served as an INED of the Company since December 1999. Mr. Kenny Tam is a member of the Audit Committee and the Remuneration Committee. Mr. Kenny 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. Kenny Tam is serving as a member of the Ethics Committee and the 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. He also serves as an INED of four other listed companies on the main board of the Stock Exchange, namely, Kingmaker Footwear Holdings Limited, Shougang Concord Grand (Group) Limited, Starlite 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. He was also an INED of Yun Sky Chemical (International) Holdings Limited, a company listed on the main board of the Stock Exchange, until his resignation on 4 September 2008.

Mr. LAU Ho Man, Edward, aged 54, 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 32 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. He was also an INED of CCT Resources (formerly known as Tradeeasy Holdings Limited), whose shares are listed on the growth enterprise market of the Stock Exchange, until his resignation on 25 April 2006.

Mr. CHEN Li, aged 44, 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, whose shares are listed on the main board of the Stock Exchange.

SENIOR MANAGEMENT

Mr. LI Man To, Feynman, aged 38, joined the Group in September 1999. Mr. Li serves as the Managing Director of the operating 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 Electronic Engineering Department in 1995. He has been in R&D of telecommunication field for more than 14 years with extensive engineering management experience. He is serving as a member of the Advisory Committee on Electronic Engineering of The Chinese University of Hong Kong.

Mr. LAI Lui Bor, aged 58, 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. Mr. Lai is responsible for the supervision of the manufacturing operations of the infant and child products business in China. Mr. Lai has more than 31 years of experience in the electronics manufacturing industry. Mr. Lai has a Degree in Mechanical Engineering.

SENIOR MANAGEMENT *(continued)*

Mr. MAN Chin Keung, Daniel, aged 45, 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 17 years of experience in the plastic injection industry.

Ms. LEE Kit Ying, Catherine, aged 39, 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 16 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 45, 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 38, joined the Company in October 1999. He currently holds the position of Group Financial Controller and is responsible for 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 44, joined the Company in December 2007. Mr. Lam currently holds the position of the 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	2008	2007	% increase/ (decrease)
Turnover	**2,935**	3,729	(21.3%)
Other income and gains	**42**	667	(93.7%)
Profit/(loss) from operation before exceptional items	**(908)**	414	N/A
Costs in connection with the Discontinuation and restructuring, net	**(376)**	—	N/A
Profit/(loss) before tax	**(1,284)**	414	N/A
Tax	**(5)**	(17)	(70.6%)
Profit/(loss) for the year	**(1,289)**	397	N/A
Profit/(loss) attributable to:			
— Equity holders of the parent	**(1,123)**	484	N/A
— Minority interests	**(166)**	(87)	90.8%
	(1,289)	397	N/A

DISCUSSION ON FINANCIAL RESULTS

The Group reported a turnover of approximately HK$2,935 million during the financial year 2008, which represents a decrease of approximately 21.3% over the corresponding year in 2007. The decrease in turnover is mainly attributable to the decrease in sales of the Group's telecom product business as a result of the contraction of global consumption, as affected by the financial tsunami.

Other income and gains amounted to approximately HK$42 million in 2008, substantially decreased by 93.7% from HK$667 million in 2007. The other income and gains in 2007 was mainly attributable to investment gains.

Due to the absence of any investment gains in 2008, the loss of the telecom product business, the charge of exceptional items associated with the Discontinuation and the substantial losses of its securities business in 2008, the Group's results turned from a profit of approximately HK$397 million in 2007 to a substantial loss of approximately HK$1,289 million in 2008.

The exceptional items associated with the Discontinuation represent impairment loss on certain under-utilised fixed assets and intangible assets and the restructuring costs relating to the business with the U.S. Customer. The losses of the Group's securities business represent the net realized loss from trading of listed shares and the unrealized mark-to-market losses in the value of the listed shares and financial instruments for the financial year 2008 due to the market downturn of the year.

ANALYSIS BY BUSINESS SEGMENT

	Turnover				
	2008		2007		
HK$ million	Amount	Relative %	Amount	Relative %	% increase/ (decrease)
Telecom product business	**2,776**	**94.6%**	3,374	90.5%	(17.7%)
Infant and child product business	**140**	**4.8%**	115	3.1%	21.7%
Securities business (gain/(loss))	**(149)**	**(5.1%)**	149	4.0%	N/A
Property development and holding	**123**	**4.2%**	4	0.1%	(2,975.0%)
Corporate and others	**45**	**1.5%**	87	2.3%	(48.3%)
Total	**2,935**	**100.0%**	3,729	100.0%	(21.3%)

	Operating profit/(loss) before finance costs and tax		
HK$ million	2008	2007	% increase/ (decrease)
Telecom product business	**(623)**	(201)	210.0%
Infant and child product business	**8**	9	(11.1%)
Securities business	**(555)**	130	N/A
Property development and holding	**(26)**	52	N/A
Corporate and others	**(69)**	423	N/A
Total	**(1,265)**	413	N/A

During the year, the telecom product business continued to be the principal business of the Group, accounting for 94.6% (2007: 90.5%) of the Group's total turnover. Turnover from the telecom product business declined by approximately 17.7% to HK$2,776 million in 2008, as compared to HK$3,374 million in 2007, due to the contraction of global consumption as affected by the financial tsunami. The telecom product business posted an operating loss of approximately HK$623 million for the year ended 31 December 2008, as compared to an operating loss of approximately HK$201 million in the previous corresponding year. The unsatisfactory results of the telecom product business was due to the combined effect of the reduced sales volume, high material and labour costs which affected the gross margins of the business, and the exceptional items related to the Discontinuation. The telecom product business has shown encouraging improvement in its operating performance as the operating loss before exceptional items in the second half of 2008 has reduced by 29.7% from that in the first half, signals a positive sign of the Group's efforts in reviving its manufacturing business.

Despite the adverse business environment, the turnover of our infant and child business segment reported an impressive growth from approximately HK$115 million in 2007 to approximately HK$140 million in 2008, up approximately 21.7%. Although the infant and child product business group remains small which accounted for only 4.8% (2007: 3.1%) of the Group's total turnover for the year ended 31 December 2008, it reported an operating profit of approximately HK$8 million in 2008. The satisfactory performance of the infant and child business segment is mainly due to successful efforts of the management to improve efficiency and control costs.

Net realised loss of HK$149 million for 2008 (net realised gain of HK$149 million for 2007) derived from securities business on a net basis was accounted for as "revenue" in the consolidated income statement to conform with the current year's presentation. The performance of the Group's securities business was seriously affected by the volatility and the downturn of the Hong Kong stock market in 2008 and as a result, the Group's securities business posted a substantial loss of HK$555 million, attributable to the net realized loss from trading of listed shares and the unrealized mark-to-market loss on the Group's investment in listed shares and financial instruments as at 31 December 2008. The securities business, however, posted a gain of approximately HK$130 million for 2007, attributable to gains and income from listed shares and equity-linked notes in the buoyant Hong Kong stock market in 2007.

The turnover of the property development and holding segment represent sale of property and rental income. This business segment incurred a loss of HK$26 million in 2008, mainly due to unrealized fair value loss on revaluation of investment properties. The profit of last year was mainly derived from disposal of a property.

Corporate and others segment represent head office income and administrative expenses. The gains in the corporate and others segment for 2007 included mainly the one-off investment gains made by the Group in 2007 but no investment gains were derived by the Group in 2008.

ANALYSIS BY GEOGRAPHICAL SEGMENT

	Turnover (including bank interest income)				
	2008		2007		% increase/
HK$ million	**Amount**	**Relative %**	Amount	Relative %	(decrease)
North America	**1,355**	**46.2%**	1,907	51.1%	(28.9%)
Europe	**1,180**	**40.2%**	1,183	31.7%	(0.3%)
Asia Pacific region	**400**	**13.6%**	639	17.2%	(37.4%)
Total	**2,935**	**100.0%**	3,729	100.0%	(21.3%)

In order to better reflect the geographical risks of the Group's sales, the geographical classification in the current year is prepared with reference to the final locations where the Group's products were sold to consumers instead of where the Group's customers were incorporated. The geographical segment information for the prior year has been reclassified to conform with the current year's presentation.

Turnover of each market segment dropped due to the decrease in customers' order stemming from diminishing customer's demand as a result of the financial turmoil. The North America was the largest market of the Group, accounting for approximately 46.2% (2007: 51.1%) of the Group's total turnover for the year ended 31 December 2008. The sale to the European market contributed approximately 40.2% (2007: 31.7%) of the Group's total turnover. The sale to the Asia Pacific region accounted for approximately 13.6% (2007: 17.2%) of the Group's turnover.

HIGHLIGHTS ON FINANCIAL POSITION AND MAJOR BALANCE SHEET ITEMS

HK$ million	31 December 2008	31 December 2007	% increase/ (decrease)
NON-CURRENT ASSETS			
Property, plant and equipment	**886**	1,287	(31.2%)
Investment properties	**171**	315	(45.7%)
Other intangible assets	**—**	32	(100.0%)
Interest in an associate	**229**	—	N/A
Available-for-sale financial assets	**4**	11	(63.6%)
CURRENT ASSETS			
Inventories	**135**	223	(39.5%)
Trade and bills receivable	**422**	718	(41.2%)
Property for development	**113**	—	N/A
Property held for sale	**87**	—	N/A
Financial assets at fair value through profit or loss	**446**	398	12.1%
Cash and cash equivalents	**786**	1,673	(53.0%)
CURRENT LIABILITIES			
Current interest-bearing bank loans and other borrowings	**351**	212	65.6%
EQUITY AND NON-CURRENT LIABILITIES			
Non-current interest-bearing bank loans and other borrowings	**124**	224	(44.6%)
Minority interests	**364**	550	(33.8%)
Equity attributable to shareholders' of the Company	**2,213**	3,225	(31.4%)

DISCUSSION ON FINANCIAL POSITION AND MAJOR BALANCE SHEET ITEMS

As at 31 December 2008, the balance of property, plant and equipment decreased significantly by approximately 31.2% to approximately HK$886 million, attributable mainly to depreciation of the fixed assets during the year and the impairment in the value of the under-utilised production facilities arisen from the Discontinuation.

Decrease in the investment properties from HK$315 million as at 31 December 2007 to HK$171 million as at 31 December 2008 was attributable to the disposal of a property during the year, the reclassification of an investment property to property held for sale due to a change of its use and unrealized fair value loss made for the investment properties during the year 2008.

Other intangible assets represented the carrying value of the capitalised deferred development costs relating to products developed and designed for the U.S. Customer. Due to the Discontinuation, the value of the capitalized deferred developments cost has impaired entirely. As a result, the capitalized deferred development costs brought forward in the amount of approximately HK$22 million was written off and was charged to the consolidated income statement of the Group for the year ended 31 December 2008.

