

CC1"TECH
2004
INTERIM REPORT

CHAIRMAN'S LETTER

FINANCIAL HIGHLIGHTS

| HK\$'000 | Six months ended | | % Increase |
|---|--------------------------------|--------------------------------|------------|
| | 30 June 2004 (Unaudited) | 30 June 2003 (Unaudited) | |
| Turnover | 1,782,640 | 54,430 | 3,175% |
| Net profit attributable to shareholders | 56,856 | 1,647 | 3,352% |
| Earnings per share | 0.43 cents | 0.015 cents | 2,767% |

CHAIRMAN'S LETTER

I am very pleased to report that CCT Tech International Limited (the "Company") and its subsidiaries (together the "Group") achieved turnover of approximately HK\$1,782.6 million and net profit of approximately HK\$56.9 million for the six months ended 30 June 2004, representing an increase of 3,175% and 3,352%, respectively, in comparison with that of the previous interim period. These spectacular results are mainly attributable to our cordless telecom product business that was acquired from our parent company, CCT Telecom Holdings Limited ("CCT Telecom"), in June 2003.

Turnover of approximately HK\$54.4 million and net profit of approximately HK\$1.6 million for the six months ended 30 June 2003 reflected only the contribution from the business of power supply components and did not include the contribution from the business of cordless telecom products, which was acquired by the Company on 30 June 2003.

INTERIM DIVIDEND

The directors do not recommend payment of an interim dividend for the six months ended 30 June 2004 (previous period: nil).

REVIEW OF OPERATIONS

The first six months of 2004 has been a brilliant start for the Company. Turnover significantly increased 30 times as compared to the corresponding period last year due to the first time inclusion of the telecom products business of Empire Success Holdings Limited and its subsidiaries ("ESH Group") in our 2004 interim results, which were acquired by the Company on 30 June 2003.

We are proud of our achievements made during the first half of 2004. Our sales figures in each of the months under the reporting period has well exceeded those of the corresponding months last year. Our outstanding performance resulted from a combination of factors, namely, our decision to diversify into new geographic regions, the development and launch of a new innovative product range (in particular the 5.8GHz cordless phones and a number of newly launched Digital Enhanced Cordless Telephone ("DECT") phone models). These factors were, in turn, boosted by our ability to benefit from the economies of scale in our materials procurement supply chain, thereby, further strengthening our competitive edge in the industry.

As one of the world's largest cordless phone manufacturers, the Company currently acts as an Original Design Manufacturer ("ODM") and Original Equipment Manufacturer ("OEM") partner for a number of leading internationally renowned brands such as GE, Alcatel and others. Recognizing the need to reduce our dependence on the North American markets and to maintain our leading market position in the cordless phone industry, we have made significant in-roads into European and Asia Pacific markets to achieve a more balanced geographic sales mix. Our strategic manoeuvres to diversify in both market geography and products range has proven to be correct, enabling us to maintain nearly the same average unit selling price for our products, despite a very competitive and tough economic environment and the prevailing trend within the industry for price reduction.

We remain committed to research and development and maintain a world class R&D team specializing in the development of high radio frequency products. We have a strong R&D team of over 500 engineers in our Hong Kong and Shenzhen offices. Capitalizing on our research and development strengths, we launched our first 5.8GHz digital cordless phone and a number of new models for DECT phones in 2004. In the first half of 2004, we launched over 90 new product models. These new products were all well-received by the markets, thereby pushing up our interim period sales to a new height.

To cater for the significant expansion in the Company's selling volume, we have invested heavily in production machinery and equipment during the first half of 2004 and restructured the set-up of our production and casing lines. The results so far have been encouraging with an increase in the total number of Surface Mount Technology ("SMT") production lines since the beginning of this year which increase our production capacity by more than 50%. To further enhance our competitive edge and to meet the rapidly changing and stringent demands of our customers, CCT Tech actively pursues ways to improve and upgrade our manufacturing facilities and manufacturing standards. In January 2004, our manufacturing complex in Huiyang was awarded ISO14001 certification in acknowledgement of efforts in upholding environmental protection. This represents a significant step forward in meeting the expectations and requirements of our multi-national customers.

DISPOSAL OF SUBSIDIARIES

Pursuant to a conditional agreement, the Company has agreed to dispose of its power supply components business and an unused industrial property to CCT Telecom for a consideration of HK\$139.0 million, which will be satisfied by the cancellation of the convertible notes in the same amount owed to CCT Telecom. The transaction was approved by the independent shareholders in a Special General Meeting held on 8 September 2004. After the completion of the transaction, the Group will be able to realign and concentrate its resources and to focus on and expand its operations in ODM and OEM business in cordless telecom products. The Group believes that the restructuring will enhance its efficiency and will provide a clearer corporate identity. Further details of the transaction are set out in the circular of the Company dated 20 August 2004.

OUTLOOK

In the first half of 2004, we improved our competitiveness by realizing our planned marketing efforts, capitalizing on our strong R&D capabilities, improving productivity efficiency, leveraging on economies of scale and taking advantage of our paramount procurement volume. In the near future, the unstable supply and rising demand of the raw materials will incorporate pressure to our operation cost, we will work hard to tackle the challenge and maintain a healthy financial position. On a final note, I would like to take this opportunity to express my gratitude to the management team for their sound management, the staff for their hard work and our business partners, bankers and associates for their continuing support.

Mak Shiu Tong, Clement

Chairman

Hong Kong, 10 September 2004

FINANCIAL REVIEW

SUMMARY OF PERFORMANCE

Turnover and net profit for the six months ended 30 June 2004 of the Group amounted to approximately HK\$1,782.6 million (previous period: approximately HK\$ 54.4 million) and approximately HK\$56.9 million (previous period: approximately HK\$1.6 million), respectively, representing about 32 times boost in sales and about 34 times increase in bottom line profit as compared to that of the previous interim period. The encouraging performance of the Group for the current period was mainly attributable to the Group's core business of cordless telecom products, including its power supply component operation. One should note, however, that the results of the Group for the six months ended 30 June 2003 reflected only the performance of the power supply component operation.

The Company expects the global demand of cordless telecom products to continue to increase as a result of the prolonged improvement of the world economy.

