

# notes to financial statements

31 December 2004

## 1. CORPORATE INFORMATION

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

- the manufacture and sale of telecom products, accessories and components; and
- the manufacture and sale of baby and health care products.

## 2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice 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 the periodic remeasurement of investment properties and equity investments as further explained below.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

### Subsidiaries

A subsidiary is a company 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 profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Joint venture companies** *(Continued)*

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

#### **Associates**

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

#### **Goodwill**

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Goodwill** *(Continued)*

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

**Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

**Fixed assets and depreciation**

Fixed assets, other than investment properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 the fixed assets, the expenditure is capitalised as an additional cost of that asset.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Fixed assets and depreciation** *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land	2% – 6%
Buildings	2.5% – 6%
Plant and machinery	10% – 30%
Tools, moulds and equipment	10% – 20%
Furniture and office equipment	10% – 20%
Motor vehicles	15% – 30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**Construction in progress**

Construction in progress represents buildings under construction. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

**Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

**Intangible assets***Publishing rights*

Purchased publishing rights are stated at cost less accumulated amortisation and any impairment losses, and are amortised on the straight-line basis over their estimated useful lives of 20 years.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Intangible assets** *(Continued)**Deferred development costs*

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

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

**Club memberships**

Club memberships are intended to be held for long term purposes. They are stated at cost less any impairment losses, on an individual membership basis.

**Long term investments**

Long term investments are stated at cost less any impairment losses, on an individual investment basis.

**Short term investments**

Short term investments are investments in equity securities held for trading purposes. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis, as determined by the directors having regard to the prices of the most recent reported sales or purchases of the securities, or professional valuations performed at the end of each financial year. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

**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 profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

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.

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Income tax** *(Continued)*

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, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets 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 assets 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 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, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

#### **Leased assets**

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 fixed assets 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 profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Leased assets** *(Continued)*

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

**Employee benefits***Paid leave carried forward*

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

*Employment Ordinance long service payments*

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

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

*Share option scheme*

The Company operates two share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes are not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Employee benefits** *(Continued)*

##### *Pension scheme*

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

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

#### **Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to 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 to Hong Kong dollars at the weighted average exchange rates for the year.

#### **Cash and cash equivalents**

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

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



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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***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) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

**Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits or capital reserve within the capital and reserves 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**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

**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 products segment engages in the manufacture and sale of telecom products, accessories and components;

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**4. SEGMENT INFORMATION** (Continued)

- (b) the baby and health care products segment engages in the manufacture and sale of baby and health care products; and
- (c) the corporate and others segment comprises corporate income and expense items and the publishing of magazines (disposed of in the prior year).

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

**(a) Business segments**

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

**Group**

	Telecom products		Baby and health care products		Corporate and others		Consolidated	
HK\$ million	2004	2003	2004	2003	2004	2003	2004	2003
Segment revenue:								
Sales to external customers	3,906	3,224	146	157	—	52	4,052	3,433
Other revenue	—	—	—	—	39	32	39	32
Total revenue	3,906	3,224	146	157	39	84	4,091	3,465
Segment results	225	215	14	19	(76)	(86)	163	148
Interest income							5	8
Unallocated revenue							—	5
Unallocated expenses							(3)	(12)
Profit from operating activities							165	149
Finance costs							(6)	(8)
Share of loss of an associate	—	—	—	—	(2)	(200)	(2)	(200)
Profit/(loss) before tax							157	(59)
Tax							(20)	(12)
Profit/(loss) before minority interests							137	(71)
Minority interests							(81)	(47)
Net profit/(loss) from ordinary activities attributable to shareholders							56	(118)

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**4. SEGMENT INFORMATION** *(Continued)***(a) Business segments** *(Continued)***Group**

	Telecom products		Baby and health care products		Corporate and others		Consolidated	
HK\$ million	2004	2003	2004	2003	2004	2003	2004	2003
Segment assets	2,499	2,335	99	98	1,082	1,001	3,680	3,434
Interest in an associate	—	—	—	—	293	297	293	297
Unallocated assets							4	9
Total assets							3,977	3,740
Segment liabilities	982	940	43	37	50	62	1,075	1,039
Unallocated liabilities							407	305
Total liabilities							1,482	1,344
Other segment information:								
Capital expenditure	229	149	20	6	142	137	391	292
Depreciation	102	92	3	3	22	27	127	122
Amortisation	30	30	—	—	1	1	31	31
Impairment losses recognised directly in the profit and loss account	—	—	—	—	—	2	—	2
Other non-cash expenses	87	42	2	—	3	16	92	58

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**4. SEGMENT INFORMATION** *(Continued)***(b) Geographical segments**

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

**Group**

	United States of America		PRC, including HK		European Union		Others		Consolidated	
HK\$ million	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Segment revenue:										
Sales to external customers	2,516	2,222	701	637	139	119	696	455	4,052	3,433
Other revenue	—	—	39	32	—	—	—	—	39	32
Total revenue	2,516	2,222	740	669	139	119	696	455	4,091	3,465

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. TURNOVER**

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered.