The consideration of the acquisition by CCT Resources of the forest project in Indonesia was satisfied (i) by cash and (ii) by the MCL Convertible Bonds issued by CCT Resources to the vendor, Merdeka Commodities Limited. In consideration of the potential voting rights resulting from the exercise of the conversion rights attaching to the MCL Convertible Bonds, the Group's interest in CCT Resources was accounted for as an interest in an associate. Subsequent to 31 December 2008, due to the partial conversion of the MCL Convertible Bonds into shares of CCT Resources, the Group's shareholding interest in CCT Resources has been diluted to 48.34% as at the date of this report. The Group's interest in an associate as at 31 December 2008 of HK$229 million represents the Group's share of the net assets of the CCT Resources Group under the equity method of accounting.

Available-for-sale financial assets decreased by 63.6% to HK$4 million as at 31 December 2008, attributable to disposal of a club debenture during the year ended 31 December 2008.

As at 31 December 2008, inventories of the Group amounted to approximately HK$135 million, a drop of approximately 39.5% as compared to the balance as at 31 December 2007. The significant decrease in inventories is in line with the decrease in turnover of the Group and reflects improvement in inventory control during the year under review. Given the uncertain global business environment, the Group's inventories level was maintained at a reasonable low level.

As at 31 December 2008, trade and bills receivable of the Group dropped by approximately 41.2% to approximately HK$422 million. The reduction in trade and bills receivable is in line with the decrease in turnover of the Group and reflects good payment records of the Group's customers even during the financial turmoil.

Due to change of use of property, the Group reclassified an investment property from 2007 as property held for sale which had a carrying value of HK$87 million at the end of 2008.

Financial assets at fair value through profit or loss represented the fair value of the Group's investment in listed shares. The increase in value of the financial assets was due to additional investments of the securities business during the year under review.

Cash and cash equivalents decreased by 53.0% to HK$786 million as at 31 December 2008 mainly due to net cash outflow for the Group's operations and the subscription of the convertible bonds in the principal amount of HK$138.8 million issued by CCT Resources for the acquisition of the forest project.

Current interest-bearing bank and other borrowings increased due to additional bank borrowings raised in 2008 and re-classification of certain bank borrowings from non-current liability to current liability.

Decrease in minority interests was mainly due to the sharing of loss of the CCT Tech Group for 2008 by the minority shareholders of CCT Tech.

Shareholders' funds decreased from HK$3,225 million as at 31 December 2007 to HK$2,213 million as at 31 December 2008, due to the loss attributable to the equity shareholders of the Company for the year ended 31 December 2008.

CAPITAL STRUCTURE AND GEARING RATIO

	31 December 2008		31 December 2007	
HK$ million	**Amount**	**Relative %**	Amount	Relative %
Bank loans	**470**	**17.5%**	385	10.5%
Convertible bonds (liability component)	**–**	**–**	43	1.2%
Finance lease payable	**5**	**0.2%**	8	0.2%
Total borrowings	**475**	**17.7%**	436	11.9%
Equity	**2,213**	**82.3%**	3,225	88.1%
Total capital employed	**2,688**	**100.0%**	3,661	100.0%

The Group's gearing ratio increased to approximately 17.7% as at 31 December 2008 from 11.9% as at 31 December 2007 as a result of new bank loans raised by the Group and the decrease in equity due to loss of the year. Although the gearing ratio increased, it is still maintained at a low level. After taking into account the cash on hand, the Group did not have any net borrowings and in fact had a positive net cash balance (net of borrowings) of approximately HK$400 million.

Outstanding bank borrowings amounted to HK$470 million at 31 December 2008 (31 December 2007: HK$385 million). Approximately 73.8% 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 26.2% of the bank borrowings was of long-term nature, principally comprised of mortgage loans on properties held by the Group.

Acquisition of certain assets of the Group was financed by way of finance leases and the total outstanding finance lease payable as at 31 December 2008 amounted to approximately HK$5 million (31 December 2007: HK$8 million).

As at 31 December 2008, the maturity profile of the bank and other borrowings 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$351 million, HK$85 million and HK$39 million respectively (31 December 2007: HK$212 million, HK$163 million and HK$61 million respectively). All the Group's bank borrowings were borrowed to finance the ordinary business of the Group. There is no material effect of seasonality on the Group's borrowing requirements.

LIQUIDITY AND FINANCIAL RESOURCES

HK$ million	**31 December 2008**	31 December 2007
Current assets	**2,334**	3,538
Current liabilities	**1,189**	1,456
Current ratio	**196%**	243%

The current ratio of the Group changed from 243% as at 31 December 2007 to 196% as at 31 December 2008, reflecting a very healthy liquidity position even during the financial turmoil. Due to funds used for businesses and operations of the Group, the Group's cash balance reduced from HK$1,923 million as at 31 December 2007 to HK$875 million as at 31 December 2008, of which HK$89 million (31 December 2007: HK$250 million) was pledged for general banking facilities. Almost all of the Group's cash was placed on deposits with licensed banks in Hong Kong.

In view of the substantial level of the Group's cash and bank balances, funds generated internally from the Group's operations and the unutilized banking facilities available, the Board is confident that Group will have sufficient resources to meet its debt repayment and finance its operations during the financial turmoil.

CAPITAL COMMITMENTS

As at 31 December 2008, the capital commitment of the Group was approximately HK$208 million (2007: HK$79 million). The capital commitment will be funded partly by internal resources and partly by bank borrowings.

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 2008, the Group's receipts were mainly denominated in U.S. dollars, with some in Hong Kong dollars and the Euro. Payments were mainly made in Hong Kong dollars, U.S. 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 U.S. dollars. As at 31 December 2008, the Group's borrowings were mainly denominated in Hong Kong dollars and U.S. dollars. As at 31 December 2008, 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 U.S. dollar in terms of receipts and the Renminbi in terms of the production costs (including mainly wages and overhead) in China. For U.S. dollar exposure, since the Hong Kong dollar remains pegged to the U.S. dollar, the exchange fluctuation is not expected to be significant. Above all, as most of the Group's purchases are also made in U.S. dollars, which are to be paid out of our sales receipts in U.S. dollars, the management considers that the foreign exchange exposure risk for the U.S. dollar is not material.

For Renminbi exposure, as our wages and overheads in our factories in China are paid in Renminbi, our production costs may be increased by the possible further appreciation of Renminbi. The Group will continue to explore ways and methods to hedge future appreciation of Renminbi and will only consider to enter into any forward contracts at appropriate costs and pricing.

ACQUISITION AND DISPOSAL OF MATERIAL SUBSIDIARIES AND ASSOCIATES

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

SIGNIFICANT INVESTMENT

Save as the investment in CCT Resources, the Group did not hold any significant investment as at 31 December 2008 (31 December 2007: Nil).

PLEDGE OF ASSETS

As at 31 December 2008, certain of the Group's assets with a net book value of HK$714 million (31 December 2007: HK$804 million) and time deposits of HK$89 million (31 December 2007: HK$250 million) were pledged to secure the general banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

The total number of employees of the Group as at 31 December 2008 was 10,943 (31 December 2007: 16,278). 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 2008, there were no outstanding share options issued 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

PRINCIPAL BANKERS
Nanyang Commercial Bank, Limited
Wing Hang Bank Limited

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
138

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 2008, 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.

CORPORATE GOVERNANCE PRACTICES *(continued)*

Code Provision A.4.2 *(continued)*

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.

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 2008.

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;

THE BOARD *(continued)*

— 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;

— 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 2008, the Board held 30 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		28/30
Tam Ngai Hung, Terry		30/30
Cheng Yuk Ching, Flora		30/30
William Donald Putt		21/30
Tam King Ching, Kenny		24/30
Lau Ho Man, Edward		24/30
Chen Li	*(Appointed on 5 February 2008)*	17/30
Samuel Olenick	*(Resigned on 5 February 2008)*	3/30

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

During the financial year under review, Mr. Chen Li 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.

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. 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.

The Company has received annual confirmation of independence from the INEDs of the Company 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 2008. 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 2008 consisted of five members comprising three INEDs and two executive directors. As at 1 January 2008, the three INEDs of the Company were Mr. Lau Ho Man, Edward, Mr. Tam King Ching, Kenny and Mr. Samuel Olenick, and the two executive Directors were 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 2008, the Remuneration Committee held one meeting. The attendance of the members of the Remuneration Committee at the Remuneration Committee's meeting (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		1/1
Lau Ho Man, Edward		1/1
Chen Li	*(Appointed on 5 February 2008)*	0/1
Mak Shiu Tong, Clement		1/1
Tam Ngai Hung, Terry		1/1
Samuel Olenick	*(Resigned on 5 February 2008)*	1/1

BOARD COMMITTEES *(continued)*

Remuneration of the Directors *(continued)*

For the financial year ended 31 December 2008, the Remuneration Committee met on one occasion 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 9 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 2008 consisted of three members comprising three INEDs. As at 1 January 2008, the three INEDs of the Company were Mr. Lau Ho Man, Edward, Mr. Tam King Ching, Kenny 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 2008, 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
Chen Li	*(Appointed on 5 February 2008)*	2/4
Samuel Olenick	*(Resigned on 5 February 2008)*	1/4

In 2008, 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 2008, 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 six-month period ended 30 June 2008 and the annual results for the year ended 31 December 2008 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, Mr. Chen Li was appointed as an INED of the Company on 5 February 2008 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 2008, 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	5,200
Non-audit services:	
Tax compliance services	243
Other services	1,934
Total	7,377

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 2008.

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 business and property holding and development. Other than the disposal of the business of provision of e-commerce services during the year, there were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 40 to 116.

An interim dividend of HK$0.025 per ordinary share was paid on 22 October 2008.

The directors recommend the payment of a final dividend of HK$0.030 (2007: HK$0.030) per ordinary share in respect of the year to shareholders on the register of members of the Company on 2 June 2009 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 distributable reserve 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 117. 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 15 and 16 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 37 and 35 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 39(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda, amounted to HK$1,713 million, of which HK$20 million has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$125 million, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$6 million (2007: HK$7 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	
	2008	2007	**2008**	2007
Largest customer	**35%**	47%		
Five largest customers in aggregate	**76%**	82%		
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, Ms. Cheng Yuk Ching, Flora and Dr. William Donald Putt 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 9 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 with one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

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 2008, 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 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 2008, 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 as at 31 December 2008

Long positions in the Shares:

Name of the Director	Number of the Shares interested and nature of interest Personal	Family	Corporate	Total	Approximate percentage of the total issued share capital (%)
Mak Shiu Tong, Clement (Note 1)	715,652	—	294,775,079	295,490,731	34.62
Tam Ngai Hung, Terry	500,000	—	—	500,000	0.06
Cheng Yuk Ching, Flora (Note 2)	14,076,713	160,000	—	14,236,713	1.67
William Donald Putt	591,500	—	—	591,500	0.07
Samuel Olenick *(resigned on 5 February 2008)*	—	—	545,000	545,000	0.06

Notes:

1. Included in the shareholdings in which Mr. Mak Shiu Tong, Clement was interested, 294,775,079 Shares were held by Capital Force International Limited, New Capital Industrial Limited and Capital Winner Investments Limited, all of which are corporations wholly-owned by him, his spouse and his two sons. Mr. Mak Shiu Tong, Clement is deemed to be interested in such Shares under the SFO as he is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Capital Force International Limited, New Capital Industrial Limited and Capital Winner Investments Limited.