ANALYSIS BY BUSINESS SEGMENT

For the period under review, the Group focused on ODM and OEM business of development, manufacture and sale of cordless telecom products (including power supply components), which formed the principal source of revenue and contributed to almost 100% turnover of the Group. Telecom products segment contributed an operating profit of approximately HK\$100.9 million for the six months ended 30 June 2004 (previous period: approximately HK\$4.7 million). Corporate segment recorded an operating loss of approximately HK\$9.6 million (previous period: loss of approximately HK\$2.6 million) which arose mainly from the head office administrative expenses incurred for the period.

ANALYSIS BY GEOGRAPHICAL SEGMENT

The Group is one of the world's major suppliers of cordless telecom products and most of the Group's turnover was derived from the export of telecom products to its worldwide customers for the current period. In contrast, turnover of the previous period came mainly from the sale of power supply components both to the external customers and internally to the cordless phone operation. This explains the significant changes in geographical mix of turnover between the two periods. The United States was the primary market of the Group, accounting for about 58% (previous period: about 1%) of the Group's total turnover for the current period. The PRC (including Hong Kong) ranked the second accounting for about 20% (previous period: about 98%) of the Group's total turnover.

CAPITAL STRUCTURE AND GEARING RATIO

At 30 June 2004, total borrowings (including bank borrowings, finance lease payables and convertible notes) of the Group maintained at approximately HK\$951.1 million (31 December 2003: approximately HK\$943.5 million). Among total borrowings of approximately HK\$951.1 million, bank borrowings amounted to approximately HK\$130.8 million outstanding at 30 June 2004 (31 December 2003: approximately HK\$111.2 million). Most of the bank borrowings of the Group were arranged on a short-term basis for ordinary business operations and were repayable within one year. There was no material effect of seasonality on the Group's borrowing requirements.

Certain of the Group's assets were financed by way of finance leases and the total outstanding finance lease payables for the Group at 30 June 2004 amounted to approximately HK\$0.9 million (31 December 2003: approximately HK\$1.3 million).

At the balance sheet date, the total outstanding convertible notes issued by the Company amounted to HK\$819.4 million (31 December 2003: HK\$831.0 million) which comprised:

- (i) HK\$45.0 million zero coupon convertible notes due 2005 to a company controlled by Mr. Mak Shiu Tong, Clement (the Chairman of the Company), with a conversion price of HK\$0.01 per share;
- (ii) HK\$8.0 million at 5% per annum convertible notes due 2004, with a conversion price of HK\$0.01 per share;
- (iii) HK\$4.0 million at 2% per annum convertible notes due 2005, with a conversion price of HK\$0.01 per share; and
- (iv) HK\$762.4 million at best lending rate plus 2% per annum convertible notes due 2008 to CCT Telecom, with a conversion price of HK\$0.014 per share.

As a result of conversion on certain convertible notes during the period, the share capital of the Company increased to approximately HK\$141.4 million (31 December 2003: approximately HK\$131.4 million) with 14,138,422,562 ordinary shares in issue (31 December 2003: 13,138,422,562 ordinary shares).

FINANCIAL REVIEW

The Group's gearing ratio, calculated on the basis of the Group's total borrowings (including bank borrowings, finance lease payables and convertible notes) of approximately HK\$951.1 million over total capital employed (equity plus total borrowings) of approximately HK\$1,161.7 million, dropped to about 82% at 30 June 2004 (31 December 2003: about 87%). Out of the total outstanding convertible notes, amounted to HK\$762.4 million are due to the Group's ultimate holding company, CCT Telecom, and the notes are attached with a relatively long maturity period of redemption. In other words, the Group will not have immediate repayment pressure.

LIQUIDITY AND FINANCIAL RESOURCES

The current ratio (a ratio of current assets over current liabilities) as at 30 June 2004 was about 115% (31 December 2003: about 118%), remained healthy and reflected a strong financial position.

At 30 June 2004, the Group maintained a cash balance of approximately HK\$551.5 million (31 December 2003: approximately HK\$549.8). Cash generated from the Group's operations and funds available from bank facilities are expected to be sufficient to cover all cash requirements, including working capital and capital expenditure needs.

CAPITAL EXPENDITURES AND COMMITMENTS

For the period under review, the Group incurred capital expenditure amounted to approximately HK\$64.0 million, including the expenditure of approximately HK\$61.1 million invested in the PRC production facilities.

There were outstanding capital commitments related to leasehold improvements of the PRC factories and the purchases of equipment and machinery, and the total amount contracted by the Group but not yet provided for in the accounts was approximately HK\$11.0 million as at 30 June 2004 (31 December 2003: approximately HK\$2.3 million), all of which would be financed internally.

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 period, the Group's receipts were mainly made in United States dollar, with some in Hong Kong dollar and Euro dollar. Payments were mainly made in Hong Kong dollar and United States dollar, with some in Renminbi and Euro dollar. Cash was generally placed in short-term deposits mainly denominated in Hong Kong dollar and United States dollar. At 30 June 2004, all of the Group's outstanding borrowings were denominated in Hong Kong dollar and United States dollar. Other than the convertible notes in principle amount of HK\$12.0 million with fixed interest rate and HK\$45.0 million with zero interest rate, the Group's borrowings were principally made on a floating rate basis.

The Group does not have any significant interest rate risk as the interest rate is stable and currently remains at low level. As the Hong Kong dollar remains pegged to the United States dollar, the Group does not foresee any substantial risk or exposure from having the majority of its receipts and payments in United States dollar and Hong Kong dollar. The Group's exposure to foreign exchange risk is not substantial and forward exchange contracts have been entered into to minimize such risks when necessary and appropriate.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investment at 30 June 2004 (31 December 2003: nil).

PLEDGE OF ASSETS

At 30 June 2004, certain of the Group's time deposits of approximately HK\$100.2 million (31 December 2003: approximately HK\$100.2 million) were pledged to secure general banking facilities granted to the Group.

CONTINGENT LIABILITIES

Apart from the contingent liability in respect of possible future long service payments to employees amounted to approximately HK\$5.5 million (31 December 2003: approximately HK\$4.7 million), the Group did not have any other significant contingent liabilities at 30 June 2004.