Revenue from the following activities has been included in turnover:

HK\$ million	2004	2003
Manufacture and sale of telecom products	3,906	3,224
Manufacture and sale of baby and health care products	146	157
Provision of multimedia content and services, and magazine publishing	—	52
Interest income	5	8
	4,057	3,441

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**6. PROFIT FROM OPERATING ACTIVITIES**

The Group's profit from operating activities is arrived at after charging:

HK\$ million	Notes	Group	
		2004	2003
Cost of inventories sold		<b>3,563</b>	2,890
Depreciation	14	<b>127</b>	122
Minimum lease payments under operating leases in respect of land and buildings		<b>3</b>	5
Research and development costs:			
Deferred expenditure amortised*	15	<b>30</b>	30
Current year expenditure	15	<b>50</b>	47
Amortisation of goodwill**	16	<b>1</b>	1
Auditors' remuneration		<b>6</b>	5
Staff costs (excluding directors' remuneration — note 8)***			
Wages and salaries		<b>356</b>	297
Pension scheme contributions		<b>3</b>	5
Less: Amount capitalised in deferred development costs		<b>(28)</b>	(22)
		<b>331</b>	280
Bad and doubtful debt provisions on trade receivables**		<b>3</b>	—
Provisions for and write off of prepayment and other receivables**		<b>33</b>	—
Loss/(gain) on disposal of fixed assets, net**		<b>(1)</b>	1
Write off of fixed assets**	14	<b>2</b>	18
Write off of deferred development costs**	15	<b>15</b>	15
Provision for slow-moving and obsolete inventories*		<b>36</b>	8
Impairment of fixed assets**		<b>—</b>	2
Net (gain)/loss on disposal/deemed disposal of subsidiaries**		<b>(10)</b>	12
Net unrealised holding losses on short term investments**		<b>—</b>	1
Deficit on revaluation of investment properties**		<b>—</b>	3
and after crediting:			
Gross rental income from investment properties		<b>—</b>	1
Exchange gains, net		<b>9</b>	—
Net realised gains on disposal of short term investments		<b>—</b>	5

\* The amortisation of deferred development expenditure and provision for slow-moving and obsolete stocks are included in "Cost of sales" on the face of the consolidated profit and loss account.

\*\* Included in "Other operating expenses" or "Other revenue and gains" on the face of the consolidated profit and loss account.

\*\*\* 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.

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**7. FINANCE COSTS**

HK\$ million	Group	
	2004	2003
Interest on bank loans and overdrafts wholly repayable within five years	3	3
Interest on bank loans wholly repayable after five years	3	4
Interest on convertible notes	—	1
	6	8

**8. DIRECTORS' REMUNERATION**

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

HK\$ million	Group	
	2004	2003
Fees:		
Executive directors	—	—
Independent non-executive directors	1	—
	1	—
Executive directors' other emoluments:		
Salaries, allowances and benefits in kind	18	14
Performance related bonuses	13	12
Pension scheme contributions	1	1
	32	27
	33	27

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

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	4	4
HK\$3,500,001 – HK\$4,000,000	—	1
HK\$6,000,001 – HK\$6,500,000	1	—
HK\$6,500,001 – HK\$7,000,000	—	1
HK\$8,500,001 – HK\$9,000,000	1	—
HK\$17,000,001 – HK\$17,500,000	1	1
	7	7

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

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, and the details of which are set out in note 33 to the financial statements. No value in respect of the share options granted during the prior year has been charged to the profit and loss account, or is otherwise, included in the above directors' remuneration disclosures.

**9. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year included three (2003: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2003: two) non-director, highest paid employees for the year are as follows:

HK\$ million	Group	
	2004	2003
Salaries, allowances and benefits in kind	5	6
Performance related bonuses	3	2
Pension scheme contributions	—	—
	8	8

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**9. FIVE HIGHEST PAID EMPLOYEES** *(Continued)*

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

	Number of employees	
	2004	2003
HK\$2,500,001 – HK\$3,000,000	1	—
HK\$3,000,001 – HK\$3,500,000	—	1
HK\$4,000,001 – HK\$4,500,000	—	1
HK\$5,500,001 – HK\$6,000,000	1	—
	2	2

During the prior year, share options were granted to the non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 33 to the financial statements. No value in respect of the share options granted during the prior year has been charged to the profit and loss account, or is otherwise, included in the above non-director, highest paid employees' remuneration disclosures.

**10. TAX**

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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



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**10. TAX (Continued)**

HK\$ million	Group	
	2004	2003
Group:		
Current — Hong Kong:		
Charge for the year	14	14
Overprovision in prior years	(3)	—
Current — Elsewhere	4	5
Deferred — note 31	3	(6)
	18	13
Share of tax attributable to an associate	2	(1)
Total tax charge for the year	20	12

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries and associate 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 — 2004**