2. 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.

DIRECTORS' INTERESTS *(continued)*

(b) Interests and short positions in the shares and the underlying shares of an associated corporation — CCT Tech as at 31 December 2008

Long positions in the shares of CCT Tech:

Name of the Director	Number of the shares interested and nature of interest Personal	Corporate	Total	Approximate percentage of the total issued share capital (%)
Mak Shiu Tong, Clement (Note)	120,000,000	33,026,391,124	33,146,391,124	50.67
Tam Ngai Hung, Terry	20,000,000	—	20,000,000	0.03
Cheng Yuk Ching, Flora	18,000,000	—	18,000,000	0.03
Chen Li	10,000,000	—	10,000,000	0.02

Note: Included in the shareholdings in which Mr. Mak Shiu Tong, Clement was interested, 33,026,391,124 shares of CCT Tech were held by the Company through its indirect wholly-owned subsidiaries. Mr. Mak Shiu Tong, Clement is deemed to be interested in such shares of CCT Tech under the SFO as he is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of the Company.

(c) Interests and short positions in the shares and the underlying shares of the share options of an associated corporation — CCT Resources as at 31 December 2008

(i) Long positions in the shares of CCT Resources:

Name of the Director	Number of the shares interested and nature of interest Personal	Corporate	Total	Approximate percentage of the total issued share capital (%)
Mak Shiu Tong, Clement (Note)	19,344,000	2,031,764,070	2,051,108,070	64.03
Tam Ngai Hung, Terry	7,500,000	—	7,500,000	0.23

Note: Included in the shareholdings in which Mr. Mak Shiu Tong, Clement was interested, 2,031,764,070 shares of CCT Resources were held by the Company through its wholly-owned subsidiary. Mr. Mak Shiu Tong, Clement is deemed to be interested in such shares of CCT Resources under the SFO as he is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of the Company.

DIRECTORS' INTERESTS *(continued)*

(c) Interests and short positions in the shares and the underlying shares of the share options of an associated corporation — CCT Resources as at 31 December 2008 *(continued)*

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

Name of the Director	Date of grant of the share options	Exercise period of the share options	Exercise price per share	Number of the share options outstanding	Number of the total underlying shares	Approximate percentage of the total issued share capital
			HK$			(%)
Mak Shiu Tong, Clement	14/8/2006	14/8/2006 – 13/8/2011	0.038	22,500,000	22,500,000	0.70
Tam Ngai Hung, Terry	14/8/2006	14/8/2006 – 13/8/2011	0.038	18,000,000	18,000,000	0.56
Cheng Yuk Ching, Flora	14/8/2006	14/8/2006 – 13/8/2011	0.038	5,000,000	5,000,000	0.16
William Donald Putt	14/8/2006	14/8/2006 – 13/8/2011	0.038	5,000,000	5,000,000	0.16

Save as disclosed above, as at 31 December 2008, 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

Save as disclosed 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 2008, the following persons (other than the Directors or the chief executive of the Company) 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:

Long positions in the Shares as at 31 December 2008:

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	11.35
New Capital Industrial Limited (Note)	171,357,615	20.07

Note: Capital Force International Limited and New Capital Industrial Limited are corporations wholly-owned by Mr. Mak Shiu Tong, Clement, his spouse and his two sons. Mr. Mak Shiu Tong's interest in such Shares has also been disclosed under the section headed "Directors' Interests" above.

Save as disclosed above, as at 31 December 2008, 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 2008 have been audited by Messrs. Ernst & Young, who will 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
21 April 2009

independent auditors' report

ERNST & YOUNG
安 永

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 40 to 116, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 2008 and of the Group's loss 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
21 April 2009

consolidated income statement

Year ended 31 December 2008

HK$ million	Notes	2008	2007
REVENUE	5	**2,935**	3,729
Cost of sales		**(3,066)**	(3,441)
Gross profit/(loss)		**(131)**	288
Other income and gains		**42**	667
Selling and distribution costs		**(45)**	(56)
Administrative expenses		**(303)**	(324)
Other expenses		**(432)**	(118)
Finance costs	8	**(24)**	(43)
Share of loss of an associate		**(15)**	—
		(908)	414
Costs in connection with the Discontinuation and restructuring, net	6	**(376)**	—
PROFIT/(LOSS) BEFORE TAX	7	**(1,284)**	414
Tax	11	**(5)**	(17)
PROFIT/(LOSS) FOR THE YEAR		**(1,289)**	397
Profit/(loss) attributable to:			
Equity holders of the parent	12	**(1,123)**	484
Minority interests		**(166)**	(87)
		(1,289)	397
DIVIDENDS	13		
Paid interim		**21**	20
Proposed final		**20**	24
Total		**41**	44
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic		**(HK$1.36)**	HK$0.61
Diluted		**N/A**	HK$0.57

consolidated balance sheet

31 December 2008

HK$ million	Notes	2008	2007
NON-CURRENT ASSETS			
Property, plant and equipment	15	**886**	1,287
Investment properties	16	**171**	315
Prepaid land lease payments	17	**213**	219
Other intangible assets	18	**—**	32
Goodwill	19	**55**	55
Interest in an associate	21	**229**	—
Available-for-sale financial assets	22	**4**	11
Deferred tax assets	36	**1**	2
Total non-current assets		**1,559**	1,921
CURRENT ASSETS			
Inventories	23	**135**	223
Property for development	24	**113**	—
Property held for sale	25	**87**	—
Trade and bills receivables	26	**422**	718
Prepayments, deposits and other receivables	27	**256**	276
Financial assets at fair value through profit or loss	28	**446**	398
Pledged time deposits	29	**89**	250
Cash and cash equivalents	29	**786**	1,673
Total current assets		**2,334**	3,538
CURRENT LIABILITIES			
Trade and bills payables	30	**551**	851
Tax payable		**29**	31
Other payables and accruals	31	**211**	300
Derivative financial instruments	32	**47**	62
Interest-bearing bank and other borrowings	33	**351**	212
Total current liabilities		**1,189**	1,456
NET CURRENT ASSETS		**1,145**	2,082
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,704**	4,003

HK$ million	Notes	2008	2007
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,704**	4,003
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	33	**124**	224
Deferred tax liabilities	36	**3**	4
Total non-current liabilities		**127**	228
Net assets		**2,577**	3,775
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	37	**85**	80
Reserves	39(a)	**2,108**	3,121
Proposed final dividend	13	**20**	24
		2,213	3,225
Minority interests		**364**	550
Total equity		**2,577**	3,775

Mak Shiu Tong, Clement
Chairman

Tam Ngai Hung, Terry
Director

consolidated statement of changes in equity

Year ended 31 December 2008

HK$ million	Notes	Attributable to equity holders of the parent												
		Issued capital	Share premium account	Capital reserve (Note 39(a))	Distributable reserve	Investment revaluation reserve	Equity component of convertible bonds	Share option reserve	Exchange fluctuation reserve	Retained profits/ (accumulated loss)	Proposed final dividend	Total	Minority interests	Total equity
At 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 paid		–	–	–	–	–	–	–	–	–	(20)	(20)	–	(20)
2007 interim dividend	13	–	–	–	–	–	–	–	–	(20)	–	(20)	–	(20)
Proposed 2007 final dividend	13	–	–	–	–	–	–	–	–	(24)	24	–	–	–
At 31 December 2007 and 1 January 2008		80	77*	745*	1,417*	1*	10*	3*	19*	849*	24	3,225	550	3,775
Exchange realignment		–	–	–	–	–	–	–	33	–	–	33	–	33
Total income and expense recognised directly in equity		–	–	–	–	–	–	–	33	–	–	33	–	33
Loss for the year		–	–	–	–	–	–	–	–	(1,123)	–	(1,123)	(166)	(1,289)
Total income and expense for the year		–	–	–	–	–	–	–	33	(1,123)	–	(1,090)	(166)	(1,256)
Deemed disposal of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	(21)	(21)
Deemed disposal of interest in a subsidiary upon exercise of share options in the subsidiary		–	–	–	–	–	–	(1)	–	–	–	(1)	1	–
Share of reserve of an associate		–	–	–	–	–	86	–	(5)	–	–	81	–	81
Issue of new shares upon conversion of convertible bonds	35	5	48	–	–	–	(10)	–	–	–	–	43	–	43
2007 final dividend paid		–	–	–	–	–	–	–	–	–	(24)	(24)	–	(24)
2008 interim dividend	13	–	–	–	–	–	–	–	–	(21)	–	(21)	–	(21)
Proposed 2008 final dividend	13	–	–	–	(20)	–	–	–	–	–	20	–	–	–
At 31 December 2008		85	125*	745*	1,397*	1*	86*	2*	47*	(295)*	20	2,213	364	2,577

* These reserve accounts comprise the consolidated reserves of HK$2,108 million (2007: HK$3,121 million) in the consolidated balance sheet.