EMPLOYEES AND REMUNERATION POLICY

The total number of employees in the Group as at 30 June 2004 was 18,268 (31 December 2003: 15,545). Remuneration packages are normally reviewed on an annual basis. Apart from salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group. At 30 June 2004, there were outstanding share options of approximately 1,083 million (31 December 2003: 1,083 million).

ACQUISITIONS AND DISPOSALS OF MATERIAL SUBSIDIARIES AND ASSOCIATED COMPANIES

Pursuant to a conditional agreement, the Company has agreed to dispose power supply components business and an unused industrial property to CCT Telecom for a consideration of HK\$139.0 million, which will be satisfied by the cancellation of the convertible note in the same amount owed to CCT Telecom. The transaction was approved by the independent shareholders in a Special General Meeting held on 8 September 2004. After the completion of the transaction, the Group will be able to realign and concentrate its resources and to focus on and expand its operations in ODM and OEM business of cordless telecom products. The Group believes that the restructuring will enhance its efficiency and will provide a clearer corporate identity. Further details of the transaction are set out in the circular of the Company dated 20 August 2004.

INTERIM RESULTS

The board of directors of the Company is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2004 together with the comparative figures for the corresponding period in 2003 as follows:-

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2004

| HK\$'000 | Notes | Six months ended 30 June | |
|---|-------|--------------------------|---------------------|
| | | 2004 (Unaudited) | 2003 (Unaudited) |
| TURNOVER | | 1,782,640 | 54,430 |
| Cost of sales | | (1,619,105) | (44,644) |
| Gross profit | | 163,535 | 9,786 |
| Other revenue | | 13,136 | 685 |
| Selling and distribution costs | | (20,587) | (271) |
| Administrative expenses | | (55,433) | (6,280) |
| Other operating expenses | | (9,058) | (1,610) |
| PROFIT FROM OPERATING ACTIVITIES | | 91,593 | 2,310 |
| Finance costs | | (27,983) | (663) |
| PROFIT BEFORE TAX | | 63,610 | 1,647 |
| Tax | 4 | (6,754) | — |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | 56,856 | 1,647 |
| EARNINGS PER SHARE | 6 | | |
| Basic | | 0.43 cents | 0.015 cents |
| Diluted | | 0.11 cents | 0.011 cents |

INTERIM RESULTS

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

| HK\$'000 | <i>Notes</i> | 30 June 2004 (Unaudited) | 31 December 2003 (Audited) |
|--|--------------|--------------------------------|----------------------------------|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 7 | 703,313 | 681,128 |
| Intangible assets | | 25,934 | 22,925 |
| Goodwill | | 53,606 | 55,066 |
| Other assets | | 350 | 350 |
| Deferred tax assets | | 7,047 | 8,811 |
| | | 790,250 | 768,280 |
| CURRENT ASSETS | | | |
| Inventories | | 233,251 | 155,128 |
| Trade and bills receivables | 8 | 645,845 | 593,923 |
| Prepayments, deposits and other receivables | | 15,436 | 7,502 |
| Pledged deposits | | 100,192 | 100,161 |
| Cash and cash equivalents | | 451,308 | 449,655 |
| | | 1,446,032 | 1,306,369 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 9 | 943,368 | 859,256 |
| Other payables and accruals | | 112,822 | 113,051 |
| Tax payable | | 15,070 | 13,326 |
| Interest-bearing bank and other borrowings | | 131,093 | 111,680 |
| Convertible notes | 10 | 57,000 | 8,000 |
| | | 1,259,353 | 1,105,313 |
| NET CURRENT ASSETS | | 186,679 | 201,056 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 976,929 | 969,336 |

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

At 30 June 2004

| HK\$'000 | <i>Notes</i> | 30 June 2004 (Unaudited) | 31 December 2003 (Audited) |
|--------------------------------|--------------|--------------------------------|----------------------------------|
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | | 2,836 | 2,931 |
| Finance lease payables | | 607 | 775 |
| Convertible notes | 10 | 762,400 | 823,000 |
| | | 765,843 | 826,706 |
| MINORITY INTERESTS | | | |
| | | 487 | 487 |
| | | 210,599 | 142,143 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 11 | 141,384 | 131,384 |
| Reserves | | 69,215 | 10,759 |
| | | 210,599 | 142,143 |

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

| HK\$'000 | Issued share capital (Unaudited) | Share premium account (Unaudited) | Reserve (accumulated funds (Unaudited) | Retained profits/ losses) (Unaudited) | Total (Unaudited) |
|--|--|--|--|--|----------------------|
| At 1 January 2004 | 131,384 | 733,350 | — | (722,591) | 142,143 |
| Issue of new shares upon conversion of convertible notes | 10,000 | 1,600 | — | — | 11,600 |
| Transfer from retained profits/(accumulated losses) — Note | — | — | 49 | (49) | — |
| Profit for the period | — | — | — | 56,856 | 56,856 |
| At 30 June 2004 | 141,384 | 734,950 | 49 | (665,784) | 210,599 |

| HK\$'000 | Issued share capital (Unaudited) | Share premium account (Unaudited) | Reserve (accumulated funds (Unaudited) | Retained profits/ losses) (Unaudited) | Total (Unaudited) |
|--|--|--|--|--|----------------------|
| At 1 January 2003 | 108,384 | 733,350 | — | (795,333) | 46,401 |
| Issue of new shares upon conversion of convertible notes | 23,000 | — | — | — | 23,000 |
| Profit for the period | — | — | — | 1,647 | 1,647 |
| At 30 June 2003 | 131,384 | 733,350 | — | (793,686) | 71,048 |

Note:

In accordance with the relevant Macau laws and regulations, certain subsidiaries of the Company in Macau are required to transfer a certain percentage of their net profit for the period to reserve funds.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

| HK\$'000 | Six months ended | |
|---|--------------------------------|--------------------------------|
| | 30 June 2004 (Unaudited) | 30 June 2003 (Unaudited) |
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 70,774 | 1,385 |
| INVESTING ACTIVITIES | (88,366) | 116,621 |
| FINANCING ACTIVITIES | 19,245 | 21,127 |
| INCREASE IN CASH AND CASH EQUIVALENTS | 1,653 | 139,133 |
| Cash and cash equivalents at beginning of period | 449,655 | 62,933 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 451,308 | 202,066 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 437,688 | 28,956 |
| Non-pledged time deposits with original maturity of less than three months when acquired | 13,620 | 173,110 |
| | 451,308 | 202,066 |

NOTES:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rule") and with the Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" and the presentation and accounting policies used are consistent with those used in the Group's annual financial statements for the year ended 31 December 2003.