HK\$ million	Hong Kong		The PRC, excluding Hong Kong		Total	
		%		%		%
Profit/(loss) before tax	(33.2)		190.6		157.4	
Tax at the statutory or appropriate tax rate	(5.8)	17.5	45.7	24.0	39.9	25.4
Higher/(lower) tax rate for specific provinces or local authority	—	—	(22.0)	(11.5)	(22.0)	(14.0)
Adjustments in respect of current tax of previous periods	(2.8)	8.4	—	—	(2.8)	(1.8)
Income not subject to tax	(85.5)	258.4	(6.8)	(3.6)	(92.3)	(58.6)
Expenses not deductible for tax	106.6	(321.9)	25.3	13.3	131.9	83.8
Tax losses utilised from previous periods	(2.5)	7.5	1.4	0.7	(1.1)	(0.7)
Tax losses not recognised	1.6	(4.8)	5.6	2.9	7.2	4.6
Tax exemption	—	—	(40.7)	(21.4)	(40.7)	(25.9)
Tax charge at the Group's effective rate	11.6	(34.9)	8.5	4.4	20.1	12.8

31 December 2004

**10. TAX (Continued)****Group — 2003**

HK\$ million	Hong Kong		The PRC, excluding Hong Kong		Total	
		%		%		%
Profit/(loss) before tax	(290)		231		(59)	
Tax at the statutory or appropriate tax rate	(51)	17.5	55	24.0	4	(6.8)
Income not subject to tax	(3)	1.0	(48)	(20.8)	(51)	86.5
Expenses not deductible for tax	57	(19.6)	5	2.1	62	(105.1)
Tax losses recognised	(6)	2.1	—	—	(6)	10.2
Tax losses not recognised	11	(3.8)	—	—	11	(18.6)
Tax exemption	—	—	(8)	(3.6)	(8)	13.5
Tax charge at the Group's effective rate	8	(2.8)	4	1.7	12	(20.3)

**11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, was approximately HK\$92 million (2003: net loss of HK\$195 million). The Group's share of loss for the year retained by the associate amounted to HK\$4 million (2003: HK\$199 million).

**12. DIVIDENDS**

HK\$ million	2004	2003
Paid special interim — HK\$0.10 (2003: Nil) per ordinary share	42	—
Paid interim — HK\$0.010 (2003: HK\$0.015) per ordinary share	4	6
Proposed final — HK\$0.020 (2003: HK\$0.015) per ordinary share	8	6
	12	12
Total	54	12

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

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**13. EARNINGS/(LOSS) PER SHARE**

The calculation of basic earnings/(loss) per share is based on the net profit/(loss) attributable to shareholders for the year of approximately HK\$56 million (2003: loss of HK\$118 million), and the weighted average number of 422,149,984 (2003: 422,105,230) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of approximately HK\$56 million. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is 436,854,031 which includes the weighted average number of 422,149,984 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 14,704,047 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

The diluted loss per share amount for the year ended 31 December 2003 is not shown as the potential ordinary shares outstanding during that year had an anti-dilutive effect on the basic loss per share for that year.

**14. FIXED ASSETS****Group**

HK\$ million	Investment properties	Leasehold land and buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total
Cost or valuation:								
At 1 January 2004	7	1,578	307	126	123	19	—	2,160
Additions	95	33	83	27	10	5	88	341
Disposals	(1)	(105)	(1)	(3)	(1)	(2)	—	(113)
Write off	—	—	—	—	(4)	—	—	(4)
Disposal of subsidiaries	—	—	(2)	—	(3)	—	—	(5)
Reclassification	—	49	—	—	—	—	(49)	—
At 31 December 2004	101	1,555	387	150	125	22	39	2,379
Analysis of cost or valuation:								
At cost	—	1,555	387	150	125	22	39	2,278
At 31 December 2004 valuation	101	—	—	—	—	—	—	101
	101	1,555	387	150	125	22	39	2,379
Accumulated depreciation and impairment:								
At 1 January 2004	—	345	162	72	73	11	—	663
Depreciation provided during the year	—	48	44	20	12	3	—	127
Disposals	—	(22)	(1)	(1)	(3)	(1)	—	(28)
Write off	—	—	—	—	(2)	—	—	(2)
Disposal of subsidiaries	—	—	(1)	—	(1)	—	—	(2)
At 31 December 2004	—	371	204	91	79	13	—	758
Net book value:								
At 31 December 2004	101	1,184	183	59	46	9	39	1,621
At 31 December 2003	7	1,233	145	54	50	8	—	1,497

31 December 2004

**14. FIXED ASSETS** *(Continued)***Company**

HK\$ million	Furniture and office equipment
Cost:	
At 1 January 2004 and at 31 December 2004	1
Accumulated depreciation:	
At 1 January 2004	—
Depreciation provided during the year	—
At 31 December 2004	—
Net book value:	
At 31 December 2004 and 31 December 2003	1

The net book value of the fixed assets of the Group held under finance leases included in the total amounts of plant and machinery, tools, moulds and equipment and motor vehicles as at 31 December 2004, amounted to approximately HK\$14,000,000 (2003: Nil), nil (2003: HK\$1,600,000) and HK\$2,400,000 (2003: HK\$1,900,000), respectively.

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

HK\$ million	Hong Kong	Elsewhere	Total
Long term leases	97	—	97
Medium term leases	56	1,031	1,087
	153	1,031	1,184

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

The Group's investment properties were revalued on 31 December 2004 by Grant Sherman Appraisal Limited, independent professionally qualified valuers, on an open market, existing use basis.