consolidated cash flow statement

Year ended 31 December 2008

HK$ million	Notes	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(1,284)**	414
Adjustments for:			
Finance costs	8	**24**	43
Share of loss of an associate		**15**	—
Interest income	5	**(21)**	(98)
Depreciation	7	**140**	135
Equity-settled share option expense		**—**	12
Amortisation of prepaid land lease payments	7	**6**	6
Impairment of goodwill	7	**—**	25
Amortisation of deferred expenditure	7	**24**	36
Net impairment of trade receivables	7	**48**	22
Write-off of other receivables	7	**1**	6
Write-off and impairment of deferred development costs	7	**35**	14
Write-off and impairment of items of property, plant and equipment	7	**320**	14
Gain on disposal of available-for-sale financial assets	7	**(3)**	—
Loss on disposal of items of property, plant and equipment, net	7	**1**	—
Fair value (gain)/loss on investment properties	7	**20**	(19)
Gain on disposal of an investment property	7	**—**	(34)
Gain on partial disposal of subsidiaries	7	**—**	(456)
Gain on derecognition of derivative financial instrument	7	**—**	(71)
Write-down of inventories to net realisable value	7	**17**	14
Fair value loss/(gain) on financial assets at fair value through profit or loss	7	**402**	(18)
Gain on deemed disposal of interest in a subsidiary upon exercise of share options in the subsidiary	7	**—**	(21)
Gain on deemed disposal of interest in a subsidiary upon placement of shares by the subsidiary	7	**—**	(21)
Fair value (gain)/loss on derivative financial instruments	7	**(6)**	36
		(261)	39
(Increase)/decrease in inventories		**71**	(4)
Decrease in trade and bills receivables		**247**	97
Increase in prepayments, deposits and other receivables		**(97)**	(240)
Increase/(decrease) in trade and bills payables and other payables and accruals		**(300)**	88
Cash used in operations		**(340)**	(20)
Interest received		**21**	98
Interest paid		**(24)**	(26)
Hong Kong profits tax paid		**(3)**	(1)
PRC tax paid		**(4)**	(7)
Net cash inflow/(outflow) from operating activities		**(350)**	44

HK$ million	Notes	2008	2007
Net cash inflow/(outflow) from operating activities		**(350)**	44
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(78)**	(205)
Proceeds from disposal of items of property, plant and equipment		**14**	5
Proceeds from disposal of investment properties		**37**	228
Proceeds from disposal of available-for-sale financial assets		**10**	—
Additions to intangible assets		**(27)**	(36)
Proceeds from partial disposal of subsidiaries		**—**	748
Decrease in a long term receivable		**—**	312
Proceeds from disposal of held-to-maturity financial assets		**—**	2
Net purchases of financial assets at fair value through profit or loss		**(532)**	(154)
Increase/(decrease) in derivative financial instruments		**(9)**	26
Deemed disposal of subsidiaries	40	**(31)**	—
Subscription of convertible bonds issued by an associate		**(139)**	—
Decrease/(increase) in pledged time deposits		**161**	(162)
Net cash inflow/(outflow) from investing activities		**(594)**	764
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares by/subscription of shares in subsidiaries		**—**	101
New bank loans		**173**	116
New trust receipts loans, net		**50**	19
Repayment of bank loans		**(138)**	(200)
Capital element of finance lease rental payments		**(3)**	(6)
Dividends paid		**(45)**	(40)
Net cash (outflow)/inflow from financing activities		**37**	(10)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(907)**	798
Cash and cash equivalents at beginning of year		**1,673**	865
Effect of foreign exchange rate changes, net		**20**	10
CASH AND CASH EQUIVALENTS AT END OF YEAR		**786**	1,673
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	29	**633**	564
Non-pledged time deposits with original maturity of less than three months when acquired	29	**153**	1,109
		786	1,673

balance sheet

31 December 2008

HK$ million	Notes	2008	2007
NON-CURRENT ASSETS			
Property, plant and equipment	15	**1**	2
Interests in subsidiaries	20	**721**	1,374
Total non-current assets		**722**	1,376
CURRENT ASSETS			
Due from subsidiaries	20	**1,051**	699
Prepayments, deposits and other receivables	27	**–**	1
Cash and cash equivalents	29	**154**	794
Total current assets		**1,205**	1,494
CURRENT LIABILITIES			
Other payables and accruals	31	**4**	7
Total current liabilities		**4**	7
NET CURRENT ASSETS		**1,201**	1,487
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,923**	2,863
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	**–**	43
Total non-current liabilities		**–**	43
Net assets		**1,923**	2,820
EQUITY			
Issued capital	37	**85**	80
Reserves	39(b)	**1,818**	2,716
Proposed final dividend	13	**20**	24
Total equity		**1,923**	2,820

Mak Shiu Tong, Clement
Chairman

Tam Ngai Hung, Terry
Director

notes to financial statements

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;
- investment in securities; and
- development and holding of properties.

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, available-for-sale financial assets and financial assets at fair value through profit or loss, which have been measured at fair value. Property held for sale is stated at the lower of its carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest million (HK$ million) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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 interpretations and amendments to 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 interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*
HK (IFRIC)-Int 11	*HKFRS 2 — Group and Treasury Share Transactions*
HK (IFRIC)-Int 12	*Service Concession Arrangements*
HK (IFRIC)-Int 14	*HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

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

(b) HK (IFRIC)-Int 11 *HKFRS 2 — Group and Treasury Share Transactions*

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 buys 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 currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(c) HK (IFRIC)-Int 12 *Service Concession Arrangements*

HK (IFRIC)-Int 12 applies to service concession operators and explains how to account for the obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK (IFRIC)-Int 14 *HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

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

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*[2]
HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*[1]
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*[2]

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

HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[2]
HK (IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK (IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement — Embedded Derivatives*[3]
HK (IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK (IFRIC)-Int 15	*Agreements for the Construction of Real Estate*[1]
HK (IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*[4]
HK (IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners*[2]
HK (IFRIC)-Int 18	*Transfer of Assets from Customers*[5]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

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

2 Effective for annual periods beginning on or after 1 July 2009

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

4 Effective for annual periods beginning on or after 1 October 2008

5 Effective for transfers of assets from customers received on or after 1 July 2009

* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

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 7 Amendments, HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and HKAS 23 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

HKFRS 3 (Revised) introduces 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.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control 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 revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows,* HKAS 12 *Income Taxes,* HKAS 21 *The Effects of Changes in Foreign Exchange Rates,* HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures.*

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

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

The HKFRS 7 Amendments require enhanced disclosure about fair value measurement and liquidity risk. The Group expects to adopt the HKFRS 7 Amendments from 1 January 2009.

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 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt HKAS 1 (Revised) from 1 January 2009.

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. In accordance with the transitional provisions in the revised standard, the Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Associates

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

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 2008. 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.

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 an 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 an impairment loss is credited to the income statement in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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:

Leasehold land and 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%

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 least 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

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.

Properties for development

Properties for development are intended to be held for sale after completion.

Properties for development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties for development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties, deferred tax assets, and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

Leases

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

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 policies 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Assets carried at amortised cost (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

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

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 38 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates 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 and associates 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 the sale of investments, on the transaction dates when the relevant contract notes are exchanged, or the settlement dates when the securities are delivered;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

(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;

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

(g) from the sale of properties, when the risks and rewards of ownership of the properties are transferred to the purchasers, that is when the properties have been delivered to the purchasers pursuant to the sale agreement, and the collectibility of related receivables is reasonably assured.

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.

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, based on an evaluation of the terms and conditions of the arrangements, 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.

Classification of investment in CCT Resources Holdings Limited as interest in an associate

The Group has determined that upon the issuance of the convertible bonds by CCT Resources Holdings Limited ("CCT Resources"), a former non-wholly-owned subsidiary of the Group, to Merdeka Commodities Limited (an independent third party to the Group and CCT Resources) (the "MCL Convertible Bonds") for the acquisition of a forestry project in Papua, Indonesia on 12 August 2008, in consideration of the effect of all potential voting rights of the MCL Convertible Bonds, the Group ceased to be in a position to exercise control over the financial and operating policies of CCT Resources, notwithstanding that the Group's shareholding in CCT Resources was 63.43% as at 31 December 2008. Accordingly, the Group's interest in CCT Resources was ceased to be accounted for as a subsidiary and was reclassified to interest in an associate.

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

Judgements *(continued)*

Classification between investment properties and property held for sale

The Group has determined whether a property qualifies as property held for sale, and has developed criteria in making that judgement. Property held for sale is a property whose carrying value will be recovered principally through a sales transaction rather than through continuing use. The property which qualifies as property held for sale should be available for immediate sale in its present condition and its sale should be highly probable and the management should have committed to a plan to sell the property.

Judgement is made on an individual property basis to determine whether the property is classified as property held for sale.

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 2008 was HK$55 million (2007: HK$55 million). More details are given in note 19.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

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. An impairment loss of HK$29 million (2007: Nil) was recognised during the year because management determines that it is uncertain whether the deferred development costs capitalised could generate future economic benefit for the Group.

An impairment loss of HK$310 million (2007: Nil) was recognised for items of property, plant and equipment during the year because management determines that the items of property, plant and equipment could not generate future economic benefit for the Group. Further details are given in note 15 to the financial statements.

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

Estimation uncertainty *(continued)*

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.

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 2008 was HK$1 million (2007: HK$2 million). The amount of unrecognised tax losses at 31 December 2008 was HK$826 million (2007: HK$202 million). Further details are contained in note 36 to the financial statements.

Costs in connection with the Discontinuation and restructuring

Costs in connection with the Discontinuation and restructuring are recognised for all costs, provision and impairment losses in connection with the Discontinuation and restructuring. Determining the amount to be recognised requires significant management judgement and requires managements to make assumptions regarding the expected future cash generation of the Group. Total costs of HK$376 million (2007: Nil) was recognised during the year. Further details are contained in note 6 to the financial statements.

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 business segment engages in the trading in securities and the holding of securities and treasury products;

(d) the property development and holding segment engages in holding of property 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 final location where the Group's products were sold to consumers, and assets are attributed to the segments based on the location of the assets.