2. 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 they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the telecom products segment manufactures and sells telecom products and power supply components for telecom products; and
- (b) the corporate segment includes general corporate income and administrative expense items.

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

2. SEGMENT INFORMATION (continued)

(a) Business segments

The following table presents revenues and results regarding the Group's business segments for the six months ended 30 June 2004 and 2003 respectively.

| HK\$'000 | Telecom products | | Corporate | | Consolidated | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2004 (Unaudited) | 2003 (Unaudited) | 2004 (Unaudited) | 2003 (Unaudited) | 2004 (Unaudited) | 2003 (Unaudited) |
| Segment revenue: | | | | | | |
| Sales to external customers | 1,782,291 | 54,183 | — | — | 1,782,291 | 54,183 |
| Other revenue | 13,136 | 685 | — | — | 13,136 | 685 |
| Total revenue | 1,795,427 | 54,868 | — | — | 1,795,427 | 54,868 |
| Segment results | 100,865 | 4,657 | (9,621) | (2,594) | 91,244 | 2,063 |
| Interest income | | | | | 349 | 247 |
| Profit from operating activities | | | | | 91,593 | 2,310 |
| Finance costs | | | | | (27,983) | (663) |
| Profit before tax | | | | | 63,610 | 1,647 |
| Tax | | | | | (6,754) | — |
| Net profit from ordinary activities attributable to shareholders | | | | | 56,856 | 1,647 |

INTERIM RESULTS

2. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenues and results regarding the Group's geographical segments for the period ended 30 June 2004 and 2003 respectively.

| 2004 | United States of America (Unaudited) | PRC, including HK (Unaudited) | Korea (Unaudited) | Others (Unaudited) | Consolidated (Unaudited) |
|--------------------------------|--|-------------------------------------|----------------------|-----------------------|-----------------------------|
| HK\$'000 | | | | | |
| Segment revenue: | | | | | |
| Sales to external customers | 1,030,558 | 351,866 | 171,983 | 227,884 | 1,782,291 |
| Other revenue | — | 13,136 | — | — | 13,136 |
| Total revenue | 1,030,558 | 365,002 | 171,983 | 227,884 | 1,795,427 |
| 2003 | United States of America (Unaudited) | PRC, including HK (Unaudited) | Korea (Unaudited) | Others (Unaudited) | Consolidated (Unaudited) |
| HK\$'000 | | | | | |
| Segment revenue: | | | | | |
| Sales to external customers | 488 | 53,352 | — | 343 | 54,183 |
| Other revenue | — | 685 | — | — | 685 |
| Total revenue | 488 | 54,037 | — | 343 | 54,868 |

3. DEPRECIATION AND AMORTISATION

During the period, depreciation of approximately HK\$41,644,000 (2003: approximately HK\$1,558,000) and amortisation of approximately HK\$15,361,000 (2003: approximately HK\$909,000) were charged in respect of the Group's fixed assets and intangible assets, respectively.

4. TAX

| HK\$'000 | Six months ended 30 June | |
|----------------------------------|--------------------------|---------------------|
| | 2004 (Unaudited) | 2003 (Unaudited) |
| Current — Hong Kong: | | |
| Charge for the period | 6,050 | — |
| Over-provision in prior years | (1,813) | — |
| Current — Elsewhere | 848 | — |
| Deferred | 1,669 | — |
| Tax charge for the period | 6,754 | — |

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 period. 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, practices and interpretations in respect thereof.

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

5. DIVIDEND

The directors do not recommend payment of an interim dividend for the six months ended 30 June 2004 (30 June 2003: nil).

INTERIM RESULTS

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

| HK\$'000 | Six months ended 30 June | |
|--|--------------------------|---------------------|
| | 2004 (Unaudited) | 2003 (Unaudited) |
| Earnings | | |
| Net profit for calculation of basic earnings per share | 56,856 | 1,647 |
| Adjustment for interest saving on convertible notes added back on deemed conversion of the notes | 26,887 | 186 |
| Net profit for calculation of diluted earnings per share | 83,743 | 1,833 |
| Shares | | |
| Number of shares | | |
| Weighted average number of ordinary shares for calculation of basic earnings per share | 13,287,873,111 | 10,977,355,203 |
| Assumed issued on deemed conversion of all convertible notes outstanding during the period | 61,011,538,462 | 5,868,271,507 |
| Assumed issued at no consideration on deemed exercise of all share options outstanding during the period | — | 129,382,800 |
| Weighted average number of ordinary shares for calculation of diluted earnings per share | 74,299,411,573 | 16,975,009,510 |

7. FIXED ASSETS

During the six months ended 30 June 2004, the Group acquired fixed assets of approximately HK\$63,960,000 (30 June 2003: approximately HK\$529,000) and disposed fixed assets of approximately HK\$637,000 (30 June 2003: approximately HK\$300,000).

8. TRADE AND BILLS RECEIVABLES

The Group normally allows an average credit period of 30 to 90 days to its trade customers. The aged analysis of trade and bills receivables was as follows:

| HK\$'000 | 30 June 2004 (Unaudited) | | 31 December 2003 (Audited) | |
|--------------------|-----------------------------|------------|-------------------------------|------------|
| | Balance | % | Balance | % |
| Current to 30 days | 303,947 | 47 | 251,586 | 42 |
| 31 to 60 days | 220,212 | 34 | 184,463 | 31 |
| 61 to 90 days | 109,561 | 17 | 154,085 | 26 |
| Over 90 days | 12,125 | 2 | 3,789 | 1 |
| Total | 645,845 | 100 | 593,923 | 100 |

9. TRADE AND BILLS PAYABLES

The aged analysis of trade and bills payables was as follows:

| HK\$'000 | 30 June 2004 (Unaudited) | | 31 December 2003 (Audited) | |
|--------------------|-----------------------------|------------|-------------------------------|------------|
| | Balance | % | Balance | % |
| Current to 30 days | 338,749 | 36 | 209,485 | 24 |
| 31 to 60 days | 219,617 | 23 | 230,149 | 27 |
| 61 to 90 days | 175,797 | 19 | 174,772 | 20 |
| Over 90 days | 209,205 | 22 | 244,850 | 29 |
| Total | 943,368 | 100 | 859,256 | 100 |

Included in the above balance is a trade payable of approximately HK\$122,983,000 (31 December 2003: approximately HK\$95,487,000) to Neptune Holding Limited ("Neptune"), a wholly-owned subsidiary of CCT Telecom, which is repayable within 120 days.