31 December 2004

**15. INTANGIBLE ASSETS****Group**

HK\$ million	Deferred development costs
Cost:	
At 1 January 2004	85
Additions	50
Write off	(36)
	<hr/>
At 31 December 2004	99
	<hr/>
Accumulated amortisation:	
At 1 January 2004	62
Amortisation provided during the year	30
Write off	(21)
	<hr/>
At 31 December 2004	71
	<hr/>
Net book value:	
At 31 December 2004	28
	<hr/>
At 31 December 2003	23
	<hr/>

31 December 2004

**16. GOODWILL**

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

**Group**

HK\$ million

## Cost:

At 1 January 2004	27
Acquisition of minority interests in subsidiaries	14
Disposal of subsidiaries (note 35(b))	(11)

At 31 December 2004	30
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## Accumulated amortisation:

At 1 January 2004	1
Amortisation provided during the year	1

At 31 December 2004	2
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## Net book value:

At 31 December 2004	28
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At 31 December 2003	26
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As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against consolidated reserves.

The net amount of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries and an associate prior to the adoption of SSAP 30 in 2001, was approximately HK\$103,000,000 as at 1 January 2004 and 31 December 2004, respectively. The net amount of goodwill is stated at its cost of HK\$783,000,000, less cumulative impairment of approximately HK\$680,000,000 which arose in the prior years.

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**17. INTERESTS IN SUBSIDIARIES**

HK\$ million	Company	
	2004	2003
Unlisted shares, at cost	113	424
Due from subsidiaries	3,993	4,118
Due to subsidiaries	(641)	(600)
	3,465	3,942
Provision for impairment	(1,602)	(2,102)
	1,863	1,840

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
CCT Marketing Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary	—	34.5 <sup>#</sup>	Trading of telecom products
CCT Telecom (HK) Limited	Hong Kong	HK\$2,600,000 Ordinary	—	34.5 <sup>#</sup>	Sourcing of telecom products
CCT Tech International Limited ("CCT Tech")@	Bermuda/ Hong Kong	HK\$159,384,226 Ordinary	—	34.5 <sup>#</sup>	Investment holding
Electronic Sales Limited	Hong Kong	HK\$5,948,000 Ordinary	—	100	Sale of telecom products
Goldbay Investments Limited	Hong Kong	HK\$2 Ordinary	—	100	Property holding
Huge Partner Limited	Hong Kong	HK\$10,000 Ordinary	—	100	Property holding

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**17. INTERESTS IN SUBSIDIARIES** *(Continued)*Particulars of the principal subsidiaries are as follows *(Continued)*:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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
Wiltec Industries Limited	Hong Kong	HK\$100 Ordinary HK\$1,000,000 Deferred**	—	100	Sale of baby care products
Huiyang CCT Telecommunications Products Co., Ltd.	People's Republic of China	HK\$80,000,000 Registered^	—	34.5 <sup>#</sup>	Manufacturing of telecom products
Huiyang CCT Plastic Products Co., Ltd.	People's Republic of China	HK\$48,600,000 Registered^	—	100	Manufacturing of plastic casings and parts

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

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

@ Listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

# These companies are accounted for as subsidiaries by virtue of the Company's control over them.

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.



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**18. INTEREST IN AN ASSOCIATE**

HK\$ million	Group	
	2004	2003
Share of net assets	524	543
Unrealised profits arising from the disposal of subsidiaries (Note)	(231)	(246)
	293	297
Market value of listed shares as at 31 December	1,326	1,282

Note: These unrealised profits arose from the Group's disposal of certain subsidiary companies to an associate at a gain in the prior year. The attributable amount of unrealised profits is released to the consolidated profit and loss account to the extent that the corresponding goodwill recorded by the associate is amortised or impaired.

Particulars of the associate, held indirectly through subsidiaries, are as follows:

Name	Business structure	Place of incorporation and operations	Nominal value of issued share capital	Percentage of ownership interest attributable to the Group		Principal activities
				2004	2003	
Haier Electronics Group Co., Ltd. (formerly Haier-CCT Holdings Limited) ("Haier Electronics")*	Corporate	Bermuda/Hong Kong	HK\$996,402,795 Ordinary	43.6	43.6	Investment holding

\* Listed on the Stock Exchange.

31 December 2004

**18. INTEREST IN AN ASSOCIATE** *(Continued)*

Included in the Group's share of the net assets of its associate is the share of net assets of Haier Electronics which, in the opinion of the directors, is material in the context of the Group's financial statements. Details of the net assets of Haier Electronics and its subsidiaries (collectively referred to as the "Haier Electronics Group") and their respective results are set out below:

HK\$ million	As at 31 December 2004	As at 31 December 2003
Non-current assets	1,136	1,144
Current assets	1,065	1,197
Current liabilities	(912)	(1,019)
Minority interests	(86)	(76)
	1,203	1,246

HK\$ million	Year ended 31 December 2004	Year ended 31 December 2003
Turnover	3,153	1,665
Loss before tax	(27)	(866)
Tax	(4)	2
Loss before minority interests	(31)	(864)
Minority interests	(11)	8
Net loss from ordinary activities attributable to shareholders	(42)	(856)

The above amounts are extracted from the published audited financial statements of Haier Electronics for the year ended 31 December 2004.