(a) Business segments

The following tables present revenue and profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

	Telecom and electronic products		Infant and child products		Securities business		Property development and holding		Corporate and others		Consolidated	
HK$ million	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Segment revenue:												
Sales to external customers	**2,776**	3,374	**140**	115	**(149)**	149	**123**	4	**25**	43	**2,915**	3,685
Other revenue	**30**	18	**2**	2	**—**	—	**—**	—	**10**	1	**42**	21
	2,806	3,392	**142**	117	**(149)**	149	**123**	4	**35**	44	**2,957**	3,706
Segment results	**(623)**	(201)	**8**	9	**(555)**	130	**(26)**	52	**(69)**	423	**(1,265)**	413
Interest income											**20**	44
Finance costs											**(24)**	(43)
Share of loss of an associate											**(15)**	—
Profit/(loss) before tax											**(1,284)**	414
Tax											**(5)**	(17)
Profit/(loss) for the year											**(1,289)**	397

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

HK$ million	Telecom and electronic products 2008	Telecom and electronic products 2007	Infant and child products 2008	Infant and child products 2007	Securities business 2008	Securities business 2007	Property development and holding 2008	Property development and holding 2007	Corporate and others 2008	Corporate and others 2007	Consolidated 2008	Consolidated 2007
Segment assets	**2,190**	2,970	**65**	83	**447**	845	**724**	554	**237**	1,005	**3,663**	5,457
Interest in an associate											**229**	—
Unallocated assets											**1**	2
Total assets											**3,893**	5,459
Segment liabilities	**739**	1,023	**15**	23	**47**	107	**1**	3	**7**	57	**809**	1,213
Unallocated liabilities											**507**	471
Total liabilities											**1,316**	1,684
Other segment information:												
Capital expenditure	**72**	244	**11**	2	**—**	—	**2**	3	**20**	3	**105**	252
Depreciation	**136**	130	**2**	2	**—**	—	**—**	—	**2**	4	**140**	136
Amortisation	**30**	41	**—**	—	**—**	—	**—**	—	**—**	1	**30**	42
Impairment losses recognised directly in the income statements	**380**	—	**—**	—	**—**	—	**—**	—	**11**	25	**391**	25
Fair value loss/(gain) on derivative financial instruments	**—**	—	**—**	—	**(6)**	36	**—**	—	**—**	—	**(6)**	36
Other non-cash expenses	**9**	54	**—**	—	**—**	—	**—**	—	**5**	16	**14**	70
Fair value gain/(loss) on investment properties	**—**	—	**—**	—	**—**	—	**(20)**	19	**—**	—	**(20)**	19
Gain on disposal of an investment property	**—**	—	**—**	—	**—**	—	**—**	34	**—**	—	**—**	34
Gain on disposal of available-for-sale financial assets	**—**	—	**3**	—	**—**	—	**—**	—	**—**	—	**3**	—
Fair value gain/(loss) on financial assets at fair value through profit or loss	**—**	—	**—**	—	**(402)**	18	**—**	—	**—**	—	**(402)**	18
Gain on deemed disposal of interests in subsidiaries	**—**	—	**—**	—	**—**	—	**—**	—	**—**	42	**—**	42
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 2008 and 2007.

Group

	North America		Europe		Asia Pacific		Consolidated	
HK$ million	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Segment revenue:								
Sales to external customers	**1,355**	1,907	**1,180**	1,183	**380**	595	**2,915**	3,685
Other revenue	**—**	—	**—**	—	**42**	21	**42**	21
Total revenue	**1,355**	1,907	**1,180**	1,183	**422**	616	**2,957**	3,706

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, net realised gain or loss from securities investment (which includes dividend income), gross proceeds from sale of properties and rental income from investment properties.

Revenue from the following activities has been included in turnover:

HK$ million	**2008**	2007
Revenue		
Manufacture and sale of telecom and electronic products	**2,776**	3,374
Manufacture and sale of infant and child products	**140**	115
Realised gain/(loss) from securities investment, net (note)	**(150)**	101
Sale of a property	**122**	—
Provision of e-commerce services	**25**	43
Rental income from investment properties (note 7)	**1**	4
Interest income from held-to-maturity financial assets and financial assets at fair value through profit or loss	**1**	48
Bank interest income	**20**	44
	2,935	3,729

Note:

The Group's gross proceeds from the sale of financial assets at fair value through profit or loss and the corresponding cost were separately shown and included in "Revenue" and "Cost of sales" respectively in the prior year's consolidated income statement. During the current year, the Group changed its presentation,as it is more appropriate to account the net realised gain/loss from the sale of financial assets at fair value through profit or loss on a net basis as "Revenue" in the consolidated income statement.

6. COSTS IN CONNECTION WITH THE DISCONTINUATION AND RESTRUCTURING, NET

During the year, the holding company of a distribution company in the United States of America (the "U.S. Customer") announced its decision to exit with immediate effect its retail telephony activities in North America which were then carried on by the U.S. Customer ("the Discontinuation"). The U.S. Customer is the largest single customer of the Group for the year. As a result of the Discontinuation, certain production facilities of the Group become under utilised. In order to improve its competitiveness, the Group had implemented measures to streamline and restructure its operations. Details of the Discontinuation and restructuring are set out in the announcements of the Company dated 6 November 2008 and 15 January 2009.

The costs incurred and accrued as at 31 December 2008 in connection with the Discontinuation and restructuring are summarised below:

HK$ million	Note	2008
Impairment of items of property, plant and equipment	15	310
Impairment of deferred development costs		22
Redundancy costs and severance payments		27
Other related losses		17
		376

7. PROFIT/(LOSS) BEFORE TAX

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

		Group	
HK$ million	Notes	2008	2007
Cost of inventories sold		2,921	3,408
Depreciation	15	140	136
Less: Amount capitalised in deferred development costs		–	(1)
		140	135
Amortisation of prepaid land lease payments	17	6	6
Minimum lease payments under operating leases in respect of land and buildings		14	12
Research and development costs:			
Deferred expenditure amortised*	18	24	36
Current year expenditure		87	76
Impairment of goodwill **	19	–	25
Auditors' remuneration		5	7

7. PROFIT/(LOSS) BEFORE TAX *(continued)*

HK$ million	Notes	Group 2008	2007
Employee benefits expense (excluding directors' remuneration — note 9):			
Wages and salaries		**472**	477
Equity-settled share option expense		**—**	9
Pension scheme contributions****		**2**	5
Less: Amount capitalised in deferred development costs		**(8)**	(21)
		466	470
Net impairment of trade receivables**	26	**48**	22
Write-off of other receivables**		**1**	6
Write-off of items of property, plant and equipment**	15	**6**	—
Impairment of items of property, plant and equipment**	15	**314**	14
Loss on disposal of items of property, plant and equipment**		**1**	—
Write-off of deferred development costs**	18	**6**	12
Impairment of deferred development costs**	18	**29**	2
Write-down of inventories to net realisable value*		**17**	14
Foreign exchange differences, net		**20**	5
Fair value (gain)/loss on derivative financial instruments**		**(6)**	36
Fair value loss on investment properties	16	**20**	—
Fair value loss on financial assets at fair value through profit or loss**		**402**	—
and after crediting:			
Fair value gain on investment properties***	16	**—**	19
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 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***		**3**	—
Fair value gain on financial assets at fair value through profit or loss***		**—**	18
Gross rental income from investment properties	5	**1**	4
Interest income on long term receivable***		**—**	6

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

** Comprising amounts included in "Other expenses" and/or "Cost in connection with the Discontinuation and restructuring, net" 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.

8. FINANCE COSTS

	Group	
HK$ million	**2008**	2007
Interest on bank loans and overdrafts wholly repayable within five years	**12**	14
Interest on bank loans wholly repayable after five years	**12**	12
Interest on convertible bonds	**—**	3
Interest on other liability	**—**	14
Total interest expense on financial liabilities not at fair value through profit or loss	**24**	43

9. 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:

	Group	
HK$ million	**2008**	2007
Fees:		
Executive directors	**—**	—
Independent non-executive directors	**1**	1
	1	1
Executive directors' other emoluments:		
Salaries, allowances and benefits in kind	**25**	21
Performance related bonuses*	**11**	34
Equity-settled share option expense	**—**	3
Pension scheme contributions	**1**	1
	37	59
	38	60

* 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 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, 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 prior year is included in the above directors' remuneration disclosures.

9. **DIRECTORS' REMUNERATION** *(continued)*

(a) **Independent non-executive directors**

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

	2008 HK$'000	2007 HK$'000
Samuel Olenick*	20	240
Tam King Ching, Kenny	240	240
Lau Ho Man, Edward	240	240
Chen Li**	220	—
	720	720

* Resigned on 5 February 2008.

** Appointed on 5 February 2008.

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

(b) **Executive directors**

HK$ million	Salaries, allowances and benefits in kind	Tax allowance	Performance related bonuses	Employee share option benefits	Pension scheme contributions	Total remuneration
2008						
Mak Shiu Tong, Clement ("Mr. Mak") (Note 1)	10	8	7	—	1	26
Tam Ngai Hung, Terry (Note 2)	4	—	2	—	—	6
Cheng Yuk Ching, Flora (Note 2)	3	—	2	—	—	5
William Donald Putt	—	—	—	—	—	—
	17	8	11	—	1	37

9. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors *(continued)*

HK$ million	Salaries, allowance and benefits in kind	Tax allowance	Performance related bonuses	Employee share option benefits	Pension scheme contributions	Total remuneration
2007						
Mak Shiu Tong, Clement (Note 1)	10	4	18	1	1	34
Tam Ngai Hung, Terry (Note 2)	4	—	8	1	—	13
Cheng Yuk Ching, Flora (Note 2)	3	—	8	1	—	12
William Donald Putt	—	—	—	—	—	—
	17	4	34	3	1	59

Notes:

(1) The performance related bonuses paid to Mr. Mak during the years ended 31 December 2007 and 31 December 2008 were determined based on the Group's operating performance for the prior financial years ended 31 December 2006 and 31 December 2007, respectively.

(2) The performance related bonuses paid to Mr. Tam Ngai Hung, Terry and Ms Cheng Yuk Ching, Flora during the years ended 31 December 2007 and 31 December 2008 were determined based on the Group's operating performance for the prior financial years ended 31 December 2006 and 31 December 2007, respectively.

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2007: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2007: two) non-director, highest paid employees for the year are as follows:

	Group	
HK$ million	**2008**	2007
Salaries, allowances and benefits in kind	**4**	5
Performance related bonuses	**—**	1
Equity-settled share option expense	**—**	1
Pension scheme contributions	**—**	—
	4	7

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

	Number of employees	
	2008	2007
HK$1,000,001—HK$1,500,000	**1**	—
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
	2	2

In the prior 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 prior 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 current year.

11. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year. Prior year's Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during that 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.

	Group	
HK$ million	**2008**	2007
Group:		
Current — Hong Kong:		
Charge for the year	**—**	6
Underprovision/(overprovision) in prior years	**1**	(1)
Current — Elsewhere:		
Charge for the year	**2**	9
Underprovision in prior years	**2**	—
Deferred (note 36)	**—**	3
Total tax charge for the year	**5**	17

11. 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 — 2008

	Hong Kong		The PRC, excluding Hong Kong		Total	
HK$ million		%		%		%
Loss before tax	(750.6)		(533.0)		(1,283.6)	
Tax at the statutory tax rate	(123.8)	16.5	(133.2)	25.0	(257.0)	20.0
Adjustment in respect of current tax of previous periods	0.8	(0.1)	2.1	(0.4)	2.9	(0.2)
Income not subject to tax	(5.4)	0.7	(2.0)	0.4	(7.4)	0.6
Expenses not deductible for tax	21.3	(2.8)	99.4	(18.7)	120.7	(9.4)
Tax losses utilised from previous periods	(0.8)	0.1	—	—	(0.8)	—
Tax losses not recognised	108.9	(14.5)	37.5	(7.0)	146.4	(11.4)
Tax charge at the Group's effective rate	1.0	(0.1)	3.8	(0.7)	4.8	(0.4)

11. TAX *(continued)*

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 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

In late February 2008, the Company received a letter 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, and protective tax assessments in the aggregate amount of HK$34 million for the year of assessment 2001/2002 were issued by the IRD to certain subsidiaries of the Company. Subsequent to the balance sheet date, in March 2009, protective tax assessments in the aggregate amount of HK$52 million for the year of assessment 2002/2003 were 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.

12. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated loss attributable to equity holders of the parent for the year ended 31 December 2008 includes a loss of HK$895 million (2007: profit of HK$208 million) which has been dealt with in the financial statements of the Company (note 39(b)).

13. DIVIDENDS

HK$ million	2008	2007
Paid interim — HK$0.025 (2007: HK$0.025) per ordinary share	**21**	20
Proposed final — HK$0.030 (2007: HK$0.030) per ordinary share	**20**	24
Total	**41**	44

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

14. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amounts for the year is based on the loss for the year attributable to ordinary equity holders of the parent of HK$1,123 million (2007: profit of HK$484 million), and the weighted average number of 825,137,009 (2007: 796,359,311) ordinary shares in issue during the year.

A diluted loss per share amount for the year ended 31 December 2008 has not been disclosed, as the convertible bonds outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

The calculation of the diluted earnings per share amount for the prior year is based on the profit for the prior 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 prior year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share for the prior year are based on:

HK$ million	2007
Earnings	
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	484
Interest on convertible bonds (note 8)	3
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	487

	Number of shares 2007
Shares	
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	796,359,311
Effect of dilution — weighted average number of ordinary shares:	
Convertible bonds	57,261,612
	853,620,923

15. 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 2008							
At 31 December 2007 and 1 January 2008:							
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
At 1 January 2008, net of accumulated depreciation and impairment	814	272	59	59	11	72	1,287
Additions	29	35	3	6	3	2	78
Disposals	(5)	(6)	(1)	–	(3)	–	(15)
Write-off	(2)	(2)	–	(2)	–	–	(6)
Disposal of subsidiaries (note 40)	(1)	(16)	–	–	–	–	(17)
Depreciation provided during the year	(50)	(51)	(21)	(14)	(4)	–	(140)
Impairment	(215)	(71)	(13)	(14)	(1)	–	(314)
Transfer	63	4	–	–	–	(67)	–
Exchange realignment	1	9	–	2	–	1	13
At 31 December 2008, net of accumulated depreciation and impairment	634	174	27	37	6	8	886
At 31 December 2008:							
Cost	1,179	594	216	162	22	8	2,181
Accumulated depreciation and impairment	(545)	(420)	(189)	(125)	(16)	–	(1,295)
Net carrying amount	634	174	27	37	6	8	886

15. 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 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

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company

HK$ million	Furniture and office equipment
31 December 2008	
At 31 December 2007 and 1 January 2008, net of accumulated depreciation	**2**
Depreciation provided during the year	**(1)**
At 31 December 2008, net of accumulated depreciation	**1**
At 31 December 2008:	
Cost	**3**
Accumulated depreciation	**(2)**
Net carrying amount	**1**
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

The net book values 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 2008 amounted to approximately HK$9 million (2007: HK$10 million) and HK$2 million (2007: HK$3 million), respectively.

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

HK$ million	Hong Kong	Elsewhere	Total
Medium term leases	27	607	634

At 31 December 2008, certain of the Group's land and buildings with an aggregate carrying value of approximately HK$457 million (2007: HK$490 million) were pledged to secure general banking facilities granted to the Group (note 33).

An impairment of HK$310 million (2007: Nil) was recognised for certain property, plant and equipment because certain production facilities and fixed assets of the Group were under-utilised as a result of the Discontinuation (note 6). The impairment loss is estimated based on the recoverable amount of the telecom and electronic products cash generating units. 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 11.7%.

16. INVESTMENT PROPERTIES

HK$ million	Group 2008	2007
Carrying amount at 1 January	**315**	490
Disposals	**(37)**	(194)
Fair value gain/(loss) on investment properties	**(20)**	19
Transfer to property held for sale	**(87)**	—
Carrying amount at 31 December	**171**	315

The Group's investment properties are situated in Hong Kong and held under the long term leases.

The Group's investment properties were revalued on 31 December 2008 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 44(a) to the financial statements.

At 31 December 2008, the Group's investment properties with an aggregate carrying value of HK$170 million (2007: HK$314 million) were pledged to secure general banking facilities granted to the Group (note 33).

Further particulars of the Group's investment properties at 31 December 2008 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%
Carpark No. 26, 27 and 234 at the Basement of Site No. 3, Whampoa Garden, Hunghom, Kowloon, Hong Kong	Carpark	Long term lease	100%

17. PREPAID LAND LEASE PAYMENTS

HK$ million	Group 2008	2007
Carrying amount at 1 January	**224**	230
Recognised during the year	**(6)**	(6)
Carrying amount at 31 December	**218**	224
Current portion included in prepayments, deposits and other receivables	**(5)**	(5)
Non-current portion	**213**	219

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

18. OTHER INTANGIBLE ASSETS

Group

HK$ million	Deferred development costs
31 December 2008	
Cost at 1 January 2008, net of accumulated amortisation and impairment	**32**
Additions — internal development	**27**
Write-off	**(6)**
Impairment	**(29)**
Amortisation provided during the year	**(24)**
At 31 December 2008	**—**
At 31 December 2008:	
Cost	**115**
Accumulated amortisation and impairment	**(115)**
Net carrying amount	**—**
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

An impairment loss of HK$29 million (2007: HK$2 million) was recognised during the year because management determines that it is uncertain whether the deferred development costs could generate future economic benefits for the Group.

19. 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 2008	
At 1 January 2008:	
Cost	**108**
Accumulated impairment	**(53)**
Net carrying amount	**55**
Cost at 1 January 2008 and 31 December 2008, net of accumulated impairment	**55**
At 31 December 2008:	
Cost	**108**
Accumulated impairment	**(53)**
Net carrying amount	**55**
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

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

- Telecom and electronic products cash-generating unit; and
- Property holding cash-generating unit.

19. 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 11.7%.

The goodwill allocated to the property holding generating unit was impaired during the year ended 31 December 2007. The carrying amount of goodwill as at 31 December 2008 and 2007 is as follows:

HK$ million	2008	2007
Telecom and electronic products	55	55

Key assumptions were used in the value in use calculation of the telecom and electronic products cash-generating unit for 31 December 2008. 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.

20. INTERESTS IN SUBSIDIARIES

	Company	
HK$ million	2008	2007
Unlisted shares, at cost	45	45
Due from subsidiaries	3,588	2,921
	3,633	2,966
Impairment	(1,861)	(893)
	1,772	2,073
Less: Portion of amounts due from subsidiaries classified as current asset	(1,051)	(699)
	721	1,374

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for the following balances:

(a) Amounts due from subsidiaries of HK$169 million (2007: HK$699 million) are unsecured and repayable on demand, and bear interest at 3% above the Hong Kong dollar prime rate as determined by The Hongkong and Shanghai Banking Corporation Limited per annum.

(b) Amount due from a subsidiary of HK$882 million (2007: Nil) is unsecured, interest-free and repayable on demand.

The carrying amounts of the amounts due from subsidiaries approximate to their fair values.

20. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Canford Holdings Limited	Hong Kong	HK$2 Ordinary	—	100	Property holding
CCT Marketing Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	50.49	Trading of telecom products
CCT Tech (HK) Limited (formerly known as 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
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$2 Ordinary	—	100	Sale of infant and child products
Huiyang CCT Telecommunications Products Co., Ltd.	PRC	HK$120,000,000 Registered^	—	50.49	Manufacture of telecom products
Huiyang CCT Plastic Products Co., Ltd.	PRC	HK$48,600,000 Registered^	—	100	Manufacture of plastic casings and parts
CCT Land Development (Anshan) Company Limited	PRC	HK$380,000,000 Registered^	—	100	Property development

* 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.

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

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

21. INTEREST IN AN ASSOCIATE

	Group 2008 HK$ million	2007 HK$ million
Share of net assets	**229**	–
Market value of listed shares	**215**	–

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
CCT Resources Holdings Limited ("CCT Resources") (formerly known as Tradeeasy Holdings Limited)	Ordinary shares of HK$0.01 each	Cayman Islands/ Hong Kong	63.43	Forestry business

In consideration of the effect of all potential voting rights of the MCL Convertible Bonds, the Group ceased to be in a position to exercise control over the financial and operating policies of CCT Resources. Accordingly, the Group's interest in CCT Resources was accounted for as an interest in an associate as at 31 December 2008.

The Group's shareholdings in CCT Resources comprise equity shares held through a wholly-owned subsidiary of the Company.

The following table illustrates the summarised financial information of CCT Resources extracted from its management accounts:

	2008 HK$ million
Assets	**1,009**
Liabilities	**606**
Revenues	**31**
Loss	**34**

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

HK$ million	Group 2008	2007
Unlisted equity investment, at cost less impairment	**2**	2
Other assets, at fair value	**2**	9
	4	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.

23. INVENTORIES

HK$ million	Group 2008	2007
Raw materials	**38**	61
Work in progress	**32**	55
Finished goods	**65**	107
	135	223

24. PROPERTY FOR DEVELOPMENT

The property for development is situated in the PRC and held under medium term lease.

Particulars of the Group's property for development at 31 December 2008 are as follows:

Name of project	Location	Site Area (square metre)	Use	Attributable interest of the Group
Anshan Tiexi	No. 253 Jiu Dao Road, Tiexi District, Liaoning Province, the PRC	69,117.36	Residential and commercial	100%

25. PROPERTY HELD FOR SALE

During the year, an investment property of the Group was reclassified as property held for sale as the carrying amount of the property will be recovered principally through a sales transaction and the Group is committed to a plan to dispose of the investment property and the sale is considered to be highly probable in the forthcoming year.

25. PROPERTY HELD FOR SALE *(continued)*

Particulars of the Group's property held for sale at 31 December 2008 are as follows:

Location	Use	Tenure	Attributable interest of the Group
House No. 7, Rosecliff, No. 20 Tai Tam Road, Hong Kong	Residential	Long term lease	100%

The property held for sale with a carrying value of approximately HK$87 million was pledged to secure general banking facilities granted to the Group (Note 33).