INTERIM RESULTS

10. CONVERTIBLE NOTES

| HK\$'000 | 30 June 2004 (Unaudited) | 31 December 2003 (Audited) |
|---|--------------------------------|----------------------------------|
| 2004 Convertible Notes — note (a) | 8,000 | 8,000 |
| 2005 Convertible Notes — note (b) | 45,000 | 45,000 |
| 2005 Convertible Notes — note (c) | 4,000 | 10,000 |
| 2008 Convertible Notes — note (d) | 762,400 | 768,000 |
| | 819,400 | 831,000 |
| Portion classified as current liabilities | 57,000 | 8,000 |
| Non-current portion | 762,400 | 823,000 |

Notes:

- (a) On 19 July 2002, CCT Technology Holdings Limited (“CCT Technology”) issued convertible notes with aggregate principal amounts of HK\$20.0 million through a placing agent to an independent placee and which were subsequently replaced by the convertible notes issued by the Company on 4 November 2002 as part of the group reorganisation. The convertible notes provide the holder an option to convert the principal amount into the Company’s ordinary shares of HK\$0.01 each on any business day being 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 will mature on the second anniversary of the date of their issue.

In June 2003, the convertible notes with the principal amount of HK\$12.0 million were converted into 1,200,000,000 ordinary shares of the Company and as a result, the convertible notes in the principal amount of HK\$8.0 million were still outstanding at 30 June 2004.

- (b) On 17 May 2002, CCT Technology issued convertible notes with aggregate principal amounts of HK\$45.0 million to an indirect wholly-owned subsidiary of CCT Telecom and which were subsequently replaced by the convertible notes issued by the Company on 4 November 2002 as part of the group reorganisation. The convertible notes were issued as part of the consideration for the acquisition of a 100% interest in Electronic Sales Limited (“ESL”) from an indirect wholly-owned subsidiary of CCT Telecom. The convertible notes provide the holder

10. CONVERTIBLE NOTES (continued)

option right to convert the principal amount into the Company's ordinary shares of HK\$0.01 each on any business day being five business days prior to the maturity of the convertible notes at a conversion price of HK\$0.01 per share. The principal amount of the convertible notes do not bear interest and will mature on the third anniversary of the date of their issue.

During the period, the HK\$45.0 million convertible notes had been disposed of by CCT Telecom to a company controlled by Mr. Mak Shiu Tong, Clement, the Chairman of the Company, for a cash consideration of HK\$45.0 million. Details of which are set out in the announcement of CCT Telecom date 4 March 2004.

- (c) On 14 May 2003, the Company issued convertible notes with aggregate principal amounts of HK\$21.0 million through a placing agent to a number of independent parties. The convertible notes provide the holder option right to convert the principal amount into the Company's ordinary shares of HK\$0.01 each on any business day being 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 will mature on the second anniversary of the date of their issue.

In June 2003, the convertible notes with the principal amount of HK\$11.0 million were converted into 1,100,000,000 ordinary shares of the Company. In addition, during the current period, the convertible notes with the principal amount of HK\$6.0 million had been converted into 600,000,000 ordinary shares of the Company. As a result, the convertible notes in the principal amount of HK\$4.0 million were still outstanding at as 30 June 2004.

- (d) On 30 June 2003, the Company issued convertible notes with aggregate principal amounts of HK\$768.0 million to an indirect wholly-owned subsidiary of CCT Telecom as the consideration for the acquisition of the entire interest in Empire Success Holdings Limited ("ESH") from an indirect wholly-owned subsidiary of CCT Telecom. The convertible notes provide the holder option right to convert the principal amount into the Company's ordinary shares of HK\$0.01 each on any business day being five business days prior to the maturity of the convertible notes at a conversion price of HK\$0.014 per share. The convertible notes bear interest at best lending rate plus 2% per annum and will mature on the fifth anniversary of the date of their issue.

During the current period, CCT Telecom had converted part of the convertible notes in the principal amount of HK\$5.6 million into 400,000,000 ordinary shares of the Company. As a result, the convertible notes in the principal amount of HK\$762.4 million were still outstanding at 30 June 2004.

INTERIM RESULTS

11. SHARE CAPITAL

| HK\$'000 | 30 June 2004 (Unaudited) | 31 December 2003 (Audited) |
|--|--------------------------------|----------------------------------|
| Authorised: | | |
| 120,000,000,000 (31 December 2003: 120,000,000,000) shares of HK\$0.01 each | 1,200,000 | 1,200,000 |
| Issued and fully paid: | | |
| 14,138,422,562 (31 December 2003: 13,138,422,562) shares of HK\$0.01 each | 141,384 | 131,384 |

Movements in the issued and fully paid ordinary shares during the period were as follows:

| | Carrying amount (Unaudited) HK\$'000 | Number of Shares (Unaudited) |
|---------------------------------|---|------------------------------------|
| At 1 January 2004 | 131,384 | 13,138,422,562 |
| Conversion on convertible notes | 10,000 | 1,000,000,000 |
| At 30 June 2004 | 141,384 | 14,138,422,562 |

12. PLEDGE OF ASSETS

At the balance sheet date, the Group's bank borrowings were secured by pledge of the Group's fixed deposits amounted to approximately HK\$100.2 million (31 December 2003: approximately HK\$100.2 million);

13. CONTINGENT LIABILITIES

The Group had 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 approximately HK\$5,458,000 as at 30 June 2004 (31 December 2003: approximately HK\$4,708,000). The contingent liability arose 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 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.