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**19. OTHER ASSETS**

HK\$ million	Group	
	2004	2003
Club memberships, at cost	14	14
Provision for impairment	(2)	(2)
	12	12

**20. INVESTMENTS**

HK\$ million	Group	
	2004	2003
Long term investments		
Unlisted equity investments, at cost	317	317
Provision for impairment	(313)	(313)
	4	4
Short term investments		
Listed equity investments, at market value:		
Hong Kong	3	3

As at 31 December 2004, the number of shares of the following companies held by the Group exceeded 20% of their respective total issued shares:

Name	Place of incorporation	Description and value of shares held	Percentage holding
Tradeeasy Holdings Limited*	Cayman Islands	HK\$4,201,183 Ordinary	22.2
Sendo Holdings PLC	United Kingdom	GBP31,526,000 Ordinary	32.1
		GBP31,474,000 Preference	

\* Listed on the Growth Enterprise Market of the Stock Exchange.

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**21. INVENTORIES**

HK\$ million	Group	
	2004	2003
Raw materials	67	45
Work in progress	50	47
Finished goods	98	86
	215	178

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$18 million (2003: Nil) as at the balance sheet date.

**22. TRADE AND BILLS RECEIVABLES**

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

HK\$ million	Group			
	2004		2003	
	Balance	Percentage	Balance	Percentage
Current to 30 day	302	38	274	42
31 to 60 days	264	33	199	30
61 to 90 days	216	27	164	25
Over 90 days	12	2	18	3
	794	100	655	100

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

**23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

HK\$ million	Group		Company	
	2004	2003	2004	2003
Prepayments	4	36	—	—
Deposits and other receivables	22	27	3	3
	26	63	3	3

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

HK\$ million	Group		Company	
	2004	2003	2004	2003
Cash and bank balances	398	379	33	18
Time deposits	551	594	374	361
	949	973	407	379
Less: Time deposits pledged for bank borrowings	(117)	(100)	(16)	—
	832	873	391	379

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$15 million (2003: HK\$13 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.

**25. TRADE AND BILLS PAYABLES**

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

HK\$ million	Group			
	2004		2003	
	Balance	Percentage	Balance	Percentage
Current to 30 days	249	28	212	25
31 to 60 days	179	20	227	27
61 to 90 days	196	22	164	20
Over 90 days	273	30	238	28
	897	100	841	100

31 December 2004

**26. OTHER PAYABLES AND ACCRUALS**

HK\$ million	Group		Company	
	2004	2003	2004	2003
Other payables	62	67	—	—
Accruals	116	131	6	5
	178	198	6	5

**27. INTEREST-BEARING BANK AND OTHER BORROWINGS**

HK\$ million	Notes	Group		Company	
		2004	2003	2004	2003
Current portion of bank loans	28	145	129	10	—
Current portion of finance lease payables	29	5	1	—	—
		150	130	10	—

**28. INTEREST-BEARING BANK LOANS, SECURED**

HK\$ million	Group		Company	
	2004	2003	2004	2003
Bank loans repayable:				
Within one year or on demand	145	129	10	—
In the second year	42	18	—	—
In the third to fifth years, inclusive	63	44	—	—
Beyond five years	71	62	—	—
	321	253	10	—
Portion classified as current liabilities — note 27	(145)	(129)	(10)	—
Non-current portion	176	124	—	—

31 December 2004

**29. 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 terms ranging from one to five 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 2004	Minimum lease payments 2003	Present value of minimum lease payments 2004	Present value of minimum lease payments 2003
Amounts payable:				
Within one year	5	1	5	1
In the second year	5	1	5	1
In the third to fifth years, inclusive	3	—	3	—
Total minimum finance lease payments	13	2	13	2
Future finance charges	—	—		
Total net finance lease payables	13	2		
Portion classified as current liabilities — note 27	(5)	(1)		
Non-current portion	8	1		

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**30. CONVERTIBLE NOTES**

HK\$ million	Group	
	2004	2003
2004 Convertible notes — note (a)	—	8
2005 Convertible notes — note (b)	—	10
2005 Convertible notes — note (c)	45	—
	45	18
Portion classified as current liabilities	(45)	(8)
Non-current portion	—	10

Notes:

- (a) On 19 July 2002, CCT Technology Holdings Limited, an indirect non-wholly owned subsidiary of the Company, issued convertible notes with an aggregate principal amount of HK\$20 million to an independent third party and which were subsequently replaced by the convertible notes in the same amount issued by CCT Tech on 4 November 2002. The convertible notes provide the holder the option right to convert the principal amount into ordinary shares of CCT Tech of HK\$0.01 each on any business day until five business days prior to the maturity of the convertible notes at a conversion price of HK\$0.01 per share.

The principal amounts of the convertible notes bear interest at 5% per annum and the convertible notes will mature on the second anniversary of the date of their issue.

In June 2003, the convertible notes with a principal amount of HK\$12 million were converted into 1,200,000,000 shares of CCT Tech of HK\$0.01 each at conversion price of HK\$0.01 per share.

In July 2004, the remaining convertible notes with a principal amount of HK\$8 million were converted into 800,000,000 shares of CCT Tech of HK\$0.01 each at conversion price of HK\$0.01 per share.