26. TRADE AND BILLS RECEIVABLES

	Group	
HK$ million	**2008**	2007
Trade receivables	**477**	746
Impairment	**(55)**	(28)
	422	718

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 32% (2007: 58%) and 85% (2007: 85%) 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			
	2008		2007	
HK$ million	**Balance**	**Percentage**	Balance	Percentage
Current to 30 days	**147**	**35**	217	30
31 to 60 days	**113**	**27**	223	31
61 to 90 days	**149**	**35**	199	28
Over 90 days	**13**	**3**	79	11
	422	**100**	718	100

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

26. TRADE AND BILLS RECEIVABLES *(continued)*

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

	Group	
HK$ million	**2008**	2007
At 1 January	**28**	14
Net impairment losses recognised (note 7)	**48**	22
Amount written off as uncollectible	**(21)**	(8)
At 31 December	**55**	28

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$55 million (2007: HK$28 million) with a carrying amount of HK$290 million (2007: HK$586 million). The individually impaired trade receivables relate to customers that were in financial difficulties 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	**2008**	2007
Neither past due nor impaired	**355**	549
Past due but not impaired		
— within 6 months	**65**	161
— 7 to 12 months	**2**	7
— over 1 year	**—**	1
	422	718

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.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
HK$ million	**2008**	2007	**2008**	2007
Prepayments	**213**	238	**—**	—
Deposits and other receivables	**43**	38	**—**	1
	256	276	**—**	1

The above balance included prepayments for the acquisition of land use rights in Mainland China amounting to approximately HK$205 million (2007: HK$225 million) in relation to the Group's property development business.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
HK$ million	**2008**	2007
Listed equity investments in Hong Kong, at market value	**438**	227
Equity-linked deposits/notes, at fair value	**—**	153
Fund investments, at fair value	**8**	18
	446	398

The above equity investments and fund investments at 31 December 2008 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$457 million.

29. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
HK$ million	**2008**	2007	**2008**	2007
Cash and bank balances	**633**	564	**150**	17
Time deposits	**242**	1,359	**4**	777
	875	1,923	**154**	794
Less: Time deposits pledged for bank facilities (note 33)	**(89)**	(88)	**—**	—
Time deposits pledged for stock accumulator contracts	**—**	(162)	**—**	—
Cash and cash equivalents	**786**	1,673	**154**	794

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$161 million (2007: HK$20 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.

29. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS *(continued)*

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The 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.

30. 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			
	2008		2007	
HK$ million	**Balance**	**Percentage**	Balance	Percentage
Current to 30 days	**106**	**19**	184	22
31 to 60 days	**76**	**14**	229	27
61 to 90 days	**134**	**24**	159	18
Over 90 days	**235**	**43**	279	33
	551	**100**	851	100

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

31. OTHER PAYABLES AND ACCRUALS

	Group		Company	
HK$ million	**2008**	2007	**2008**	2007
Other payables	**58**	175	**—**	—
Accruals	**153**	125	**4**	7
	211	300	**4**	7

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

32. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
HK$ million	**2008**	2007
Stock accumulator contracts	**—**	35
Share swap contract	**47**	27
	47	62

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

33. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2008			2007		
	Effective interest rate (%)	**Maturity**	**HK$ million**	Effective interest rate (%)	Maturity	HK$ million
Current						
Finance lease payables (note 34)	**3.25–4.25**	**2009**	**4**	2.50–3.20	2008	3
Bank loans — unsecured	**1.69–6.25**	**2009**	**103**	6.00–7.00	2008	26
Bank loans — secured	**1.25–6.97**	**2009**	**244**	4.20–7.25	2008	183
			351			212
Non-current						
Finance lease payables (note 34)	**3.25–4.25**	**2010**	**1**	3.20–4.75	2009–2010	5
Bank loans — secured	**1.65–4.00**	**2010–2016**	**123**	4.2–6.72	2009–2016	176
2010 Convertible Bonds (note 35(a))			**—**	7.25	2010	15
2009 Convertible Bonds (note 35(b))			**—**	5.68	2009	28
			124			224
			475			436

Company

	2008			2007		
	Effective interest rate (%)	**Maturity**	**HK$ million**	Effective interest rate (%)	Maturity	HK$ million
Non-current						
2010 Convertible Bonds (note 35(a))	**—**	**—**	**—**	7.25	2010	15
2009 Convertible Bonds (note 35(b))	**—**	**—**	**—**	5.68	2009	28
			—			43

33. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

HK$ million	Group 2008	Group 2007	Company 2008	Company 2007
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**347**	209	**–**	–
In the second year	**22**	51	**–**	–
In the third to fifth years, inclusive	**62**	64	**–**	–
Beyond five years	**39**	61	**–**	–
	470	385	**–**	–
Other borrowings repayable:				
Within one year or on demand	**4**	3	**–**	–
In the second year	**1**	32	**–**	28
In the third to fifth years, inclusive	**–**	16	**–**	15
	5	51	**–**	43
	475	436	**–**	43

(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$170 million (2007: HK$314 million) (note 16);

(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$457 million (2007: HK$490 million) (note 15);

(iii) mortgage over the Group's property held for sale situated in Hong Kong, which had a carrying value at the balance sheet date of approximately HK$87 million (note 25); and

(iv) the pledge of certain of the Group's time deposits amounting to HK$89 million (2007: HK$88 million) (note 29).

(b) The Group's bank and other borrowings with carrying amounts of HK$243 million (2007: HK$216 million) and HK$232 million (2007: HK$213 million) are denominated in Hong Kong dollars and United States dollars ("US$"), respectively. At 31 December 2008, no bank borrowing of the Group is denominated in RMB (2007: HK$7 million).

The carrying amounts of the Group's borrowings approximate to their fair values.

33. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

As at 31 December 2008, approximately HK$81 million bank borrowings repayable over one year were classified as current liabilities in accordance with the relevant accounting standards. The classification was resulted from an insignificant non-compliance of a financial covenant related to the amount of shareholders' fund under certain facilities agreements entered into by CCT Tech and its subsidiaries (collectively "CCT Tech Group") with one of its bankers, which has been made known to the banker by the CCT Tech Group.

34. 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 two years.

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

Group

HK$ million	**Minimum lease payments 2008**	Minimum lease payments 2007	**Present value of minimum lease payments 2008**	Present value of minimum lease payments 2007
Amounts payable:				
Within one year	**4**	4	**4**	3
In the second year	**1**	4	**1**	4
In the third to fifth years, inclusive	**—**	1	**—**	1
Total minimum finance lease payments	**5**	9	**5**	8
Future finance charges	**—**	(1)		
Total net finance lease payables	**5**	8		
Portion classified as current liabilities (note 33)	**(4)**	(3)		
Non-current portion (note 33)	**1**	5		

35. 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 were 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 were unsecured, interest-free and had 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 would be redeemed in full on maturity. The Company might 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$137 million were converted into 222,092,556 shares in the Company of HK$0.10 each. During the year ended 31 December 2008, the remaining balance of the 2010 Convertible Bonds with a nominal value of approximately HK$18 million were fully converted into 29,942,649 shares in the Company of HK$0.10 each (note 37).

(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.

The 2009 Convertible Bond was 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 was unsecured, interest-free and had 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 would be redeemed in full on maturity. The Company might 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.

During the year ended 31 December 2008, the whole balance of the 2009 Convertible Bonds with a nominal value of approximately HK$30 million were fully converted into 26,548,672 shares in the Company of HK$0.10 each (note 37).

36. DEFERRED TAX

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

Deferred tax liabilities

Group

HK$ million	2008 Depreciation allowance in excess of related depreciation
Gross deferred tax liabilities at 1 January 2008	4
Deferred tax credited to the income statement during the year (note 11)	(1)
Gross deferred tax liabilities at 31 December 2008	3

Deferred tax assets

Group

HK$ million	2008 Losses available for offsetting against future taxable profits
Gross deferred tax assets at 1 January 2008	2
Deferred tax charged to the income statement during the year (note 11)	(1)
Gross deferred tax assets at 31 December 2008	1

36. DEFERRED TAX *(continued)*

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 11)	1
Group deferred tax liabilities at 31 December 2007	4

Deferred tax assets

Group

HK$ million	2007 Losses available for offsetting against future taxable profits
Gross deferred tax assets at 1 January 2007	4
Deferred tax charged to the income statement during the year (note 11)	(2)
Gross deferred tax assets at 31 December 2007	2

The Group and the Company has tax losses arising in Hong Kong of HK$826 million (2007: HK$202 million) and HK$146 million (2007: HK$107 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.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

36. DEFERRED TAX *(continued)*

Deferred tax liabilities *(continued)*

At 31 December 2008, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China as these subsidiaries incurred losses during the year.

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

37. SHARE CAPITAL

Shares

	Company	
HK$ million	**2008**	2007
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200**	200
Issued and fully paid:		
853,614,826 (2007: 797,123,505) ordinary shares of HK$0.10 each	**85**	80

During the year, the 2010 Convertible Bonds with a nominal value of approximately HK$18 million were converted into 29,942,649 shares in the Company of HK$0.10 each at a conversion price of HK$0.604 per share, and the 2009 Convertible Bonds with a nominal value of approximately HK$30 million were converted into 26,548,672 shares in the Company of HK$0.10 each at a conversion price of HK$1.13 per share. Further details relating to the 2010 Convertible Bonds and 2009 Convertible Bonds were set out in notes 35(a) and 35(b) to the financial statements, respectively.

37. SHARE CAPITAL *(continued)*

Shares *(continued)*

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$0.10 each in issue	Issued capital	Share premium account	Total
		HK$ million	HK$ million	HK$ million
At 1 January 2007	779,865,493	78	67	145
Issue of new shares upon conversion of convertible bonds (note 35(a))	17,258,012	2	10	12
At 31 December 2007 and 1 January 2008	797,123,505	80	77	157
Issue of new shares upon conversion of convertible bonds (note 35)	56,491,321	5	48	53
At 31 December 2008	853,614,826	85	125	210

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 38 to the financial statements.

38. 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 2008, 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 operations of the Group. Eligible participants of the Share Option Scheme include any employee, executive or officer of the Group (including executive and non-executive directors of the Group) and any supplier, consultant, agent, adviser, shareholder, customer, partner or business associate who, at the sole discretion of the Board, will contribute or has contributed to the Group.

38. SHARE OPTION SCHEME *(continued)*

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 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.

39. 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 43 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/ (accumulated loss)	Total
At 1 January 2007		67	741	1,417	13	307	2,545
Issue of shares upon conversion of convertible bonds	35	10	—	—	(3)	—	7
Profit for the year	12	—	—	—	—	208	208
2007 interim dividend	13	—	—	—	—	(20)	(20)
Proposed 2007 final dividend	13	—	—	—	—	(24)	(24)
At 31 December 2007 and 1 January 2008		77	741	1,417	10	471	2,716
Issue of shares upon conversion of convertible bonds	35	48	—	—	(10)	—	38
Loss for the year	12	—	—	—	—	(895)	(895)
2008 interim dividend	13	—	—	—	—	(21)	(21)
Proposed 2008 final dividend	13	—	—	(20)	—	—	(20)
At 31 December 2008		125	741	1,397	—	(445)	1,818

Note:

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

40. DISPOSAL OF SUBSIDIARIES

On 12 August 2008, CCT Resources, the then non-wholly owned subsidiary of the Group, acquired a 100% equity interest in Merdeka Timber Group Limited ("MTG"). MTG and its subsidiaries are principally engaged in the upstream and downstream forestry operation in the natural forest concessions in the Papua Province of Indonesia. The purchase consideration for the acquisition amounted to HK$785 million, satisfied by cash of HK$8 million which was paid at the acquisition date and by the MCL Convertible Bonds of HK$777 million. In consideration of the effect of all potential voting rights of the MCL Convertible Bonds, the directors of the Company consider that the Group ceased to be in a position to exercise control over the financial and operating policies of CCT Resources. Accordingly, the Group's interest in CCT Resources was accounted for as an interest in an associate upon the issuance of the MCL Convertible Bonds.