14. OPERATING LEASE ARRANGEMENT

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 with its tenants falling due as follows:

| HK\$'000 | 30 June 2004 (Unaudited) | 31 December 2003 (Audited) |
|---|--------------------------------|----------------------------------|
| Within one year | 2,831 | 4,443 |
| In the second to fifth years, inclusive | 729 | 1,440 |
| | 3,560 | 5,883 |

INTERIM RESULTS

15. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 14 above, the Group had the following capital commitments at the balance sheet date:

| HK\$'000 | 30 June 2004 (Unaudited) | 31 December 2003 (Audited) |
|--|--------------------------------|----------------------------------|
| Contracted, but not provided for: | | |
| Purchases of plant and machinery and equipment | 4,446 | 2,255 |
| Purchases of furniture, office equipment and motor vehicles | 3,089 | — |
| Leasehold improvements | 3,459 | 94 |
| | 10,994 | 2,349 |

16. RELATED PARTY TRANSACTIONS

- (a) On 2 June 2004, the Company and CCT Telecom entered into a conditional agreement pursuant to which the Company has agreed to dispose of its power supply components business and an unused industrial property to CCT Telecom for a consideration of HK\$139.0 million, which will be satisfied by the cancellation of the convertible note in the same amount owed to CCT Telecom. The transaction was approved by the independent shareholders in a Special General Meeting held on 8 September 2004. Further details of the transaction are set out in the circular of the Company dated 20 August 2004.

16. RELATED PARTY TRANSACTIONS (continued)

- (b) During the current period, the Group had the following transactions with CCT Telecom and its subsidiaries:

| HK\$'000 | Six months ended 30 June | |
|--|--------------------------|---------------------|
| | 2004 (Unaudited) | 2003 (Unaudited) |
| Purchase of plastic casings and components (i) | 147,396 | — |
| Purchase of materials (ii) | 12,693 | 10,627 |
| Factory rental income (iii) | 3,000 | — |
| Factory rental expenses (iv) | 3,750 | 900 |
| Office rental expenses (v) | 1,492 | — |
| Management information system service fee (vi) | 1,350 | — |

Notes:

- (i) The plastic casings and components were purchased by CCT Telecom (HK) Limited ("CCT HK"), an indirect wholly-owned subsidiary of the Company, from Neptune, an indirect wholly-owned subsidiary of CCT Telecom, in accordance with the terms and conditions set out in a manufacturing agreement entered into between CCT HK and Neptune on 15 May 2003.

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

- (ii) The purchase of materials by ESL, an indirect wholly-owned subsidiary of the Company, from Neptune and the price of which was determined based on the direct costs of the materials plus a mark-up percentage up to 50% of such direct costs.

- (iii) The factory rental income was charged to Shine Best Developments Limited ("Shine Best"), an indirect wholly-owned subsidiary of CCT Telecom, by CCT Enterprise Limited ("CCT Ent"), an indirect wholly-owned subsidiary of the Company, for the provision of factory space in Huiyang, the PRC, at a rate determined in accordance with the terms and conditions set out in a tenancy agreement entered into between Shine Best and CCT Ent on 15 May 2003.

INTERIM RESULTS

16. RELATED PARTY TRANSACTIONS (continued)

- (iv) The factory rental expenses were charged to CCT Investment Limited ("CCT I") and ESL, both wholly-owned subsidiaries of the Company, by CCT Properties (Dongguan) Limited ("CCT Prop"), an indirect wholly-owned subsidiary of CCT Telecom, for the provision of factory spaces in Dongguan, the PRC, at rates determined in accordance with the terms and conditions set out in two tenancy agreements entered into on 14 January 2004 between CCT I and CCT Prop, and between ESL and CCT Prop, respectively.
- (v) The office rental expenses were charged to CCT HK and CCT Telecom R&D Limited ("CCT R&D"), indirect wholly-owned subsidiaries of the Company, by Goldbay Investments Limited ("Goldbay"), an indirect wholly-owned subsidiary of CCT Telecom, for the provision of office spaces in Hong Kong, at rates determined in accordance with the terms and conditions set out in two tenancy agreements entered into between CCT HK and Goldbay on 15 September 2003, and between CCT R&D and Goldbay on 23 December 2003, respectively.
- (vi) The management information system service fee was charged to CCT Telecom by CCT HK for the provision of general management information system support, network and software consultation and hardware maintenance services. The rate was determined in accordance with the terms and conditions set out in an agreement entered into between CCT Telecom and CCT HK on 15 May 2003.
- (c) Before CCT HK, (previously an indirect wholly-owned subsidiary of CCT Telecom), has become an indirect wholly-owned subsidiary of the Company on 30 June 2003, ESL had the following transactions with CCT HK during the previous period in 2003:

| HK\$'000 | Notes | Six months ended |
|------------------------|-------|-----------------------------|
| | | 30 June 2003 (Unaudited) |
| Management fee expense | (i) | 1,200 |
| Sale of products | (ii) | 45,750 |

16. RELATED PARTY TRANSACTIONS (continued)*Notes:*

- (i) The management fee expense was charged to ESL by CCT HK for the provision of general administration, management information system consultation and hardware maintenance services and was determined based on actual costs incurred.

- (ii) The sale of products from ESL to CCT HK included transformers, AC/DC adaptors and custom built-in power supplies, and the price of which was determined based on the direct material costs of the products plus a mark-up percentage of up to 50% of such direct material costs.