- (b) On 14 May 2003, CCT Tech issued convertible notes with an aggregate principal amount of HK\$21 million through a placing agent to several independent placees. The convertible notes provide the holders the option right to convert the principal amount into ordinary shares of CCT Tech at HK\$0.01 each on any business day until five business days prior to the maturity of the convertible notes at a conversion price of HK\$0.01 per share.

The principal amounts of the convertible notes bear interest at 2% per annum and the convertible notes will mature on the second anniversary of the date of their issue.

In June 2003, the convertible notes with a principal amount of HK\$11 million were converted into 1,100,000,000 shares of CCT Tech of HK\$0.01 each at a conversion price of HK\$0.01 per share.

In 2004, the remaining convertible notes with a principal amount of HK\$10 million were converted into 1,000,000,000 shares of CCT Tech of HK\$0.01 each at conversion price of HK\$0.01 per share.

- (c) On 2 March 2004, the Company entered into a sale and purchase agreement under which the Company agreed to sell to New Capital Industrial Limited, a company controlled by Mr. Mak Shiu Tong, Clement, the chairman and a director of the Company, and his family members, the zero coupon convertible note in the principal amount of HK\$45 million due 2005 (issued to an indirect wholly-owned subsidiary of the Company by CCT Tech) for a cash consideration of HK\$45 million. This transaction was approved by the independent shareholders of the Company on 15 April 2004 and was completed on 26 April 2004.

As at 31 December 2004, the outstanding principal amount of the zero coupon convertible note at a conversion price of HK\$0.01 per CCT Tech's share was HK\$45 million and will mature on 17 May 2005.



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**31. DEFERRED TAX**

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

**Deferred tax liabilities**

Group

HK\$ million	2004 Accelerated tax depreciation
At 1 January 2004	7
Deferred credited to the profit and loss account during the year — note 10	(2)
Gross deferred tax liabilities at 31 December 2004	5

**Deferred tax assets**

Group

HK\$ million	2004 Losses available for offset against future taxable profit
At 1 January 2004	9
Deferred tax charged to the profit and loss account during the year — note 10	(5)
Gross deferred tax assets at 31 December 2004	4
Net deferred tax liabilities at 31 December 2004	(1)

31 December 2004

**31. DEFERRED TAX** *(Continued)***Deferred tax liabilities**

Group

HK\$ million	2003 Accelerated tax depreciation
At 1 January 2003	7
Deferred tax credited to the profit and loss account during the year — note 10	—
Gross deferred tax liabilities at 31 December 2003	7

**Deferred tax assets**

Group

HK\$ million	2003 Losses available for offset against future taxable profit
At 1 January 2003	3
Deferred tax credited to the profit and loss account during the year — note 10	6
Gross deferred tax assets at 31 December 2003	9
Net deferred tax assets at 31 December 2003	2

The Group has tax losses arising in Hong Kong of HK\$242 million (2003: HK\$281 million) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associate as the Group has no liability to additional tax should such amounts be remitted.

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

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**32. SHARE CAPITAL****Shares**

HK\$ million	Company	
	2004	2003
Authorised:		
2,000,000,000 (2003: 2,000,000,000) ordinary shares of HK\$0.10 (2003: HK\$0.10) each	200	200
Issued and fully paid:		
422,525,230 (2003: 422,105,230) ordinary shares of HK\$0.10 (2003: HK\$0.10) each	42	42

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	Issued share capital HK\$ million
At 1 January 2004	422,105,230	42
Exercise of share options	420,000	—
At 31 December 2004	422,525,230	42

**Share options**

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

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### 33. SHARE OPTION SCHEME

A share option scheme was adopted by the Company on 28 February 2002 (the "Share Option Scheme") to comply with the new amendments to the Listing Rules in respect of the share option schemes of a listed company. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from the date of the adoption. As at 31 December 2004, there were 41,780,000 share options outstanding under the Share Option Scheme. Based on these outstanding share options, the total number of shares available for issue is 41,780,000, which represents approximately 9.89% of the existing issued share capital of the Company as at the date of this report. No share options has been granted under the Share Option Scheme during the year.

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

Pursuant to the Share Option Scheme, the maximum number of shares in respect of which share options may be granted under the Share Option Scheme is such number of shares, when aggregated with shares subject to any other share option scheme(s) of the Company, must not exceed 10% of the issued share capital of the Company as at the date of adoption of the Share Option Scheme or 30% of the issued share capital of the Company from time to time.