HK$ million	2008
Net assets disposed of:	
Property, plant and equipment (note 15)	17
Trade receivables	1
Prepayments and other receivables	3
Cash and bank balances	31
Trade payables	(1)
Other payables and accruals	(6)
Minority interests	(21)
	24
Reclassification to interest in an associate	(24)
	–

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

	2008 HK$ million
Cash and bank balances disposed of	(31)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(31)

41. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

During the prior 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.

42. CONTINGENT LIABILITIES

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

	Company	
HK$ million	**2008**	2007
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	**289**	211

As at 31 December 2008, 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$205 million (2007: HK$165 million).

43. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group, are included in notes 29 and 33(a) to the financial statements.

44. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 16) under operating lease arrangements, with leases negotiated for terms ranging from one to eight 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	**2008**	2007
Within one year	**1**	1
In the second to fifth years, inclusive	**2**	2
After five years	**2**	2
	5	5

44. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

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

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

	Group		Company	
HK$ million	**2008**	2007	**2008**	2007
Within one year	**9**	9	**4**	2
In the second to fifth years, inclusive	**7**	9	**3**	—
	16	18	**7**	2

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	**2008**	2007
Within one year	**3**	2
In the second to fifth years, inclusive	**11**	11
After five years	**127**	116
	141	129

45. COMMITMENTS

In addition to the operating lease commitments detailed in note 44(b) above, the Group had the following commitments at the balance sheet date:

Capital commitments

	Group	
HK$ million	**2008**	2007
Contracted, but not provided for:		
Construction in progress	**2**	18
Purchases of plant and machinery and equipment	**—**	10
Land	**206**	51
	208	79

46. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group

HK$ million	2008	2007
Short term employee benefits	44	68
Equity-settled share option expense	—	—
Total compensation paid to key management personnel	44	68

Further details of directors' emoluments are included in note 9 to the financial statements.

47. FINANCIAL INSTRUMENTS BY CATEGORY

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

2008

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	—	—	4	4
Trade and bills receivables	—	422	—	422
Financial assets included in prepayments, deposits and other receivables (note 27)	—	43	—	43
Financial assets at fair value through profit or loss	446	—	—	446
Pledged time deposits	—	89	—	89
Cash and cash equivalents	—	786	—	786
	446	1,340	4	1,790

47. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

2008 *(continued)*

HK$ million	Group		
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	**—**	**551**	**551**
Financial liabilities included in other payables and accruals (note 31)	**—**	**58**	**58**
Derivative financial instruments	**47**	**—**	**47**
Interest-bearing bank and other borrowings	**—**	**475**	**475**
	47	**1,084**	**1,131**

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 (note 27)	—	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

47. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

2007 *(continued)*

HK$ million	Group		
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 31)	—	175	175
Derivative financial instruments	62	—	62
Interest-bearing bank and other borrowings	—	436	436
	62	1,462	1,524

2008

HK$ million	**Company**
Financial assets	**Loans and receivables**
Financial assets included in interests in subsidiaries (note 20)	**3,588**
Cash and cash equivalents	**154**
	3,742
Financial liabilities	**Financial liabilities at amortised cost**
Interest-bearing bank and other borrowings	**—**

47. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

2007

HK$ million	Company
Financial assets	
	Loans and receivables
Financial assets included in interests in subsidiaries (note 20)	2,921
Cash and cash equivalents	794
	3,715

Financial liabilities	
	Financial liabilities at amortised cost
Interest-bearing bank and other borrowings	43

48. 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.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Interest rate risk *(continued)*

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/(loss) before tax (through the impact on floating rate borrowings).

	Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in loss before tax HK$ million**
2008		
HK$	**100**	**3**
US$	**100**	**2**
HK$	**(100)**	**(3)**
US$	**(100)**	**(2)**

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

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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 Euro, US$ and Renminbi exchange rates, with all other variables held constant, of the Group's profit/(loss) before tax (due to changes in the fair value of monetary assets and liabilities).

	Group	
	Increase/ (decrease) in exchange rate %	**Increase/ (decrease) in loss before tax HK$ million**
2008		
If Euro strengthens against HK$	**20.17**	**(3)**
If Euro weakens against HK$	**(20.17)**	**3**
If US$ strengthens against RMB	**3.9**	**1**
If US$ weakens against RMB	**(3.9)**	**(1)**

	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)

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 26 to the financial statements.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank 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 2008

	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	**551**	**—**	**—**	**—**	**551**
Other payables	**58**	**—**	**—**	**—**	**58**
Derivative financial instruments	**47**	**—**	**—**	**—**	**47**
Interest-bearing bank and other borrowings	**359**	**26**	**67**	**40**	**492**
	1,015	**26**	**67**	**40**	**1,148**

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

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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 28) as at 31 December 2008. 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 2008	**High/low 2008**	31 December 2007	High/low 2007
Hong Kong — Hang Seng Index	**14,387**	**27,584/10,676**	27,813	31,958/18,659

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.

	Group		
	Carrying amounts of equity investments HK$ million	**Increase/ (decrease) in equity price %**	**Increase/ (decrease) in loss before tax HK$ million**
2008			
Investments listed in:			
Hong Kong — Held for trading	**438**	**85.45**	**(374)**
	438	**(85.45)**	**374**

	Group		
	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)

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's 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. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 31 December 2007.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management *(continued)*

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 borrowings in the total borrowings. Capital includes equity attributable to equity holders of the parent.

	Group	
HK$ million	**2008**	2007
Interest-bearing bank and other borrowings	**475**	436
Total borrowings	**475**	436
Total capital	**2,213**	3,225
Total capital and borrowings	**2,688**	3,661
Gearing ratio	**17.7%**	11.9%

49. POST BALANCE SHEET EVENTS

(a) On 6 January 2009, the board of directors of the Company announced that an offer would be made to repurchase, subject to conditions, up to 280,000,000 of the Company's shares at the offer price of HK$0.50 per share (the "Offer"). On 16 February 2009, all the conditions of the Offer have been fulfilled and the Offer has become unconditional. On 2 March 2009, acceptances in respect of 198,558,635 shares have been received by the Company. In accordance with the terms of the Offer, the Company repurchased a total of 198,558,635 shares in aggregate at the offer price of HK$0.50 per share. The Offer was completed and 198,558,635 shares of the Company were cancelled on 11 March 2009. The total consideration under the Offer of approximately HK$99.28 million was paid by the Company on 11 March 2009. Upon the completion of the Offer and cancellation of the repurchased 198,558,635 shares by the Company on 11 March 2009, the issued share capital of the Company was reduced to 655,056,191 shares.

(b) In January and February 2009, the MCL Convertible Bonds with a nominal value of HK$30,000,000 and HK$70,000,000 were converted into 300,000,000 shares and 700,000,000 shares of CCT Resources, respectively. After the conversion of the MCL Convertible Bonds in January and February 2009, the Group's shareholdings in CCT Resources was diluted from approximately 63.43% to approximately 48.34% and there is no significant impact on the Group's financial results.

50. COMPARATIVE AMOUNTS

As further explained in note 5 to the financial statements, certain comparative amounts have been reclassified to conform with the current year's presentation.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2009.

five year financial summary

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	**2008**	2007	2006	2005	2004
REVENUE	**2,935**	3,729	4,199	3,980	4,057
PROFIT/(LOSS) BEFORE TAX	**(1,284)**	414	387	271	205
Tax	**(5)**	(17)	(21)	(18)	(18)
PROFIT/(LOSS) FOR THE YEAR	**(1,289)**	397	366	253	187
Profit/(loss) attributable to:					
Equity holders of the parent	**(1,123)**	484	358	225	107
Minority interests	**(166)**	(87)	8	28	80
	(1,289)	397	366	253	187

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
HK$ million	**2008**	2007	2006	2005	2004
TOTAL ASSETS	**3,893**	5,459	4,730	4,318	3,889
TOTAL LIABILITIES	**(1,316)**	(1,684)	(1,921)	(1,608)	(1,482)
	2,577	3,775	2,809	2,710	2,407
EQUITY:					
Equity attributable to equity holders of the parent	**2,213**	3,225	2,752	2,642	2,210
Minority interests	**364**	550	57	68	197
	2,577	3,775	2,809	2,710	2,407

glossary of terms

GENERAL TERMS

2009 Convertible Bonds	The convertible bonds issued by the Company to Capital Winner on 23 June 2006, which were due on 23 June 2009, 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 convertible bonds). The convertible bonds were fully converted on 2 July 2008
2010 Convertible Bonds	The convertible bonds issued by the Company on 25 April 2005, which were due on 25 April 2010, 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 convertible bonds). The convertible bonds were fully converted on 2 July 2008
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 wholly-owned by Mr. Mak Shiu Tong, Clement and his family members
CCT Resources	CCT Resources Holdings Limited (formerly known as Tradeeasy Holdings Limited), a company listed on the Growth Enterprise Market of the Stock Exchange and an associated corporation of the Company
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)
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
MCL Convertible Bonds	The convertible bonds issued by CCT Resources to Merdeka Commodities Limited on 12 August 2008 as part of consideration to acquire the forestry business. The convertible bonds, due on 11 August 2011, are interest free and convertible into the shares of CCT Resources at the initial conversion price of HK$0.1 per share (subject to adjustment according to the terms of the convertible bonds)
New Capital	New Capital Industrial Limited, a company wholly-owned by Mr. Mak Shiu Tong, Clement and his family members
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$0.10 each in the share capital of the Company
Shareholder(s)	Holder(s) of the Share(s)
Share Option Scheme	A share option scheme adopted by the Company on 28 February 2002
SOHO	Small office and home office
Stock Exchange	The Stock Exchange of Hong Kong Limited
U.S.	The United States of America
US$	United States dollar(s), the lawful currency of U.S.
%	Per cent.

FINANCIAL TERMS

Gearing Ratio	Total borrowings (representing bank and 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