DISCLOSURE OF INTERESTS

DIRECTORS' INTERESTS

As at 30 June 2004, 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 or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

(a) Interests and short positions in the shares, underlying shares and debentures of the Company

Long positions in the underlying shares of equity derivatives of the Company:

(1) Share options:

| Name of director | Date of grant of share options | Exercise period of share options | Exercise price per share HK\$ | Number of share options outstanding | Number of total underlying shares | Approximate percentage of total shareholding (%) |
|------------------------|--------------------------------|----------------------------------|-------------------------------|-------------------------------------|-----------------------------------|--|
| Mak Shiu Tong, Clement | 30/4/2003 | 30/4/2003 — 29/4/2008 | 0.014 | 100,000,000 | 100,000,000 | 0.71 |
| Cheng Yuk Ching, Flora | 30/4/2003 | 30/4/2003 — 29/4/2008 | 0.014 | 100,000,000 | 100,000,000 | 0.71 |
| Tam Ngai Hung, Terry | 30/4/2003 | 30/4/2003 — 29/4/2008 | 0.014 | 100,000,000 | 100,000,000 | 0.71 |
| Tong Chi Hoi | 30/4/2003 | 30/4/2003 — 29/4/2008 | 0.014 | 50,000,000 | 50,000,000 | 0.35 |
| Chow Siu Ngor | 30/4/2003 | 30/4/2003 — 29/4/2008 | 0.014 | 8,000,000 | 8,000,000 | 0.06 |
| Lau Ho Kit, Ivan | 30/4/2003 | 30/4/2003 — 29/4/2008 | 0.014 | 8,000,000 | 8,000,000 | 0.06 |

DISCLOSURE OF INTERESTS

(2) Convertible note:

| Name of director | Description of equity derivatives | Number of total underlying shares | Approximate percentage of total shareholding (%) |
|-------------------------------|--|-----------------------------------|--|
| Mak Shiu Tong, Clement (Note) | HK\$45 million zero coupon convertible note due 2005 | 4,500,000,000 | 31.83 |

Note: The HK\$45 million zero coupon convertible note due 2005 was held by New Capital Industrial Limited, which is a corporation controlled by Mr. Mak Shiu Tong, Clement. This interest in the underlying shares has also been disclosed under the section headed "Substantial Shareholders' Interests" below.

(b) Interests and short positions in the shares, underlying shares and debentures of an associated corporation — CCT Telecom Holdings Limited ("CCT Telecom")

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

| Name of director | Number of shares beneficially held and nature of interest | | Approximate percentage of total shareholding (%) |
|-------------------------------|---|------------|--|
| | Personal | Corporate | |
| Mak Shiu Tong, Clement (Note) | — | 86,261,941 | 20.44 |
| Cheng Yuk Ching, Flora | 9,876,713 | — | 2.34 |
| Tong Chi Hoi | 282,000 | — | 0.07 |
| William Donald Putt | 171,500 | — | 0.04 |

Note: The shares were held by Capital Force International Limited and Capital Interest Limited, which are corporations controlled by Mr. Mak Shiu Tong, Clement.

DISCLOSURE OF INTERESTS

- (ii) Long positions in the underlying shares of equity derivatives of CCT Telecom —
Share options:

| Name of director | Date of grant of share options | Exercise period of share options | Exercise price per share HK\$ | Number of share options outstanding | Number of total underlying shares | Approximate percentage of total shareholding (%) |
|------------------------|--------------------------------|----------------------------------|----------------------------------|-------------------------------------|-----------------------------------|--|
| Mak Shiu Tong, Clement | 17/3/2003 | 17/3/2003 — 16/3/2008 | 0.750 | 420,000 | 420,000 | 0.10 |
| Cheng Yuk Ching, Flora | 17/3/2003 | 17/3/2003 — 16/3/2008 | 0.750 | 4,200,000 | 4,200,000 | 1.00 |
| Tam Ngai Hung, Terry | 17/3/2003 | 17/3/2003 — 16/3/2008 | 0.750 | 4,200,000 | 4,200,000 | 1.00 |
| Tong Chi Hoi | 17/3/2003 | 17/3/2003 — 16/3/2008 | 0.750 | 1,000,000 | 1,000,000 | 0.24 |
| William Donald Putt | 17/3/2003 | 17/3/2003 — 16/3/2008 | 0.750 | 420,000 | 420,000 | 0.10 |

Save as disclosed above, as at 30 June 2004, none of the directors and the chief executive of the Company and/or any of their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2004, the following persons (other than the directors or the chief executive of the Company) had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

- (i) Long positions in the shares of the Company:

| Name of shareholder | Notes | Number of shares held | Approximate percentage of total shareholding (%) |
|--------------------------------------|-------|-----------------------|--|
| CCT Telecom | (a) | 4,900,000,000 | 34.66 |
| CCT Technology Investment Limited | (b) | 4,900,000,000 | 34.66 |
| Jade Assets Company Limited | | 1,800,000,000 | 12.73 |
| CCT Assets Management Limited | | 1,350,000,000 | 9.55 |
| Expert Success International Limited | | 1,350,000,000 | 9.55 |
| Noble Team Investments Limited | | 400,000,000 | 2.83 |
| Dongguan Defa Investment Limited | | 1,400,000,000 | 9.90 |
| Tan Jinrong | (c) | 1,400,000,000 | 9.90 |
| Kwong Cheong Trading Limited | | 1,200,000,000 | 8.49 |
| Yang Shao Wu | (d) | 1,200,000,000 | 8.49 |

Notes:

- (a) The interest disclosed comprises 4,900,000,000 shares indirectly owned by CCT Technology Investment Limited through the subsidiaries stated in note (b) below. CCT Technology Investment Limited is a wholly-owned subsidiary of CCT Telecom.
- (b) The interest disclosed comprises 1,800,000,000 shares held by Jade Assets Company Limited, 1,350,000,000 shares held by CCT Assets Management Limited, 1,350,000,000 shares held by Expert Success International Limited and 400,000,000 shares held by Noble Team Investments Limited, all of them are wholly-owned subsidiaries of CCT Technology Investment Limited.

DISCLOSURE OF INTERESTS

(c) The interest disclosed comprises 1,400,000,000 shares held by Dongguan Defa Investment Limited, which is 75% owned by Mr. Tan Jinrong.

(d) The interest disclosed comprises 1,200,000,000 shares held by Kwong Cheong Trading Limited, which is wholly-owned by Mr. Yang Shao Wu.