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

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

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

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

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**33. SHARE OPTION SCHEME** (Continued)

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

Name or category of participant	Outstanding as at 1 January 2004	Number of share options			Outstanding as at 31 December 2004	Date of grant of share options	Exercise period of share options	Exercise price per share (Note 1) HK\$	Price of the shares at exercise date of share options (Note 2) HK\$
		Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year					
<b>Executive directors</b>									
Mak Shiu Tong, Clement	420,000	—	—	—	420,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	N/A
Cheng Yuk Ching, Flora	4,200,000	—	—	—	4,200,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	N/A
Tam Ngai Hung, Terry	4,200,000	—	—	—	4,200,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	N/A
William Donald Putt	420,000	—	—	—	420,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	N/A
	9,240,000	—	—	—	9,240,000				
<b>Independent non-executive directors</b>									
Samuel Olenick	420,000	—	—	—	420,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	N/A
Tam King Ching, Kenny	420,000	—	—	—	420,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	N/A
Lau Ho Man, Edward	420,000	—	—	—	420,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	N/A
	1,260,000	—	—	—	1,260,000				
<b>Other employees</b>									
In aggregate	31,700,000	—	(420,000)	—	31,280,000	17/3/2003	17/3/2003 – 16/3/2008	0.75	1.40
	31,700,000	—	(420,000)	—	31,280,000				
	42,200,000	—	(420,000)	—	41,780,000				

Notes:

- The exercise price of the share options is subject to adjustment(s) in the case of rights or bonus share issues, or other similar changes in the share capital of the Company.
- The price of the shares of the Company as at the date of exercise of the share options is the weighted average of the closing price of the shares of the Company as listed on the Stock Exchange on the trading day immediately before the date on which the share options were exercised.

The financial impact of the share options granted is not recorded in the balance sheet of the Company or the Group until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding share options.

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**33. SHARE OPTION SCHEME** *(Continued)*

At the balance sheet date, the Company had 41,780,000 share options under the Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 41,780,000 additional ordinary shares of the Company and additional share capital of HK\$4,178,000 and share premium of approximately HK\$27,157,000 (before issue expenses).

**34. 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.

Certain amounts of goodwill arising on the acquisition of subsidiaries and an associate in the prior years remain eliminated against consolidated retained profits, as further detailed in note 16 to the financial statements.

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

**(b) Company**

HK\$ million	Share premium account	Capital reserve	Retained profits/ (accumulated losses)	Total
Balance at 1 January 2003	1,250	1,126	1	2,377
Loss for the year	—	—	(195)	(195)
2003 interim dividend	—	(6)	—	(6)
Proposed 2003 final dividend	—	(6)	—	(6)
At 31 December 2003 and beginning of year	1,250	1,114	(194)	2,170
Profit for the year	—	—	92	92
2004 special interim dividend	—	(42)	—	(42)
2004 interim dividend	—	(4)	—	(4)
Proposed 2004 final dividend	—	(8)	—	(8)
At 31 December 2004	1,250	1,060	(102)	2,208

Note:

Under the Companies Law (2002 Revision) Chapter 22 of the Cayman Islands, the share premium account of the Company is available for distribution of dividends to shareholders subject to the provisions of the Company's Memorandum and Articles of Association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as and when they fall due in the ordinary course of business.

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**34. RESERVES (Continued)****(b) Company (Continued)**

Note: (Continued)

In accordance with the Company's Articles of Association, dividends can only be distributed out of the profits and reserves available for distribution, including the share premium and capital reserve account of the Company. As at 31 December 2004 the Company had a net credit balance of approximately HK\$2,216 million (2003: HK\$2,176 million) maintained in the reserve accounts which is available for distribution.

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

**35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT****(a) Major non-cash transactions**

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the finance leases of HK\$14 million (2003: HK\$1 million).

**(b) Disposal of subsidiaries**

HK\$ million	2004	2003
Net assets disposed of:		
Fixed assets	3	6
Intangible assets	—	2
Cash and bank balances	5	2
Trade and bills receivables	7	10
Inventories	4	—
Prepayments, deposits and other receivables	8	2
Trade and bills payables	(2)	(11)
Other payables and accruals	(6)	(4)
Tax payable	(1)	—
Minority interests	(7)	(4)
	11	3
Reversal of goodwill upon disposal of subsidiaries — note 16	11	23
Net losses on disposal of subsidiaries	—	(12)
	22	14
Satisfied by:		
Cash	12	1
Other receivables	7	13
Other payables	3	—
	22	14

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**35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** *(Continued)***(b) Disposal of subsidiaries** *(Continued)*

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

HK\$ million	2004	2003
Cash consideration	12	1
Cash and bank balances disposed of	(5)	(2)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	7	(1)

The results of the subsidiary disposed of during the year and in the prior year had no significant impact on the Group's consolidated turnover or profit/loss after tax but before minority interests for the years ended 31 December 2004 and 2003.

**(c) Acquisition of subsidiaries**

HK\$ million	2004	2003
Net assets acquired:		
Fixed assets	—	1
Cash and bank balances	—	9
Trade receivables	—	5
Inventories	—	3
Deposits and other receivables	—	8
Trade payables	—	(2)
Other payables and accruals	—	(5)
Tax payable	—	(1)
Minority interests	—	(7)
	—	11
Goodwill on acquisition — note 16	—	11
	—	22
Satisfied by:		
Cash	—	12
Other receivables	—	7
Other payables	—	3
	—	22



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**35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** *(Continued)***(c) Acquisition of subsidiaries** *(Continued)*

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

HK\$ million	2004	2003
Cash paid	—	(12)
Cash and bank balances acquired	—	9
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	—	(3)

The subsidiaries acquired in the prior year had no significant contribution to the Group's consolidated turnover and loss after tax and before minority interests for the year ended 31 December 2003.