(ii) Long positions in the underlying shares of equity derivatives of the Company:

| Name of holder of equity derivatives | Notes | Description of equity derivatives | Number of total underlying shares | Approximate percentage of total shareholding (%) |
|--------------------------------------|-------|--|-----------------------------------|--|
| CCT Telecom | (a) | HK\$762.4 million out of the principal sum of HK\$768 million prime or best lending rate plus 2% convertible note due 2008 | 54,457,142,857 | 385.17 |
| CCT Technology Investment Limited | (b) | HK\$762.4 million out of the principal sum of HK\$768 million prime or best lending rate plus 2% convertible note due 2008 | 54,457,142,857 | 385.17 |
| Noble Team Investments Limited | | HK\$762.4 million out of the principal sum of HK\$768 million prime or best lending rate plus 2% convertible note due 2008 | 54,457,142,857 | 385.17 |
| New Capital Industrial Limited | (c) | HK\$45 million zero coupon convertible note due 2005 | 4,500,000,000 | 31.83 |
| Kwong Cheong Trading Limited | | HK\$8 million out of the principal sum of HK\$20 million 5% convertible notes due 2004 | 800,000,000 | 5.66 |

DISCLOSURE OF INTERESTS

| Name of holder of equity derivatives | Notes | Description of equity derivatives | Number of total underlying shares | Approximate percentage of total shareholding (%) |
|---|-------|--|--|--|
| Yang Shao Wu | (d) | HK\$8 million out of the principal sum of HK\$20 million 5% convertible notes due 2004 | 800,000,000 | 5.66 |

Notes:

- (a) The interest disclosed comprises an aggregate of 54,457,142,857 underlying shares indirectly owned by CCT Technology Investment Limited through the subsidiary stated in note (b) below. CCT Technology Investment Limited is a wholly-owned subsidiary of CCT Telecom.
- (b) The interest disclosed comprises an aggregate of 54,457,142,857 underlying shares held by Noble Team Investments Limited, which is a wholly-owned subsidiary of CCT Technology Investment Limited.
- (c) New Capital Industrial Limited is a corporation controlled by Mr. Mak Shiu Tong, Clement. This interest in the underlying shares has also been disclosed under the section headed "Directors' Interests" above.
- (d) The interest disclosed comprises 800,000,000 underlying shares held by Kwong Cheong Trading Limited, which is wholly-owned by Mr. Yang Shao Wu.

Save as disclosed above, as at 30 June 2004, no other person (other than the directors or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was conditionally adopted by the then shareholder of the Company and the shareholders of CCT Technology Holdings Limited, the then holding company of the Company, on 17 September 2002 and 15 October 2002 respectively to comply with the new amendments to the Listing Rules in respect of the share option schemes of a listed company. The Share Option Scheme became effective on 7 November 2002. As at 30 June 2004, there were 1,082,781,000 share options outstanding under the Share Option Scheme. Based on these outstanding share options, the total number of shares available for issue is 1,082,781,000, which represents approximately 6.97% of the issued share capital of the Company as at the date of this report.

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

| Name or category of participant | Outstanding as at 1 January 2004 | Number of share options | | | Outstanding as at 30 June 2004 | Date of grant of share options | Exercise period of share options | Exercise price per share (Note) |
|---------------------------------|----------------------------------|---------------------------|-----------------------------|------------------------------------|--------------------------------|--------------------------------|----------------------------------|---------------------------------|
| | | Granted during the period | Exercised during the period | Lapsed/Cancelled during the period | | | | |
| Executive directors | | | | | | | | |
| Mak Shiu Tong, Clement | 100,000,000 | — | — | — | 100,000,000 | 30/4/2003 | 30/4/2003 — 29/4/2008 | 0.014 |
| Cheng Yuk Ching, Flora | 100,000,000 | — | — | — | 100,000,000 | 30/4/2003 | 30/4/2003 — 29/4/2008 | 0.014 |
| Tam Ngai Hung, Terry | 100,000,000 | — | — | — | 100,000,000 | 30/4/2003 | 30/4/2003 — 29/4/2008 | 0.014 |
| Tong Chi Hoi | 50,000,000 | — | — | — | 50,000,000 | 30/4/2003 | 30/4/2003 — 29/4/2008 | 0.014 |
| | <u>350,000,000</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>350,000,000</u> | | | |

SHARE OPTION SCHEME

| Name or category of participant | Number of share options | | | | | Date of grant of share options | Exercise period of share options | Exercise price per share (Note) |
|--|----------------------------------|---------------------------|-----------------------------|-----------------------------|--------------------------------|--------------------------------|----------------------------------|---------------------------------|
| | Outstanding as at 1 January 2004 | Granted during the period | Exercised during the period | Cancelled during the period | Outstanding as at 30 June 2004 | | | |
| Independent non-executive directors | | | | | | | | |
| Chow Siu Ngor | 8,000,000 | — | — | — | 8,000,000 | 30/4/2003 | 30/4/2003 — 29/4/2008 | 0.014 |
| Lau Ho Kit, Ivan | 8,000,000 | — | — | — | 8,000,000 | 30/4/2003 | 30/4/2003 — 29/4/2008 | 0.014 |
| | 16,000,000 | — | — | — | 16,000,000 | | | |
| Other employees | | | | | | | | |
| In aggregate | 716,781,000 | — | — | — | 716,781,000 | 30/4/2003 | 30/4/2003 — 29/4/2008 | 0.014 |
| | 716,781,000 | — | — | — | 716,781,000 | | | |
| | 1,082,781,000 | — | — | — | 1,082,781,000 | | | |

Note: 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 directors of the Company do not consider it appropriate to disclose a theoretical value of the share options granted during the period because a number of factors crucial for the valuation cannot be determined. Accordingly, any valuation of the share options based on various speculative assumptions would not be meaningful, but would be misleading to the shareholders of the Company.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed shares (whether on the Stock Exchange or otherwise) of the Company during the six months ended 30 June 2004.

AUDIT COMMITTEE

The Company has established an audit committee comprising two independent non-executive directors of the Company. A set of written terms of reference which describes the authorities and duties of the audit committee, was adopted by the board of directors of the Company.

The audit committee had reviewed with the management the accounting principles and practices adopted by the Group and discussed financial and accounting matters including the review of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2004.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2004, in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules except that the independent non-executive directors of the Company are not appointed for any specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company.

BOARD OF DIRECTORS

As at the date of this report, the executive directors of the Company are Mr. Mak Shiu Tong, Clement, Ms. Cheng Yuk Ching, Flora, Mr. Tam Ngai Hung, Terry, Mr. Tong Chi Hoi and Mr. William Donald Putt and the independent non-executive directors of the Company are Mr. Chow Siu Ngor and Mr. Lau Ho Kit, Ivan.

By Order of the Board

Mak Shiu Tong, Clement

Chairman

Hong Kong, 10 September 2004