**36. CONTINGENT LIABILITIES**

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

	Group		Company	
HK\$ million	2004	2003	2004	2003
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	—	—	186	183
Guarantee given to an independent third party in respect of a rental arrangement	48	45	48	45
	48	45	234	228

As at 31 December 2004, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$173 million (2003: HK\$142 million).

(b) The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$9 million as at 31 December 2004 (2003: HK\$8 million), as further explained in note 3 to the financial statements. The contingent liability has arisen as a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

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**37. PLEDGE OF ASSETS**

At the balance sheet date, the Group's bank borrowings were secured by:

- (i) Pledges of the Group's fixed deposits amounting to approximately HK\$117 million (2003: HK\$100 million); and
- (ii) Fixed charges over certain of the Group's leasehold land and buildings and investment properties with an aggregate net book value amounting to approximately HK\$254 million (2003: HK\$255 million).

**38. OPERATING LEASE COMMITMENTS**

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for an average term of two years.

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

HK\$ million	Group	
	2004	2003
Within one year	3	2
In the second to fifth years, inclusive	3	2
	6	4

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

HK\$ million	Group	
	2004	2003
Within one year	2	1
In the second to fifth years, inclusive	9	8
After five years	114	117
	125	126

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**39. COMMITMENTS**

In addition to the operating lease commitments detailed in note 38 above, the Group had the following commitments at the balance sheet date:

**Capital commitments**

HK\$ million	Group	
	2004	2003
Contracted, but not provided for:		
Construction in progress	28	60
Purchases of motor vehicles	4	—
Purchases of plant and machinery and equipment	1	2
	33	62

In addition, the Group's share of the associate's own capital commitments, which are not included in the above, were as follows:

HK\$ million	Group	
	2004	2003
Contracted, but not provided for	2	8

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

**40. RELATED PARTY TRANSACTIONS**

On 2 March 2004, the Company entered into a sale and purchase agreement under which the Company agreed to sell to New Capital Industrial Limited, a company controlled by Mr. Mak Shiu Tong, Clement, the chairman and a director of the Company, and his family members, the zero coupon convertible note in the principal amount of HK\$45 million due 2005 (issued to an indirectly wholly-owned subsidiary of the Company by CCT Tech) for a cash consideration of HK\$45 million. This transaction was approved by the independent shareholders of the Company on 15 April 2004 and was completed on 26 April 2004.

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

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#### 41. POST BALANCE SHEET EVENTS

- (a) On 5 March 2004, Haier Electronics conditionally agreed with Haier Group Corporation and Qingdao Haier Investment and Development Co., Ltd., substantial shareholders of Haier Electronics, for (i) the transfer by Haier Group Corporation and Qingdao Haier Investment and Development Co., Ltd. of the washing machine business to Haier Electronics and; (ii) the exercise of the call option to acquire the remaining 35.5% interest in Pegasus Telecom (Qingdao) Co., Ltd. (collectively referred to as the "Asset Injection"), in exchange of cash, shares and convertible notes in Haier Electronics at an aggregate consideration of approximately HK\$1,504 million.

To maintain the minimum public float of Haier Electronics upon completion of the Asset Injection, on 19 January 2005, the Company and a wholly-owned subsidiary of the Company entered into a placing agreement with a placing agent for a private placement of 419,997,667 ordinary shares of HK\$0.10 each in Haier Electronics at a price of HK\$0.24 per share to independent investors for a total consideration of approximately HK\$100.8 million (before expenses) (the "Placement"). The Placement was completed on 24 January 2005. The net proceeds of approximately HK\$96 million from the Placement were applied as general working capital of the Group.

On 28 January 2005, Haier Electronics announced that the Asset Injection was completed on 28 January 2005. Following the completion of the Placement and the Asset Injection and effective 28 January 2005, the equity interests of the Group in Haier Electronics was reduced from 43.6% to 24.0% and Mr. Mak Shiu Tong, Clement, the chairman and a director of the Company, and Mr. Tam Ngai Hung, Terry, a director of the Company, have resigned from the board of directors of Haier Electronics.

- (b) On 31 January 2005, the Company and CCT Tech jointly announced that a voluntary conditional cash offer with a securities exchange alternative will be made by Jade Assets Company Limited, a wholly-owned subsidiary of the Company, to the shareholders of CCT Tech and the holder of the convertible note due 2005 issued by CCT Tech ("CCT Tech 2005 CN") to acquire all the issued shares of CCT Tech and the CCT Tech 2005 CN, and to make a voluntary conditional cash offer to the optionholders of CCT Tech to cancel all outstanding share options of CCT Tech (collectively the "Offers"). The Offers will be made on the basis of HK\$1,840 in cash for every 80,000 CCT Tech's shares or for every CCT Tech 2005 CN with a face value of HK\$800 with securities exchange alternative of zero coupon five-year convertible bond with a face value of HK\$1,840 to be issued by the Company, and HK\$0.009 for every outstanding share option of CCT Tech. The Offers were approved by the Company's independent shareholders at an extraordinary general meeting on 18 April 2005 and have become unconditional on 21 April 2005.

Further details of this event are set out in the Company's press announcement dated 31 January 2005, the major and connected transaction circular dated 31 March 2005, the composite offer and response document dated 31 March 2005 and the press announcement dated 21 April 2005.

#### 42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 April 2005.