**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your securities in CCT Telecom Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of CCT Telecom Holdings Limited.

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CCT TELECOM HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

# DISCLOSEABLE AND CONNECTED TRANSACTION

## Acceleration of exercise of CCT Technology Option and PRC JV Option and Assignment of Shareholder's Loan

**Independent Financial Adviser to the Independent Board Committee**

MENLO CAPITAL

## MENLO CAPITAL LIMITED

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A notice dated 5 September 2002 convening the EGM to be held at 32/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, on Wednesday, 25 September 2002 at 10:30 a.m. is set out on pages 27 to 28 of this circular. Whether or not you intend to attend and vote at the EGM in person, you are required to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tengis Limited, at 4/F., Hutchison House, 10 Harcourt Road, Central, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

5 September 2002

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# DEFINITIONS

*In this circular, the following expressions have the meanings set out below unless the context requires otherwise:*

| | |
|---|---|
| ''Acceleration Agreement'' | the agreement entered into between the Company, Orient Rich, Haier-CCT and Haier Group Company on 8 August 2002 as supplemented on 15 August 2002 in respect of (1) an acceleration of the exercise of the CCT Technology Option in full and the PRC JV Option in part, as to a 15.5% interest in the PRC JV, (2) the assignment of the Shareholder's Loan and (3) the PRC JV Option in respect of the remaining 35.5% interest in the PRC JV |
| ''Agreement'' | the conditional agreement relating to the sale and purchase of shares in Foreland Agents Limited and Haier CCT (H.K.) Telecom Co., Limited dated 4 July 2001 entered into between the Company and Orient Rich, a wholly-owned subsidiary of Haier Group Company, as vendors, Haier-CCT (then known as CCT Multimedia Holdings Limited) as purchaser and Haier Group Company as warrantor and as amended by a supplemental agreement dated 11 July 2001 |
| ''Agreement Completion Date'' | 17 December 2001, being the completion date of the Agreement |
| ''associate(s)'' | shall have the meaning as defined in the Listing Rules |
| ''Board'' | the board of Directors of the Company |
| ''Business Day'' | a day on which banks are open for business in Hong Kong (excluding Saturdays, Sundays and public holidays) |
| ''CCT Technology'' | CCT Technology Group Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of CCT Mobile Holdings Limited which in turn is wholly-owned by the Company |
| ''CCT Technology Option'' | the option to require the Company to procure the sale of the CCT Technology Option Interest to Haier-CCT (then known as CCT Multimedia Holdings Limited) or as it may direct at a cash price equal to the net asset value of CCT Technology at the time of the exercise of the option pursuant to the Agreement as amended by the Acceleration Agreement |
| ''CCT Technology Option Interest'' | the 100% issued share capital in CCT Technology held by CCT Mobile Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company |
| ''Company'' | CCT Telecom Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the main board operated by the Stock Exchange |
| ''Director(s)'' | director(s) of the Company |

| | |
|---|---|
| ''EGM'' | the extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve the Acceleration Agreement and the transactions contemplated therein and any adjournment thereof (as the case may be) |
| ''Group'' | the Company and its subsidiaries |
| ''Haier-CCT'' | Haier-CCT Holdings Limited (formerly known as CCT Multimedia Holdings Limited), a company incorporated in Bermuda with limited liability and a subsidiary of the Company, the shares of Haier-CCT Holdings Limited are listed on the main board operated by the Stock Exchange |
| ''Haier-CCT Director(s)'' | director(s) of Haier-CCT |
| ''Haier-CCT Group'' | Haier-CCT and its subsidiaries |
| ''Haier-CCT Shares'' | the ordinary shares of HK$0.10 each in the capital of Haier-CCT |
| ''Haier-CCT Shareholder(s)'' | holder(s) of Haier-CCT Shares, including the independent shareholder(s) of Haier-CCT |
| ''Haier Group Company'' | 海爾集團公司 Haier Group Company, a company incorporated in the PRC |
| ''Haier Investments'' | 青島海爾投資發展有限公司 Qingdao Haier Investment Development Co., Limited, a company incorporated in the PRC with limited liability, a wholly-owned subsidiary of Haier Group Company and owns a 51% interest in the registered capital of the PRC JV |
| ''HK$'' | Hong Kong dollars, the lawful currency of Hong Kong |
| ''Hong Kong'' | the Hong Kong Special Administrative Region of the PRC |
| ''Independent Board Committee'' | the independent board committee constituted by two of the independent non-executive directors of the Company, comprising Mr. Tam King Ching Kenny and Mr. Lau Ho Man Edward to advise the Independent Shareholders in respect of the Acceleration Agreement |
| ''Independent Financial Adviser'' | Menlo Capital Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the laws of Hong Kong), the independent financial adviser to the Independent Board Committee in respect of the Acceleration Agreement |
| ''Independent Shareholders'' | shareholders of the Company other than the Directors who are Haier-CCT Directors and/or Haier-CCT Shareholders and their respective associates |
| ''Latest Practicable Date'' | 2 September 2002, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular |

| | |
|---|---|
| ''Listing Rules'' | the Rules Governing the Listing of Securities on the Stock Exchange |
| ''Orient Rich'' | Orient Rich (H.K.) Limited, a company incorporated in Hong Kong, a wholly-owned subsidiary of Haier Group Company |
| ''PRC'' | the People's Republic of China (excluding Hong Kong for the purpose of this circular) |
| ''PRC JV'' | 海爾 CCT(青島)通訊有限公司 Haier CCT (Qingdao) Telecom Co., Ltd., a Sino-foreign equity joint venture |
| ''PRC JV Option'' | the option to require Haier Group Company to procure the sale of the PRC JV Option Interest to Haier-CCT (then known as CCT Multimedia Holdings Limited) or as it may direct for HK$673,200,000 exercisable in whole or in part, which will be satisfied by the issue to Haier Group Company or its nominee(s) the PRC JV Option Consideration Shares at HK$0.20 each |
| ''PRC JV Option Interest'' | the 51% interest in the registered capital of the PRC JV held by Haier Investments, a company incorporated in the PRC and a wholly-owned subsidiary of Haier Group Company |
| ''PRC JV Option Consideration Shares'' | the 3,366,000,000 new Haier-CCT Shares to be issued by Haier-CCT to Haier Group Company or its nominee(s) upon the exercise of the PRC JV Option in full (or any such Haier-CCT Shares upon exercise of the PRC JV Option in part) |
| ''RMB'' | Renminbi, the lawful currency of the PRC |
| ''SDI Ordinance'' | the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) |
| ''Service Agreement'' | the technical service and management agreement dated 21 September 2000 made between CCT Technology and Foreland Agents Limited as amended by a supplemental agreement dated 27 August 2001 made between the same parties |
| ''Shares'' | the ordinary shares of HK$0.10 each in the capital of the Company |
| ''Shareholders'' | holders of the Shares, including the Independent Shareholders |
| ''Shareholder's Loan'' | the aggregate indebtedness owed by CCT Technology to CCT Mobile Holdings Limited, a wholly-owned subsidiary of the Company, as an interest-free shareholder's loan, in the amount of HK$54,940,947 |
| ''Stock Exchange'' | The Stock Exchange of Hong Kong Limited |
| ''substantial shareholder'' | shall have the meaning as ascribed thereto in the Listing Rules |
| ''%'' | per cent. |

*Unless otherwise specified in this circular, the exchange rate of RMB1 to HK$0.9345 is used.*

# CCT TELECOM HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

*Executive Directors:*
Mak Shiu Tong Clement *(Chairman)*
Cheng Yuk Ching Flora
Tam Ngai Hung
William Donald Putt

*Independent non-executive Directors:*
Samuel Olenick
Tam King Ching Kenny
Lau Ho Man Edward

*Registered office:*
The Office of The Harbour Trust Co Ltd
PO Box 1787GT
One Capital Place
Grand Cayman
Cayman Islands
British West Indies

*Head office and principal place of business:*
32/F., China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

5 September 2002

**DISCLOSEABLE AND CONNECTED TRANSACTION**

**Acceleration of exercise of CCT Technology Option and PRC JV Option and Assignment of Shareholder's Loan**

*To the Shareholders and, for information only, the holders of options and convertible bonds of the Company*

Dear Sir/Madam,

## INTRODUCTION

The Company and Haier-CCT jointly announced on 15 August 2002 that Haier-CCT, Orient Rich, Haier Group Company and the Company have entered into the Acceleration Agreement on 8 August 2002 pursuant to which Haier-CCT has agreed to:

(i) accelerate the exercise of the CCT Technology Option in full and the PRC JV Option in part in respect of a 15.5% interest in the PRC JV;

(ii) acquire the Shareholder's Loan; and

(iii) continue to hold the PRC JV Option in respect of the remaining 35.5% interest in the PRC JV and such option will be exercisable in full or in part at any time during the period from the date of completion in respect of the 15.5% interest in the PRC JV to 31 July 2004 at the price of HK$468,600,000 which will be satisfied by the issue to Haier Group Company or its nominee(s) Haier-CCT Shares at the agreed price of HK$0.20 each.

Menlo Capital Limited has been appointed the independent financial adviser to the Independent Board Committee in relation to the Acceleration Agreement and the transactions contemplated under the Acceleration Agreement.

**BACKGROUND**

Pursuant to the terms of the Agreement, Haier-CCT was entitled to require each of the Company and Haier Investments, during an exercise period commencing on the first anniversary of the Agreement Completion Date and ending on the third anniversary thereof, that is, from 17 December 2002 to 17 December 2004, to transfer all or part of the issued share capital of CCT Technology owned by the Company and the 51% interest in the PRC JV owned by Haier Investments respectively upon Haier-CCT exercising the CCT Technology Option and the PRC JV Option. The exercise price of the CCT Technology Option was agreed to be the net asset value of CCT Technology at the time of exercise of the CCT Technology Option and the exercise price of the PRC JV Option was agreed to be HK$673,200,000 which would be satisfied by the issue to Haier Group Company or its nominee(s) the PRC JV Option Consideration Shares at HK$0.20 each.

The Company, Orient Rich, Haier-CCT and Haier Group Company have, on 8 August 2002, entered into the Acceleration Agreement amending certain terms of the Agreement in respect of the CCT Technology Option and the PRC JV Option.

Pursuant to the terms of the Acceleration Agreement, Haier-CCT has agreed to accelerate the exercise of the CCT Technology Option in full and the PRC JV Option in part, as to 15.5% interest in the PRC JV, acquire the Shareholder's Loan, and it will continue to hold the PRC JV Option in part in respect of the remaining 35.5% interest in the PRC JV and such option will be exerciseable in full or in part at any time during the period from the date of completion in respect of the 15.5% interest in the PRC JV to 31 July 2004.

Each of the Company and Haier Group Company is a substantial shareholder of Haier-CCT. Upon completion of the sale and purchase of the 15.5% interest in the PRC JV, the interest of the Company in Haier-CCT shall be diluted from 51.31% to 46.04% and Haier-CCT will cease to be a subsidiary of the Company. Accordingly, the Acceleration Agreement and the transactions contemplated therein constitute a discloseable and connected transaction for the Company under Chapter 14 of the Listing Rules and is subject to the approval of the Independent Shareholders at the EGM.

**ACCELERATION AGREEMENT**

**Date:** 8 August 2002

**Parties:**
1. The Company
2. Orient Rich
3. Haier Group Company
4. Haier-CCT

Pursuant to the Acceleration Agreement,

(1) The Company and Haier-CCT have agreed to accelerate the exercise of the CCT Technology Option in full and the Company will assign the Shareholder's Loan to Haier-CCT. The purchase price of the CCT Technology Option Interest in full (representing 100% of the issued share capital of CCT Technology) is HK$1 payable in cash, being the equivalent of the net asset value of CCT Technology and as at 31 July 2002, CCT Technology has a net deficit of HK$4,928,000. The Company has represented to Haier Group Company that the Shareholder's Loan will remain the same upon completion of the sale and purchase of the CCT Technology Option Interest. The purchase price of the Shareholder's Loan is HK$54,940,947 payable in cash, being a sum equivalent to the face value of the Shareholder's Loan. The proceeds from the assignment of the Shareholder's Loan shall be used for the working capital purposes of the Company.

Before completion of the sale and purchase of the CCT Technology Option Interest, the service fee is payable by CCT Technology, an indirect wholly-owned subsidiary of the Company, to Foreland Agents Limited, an indirect wholly-owned subsidiary of Haier-CCT pursuant to the Service Agreement. After completion of the sale and purchase of the CCT Technology Option Interest, the service fee is payable by CCT Technology to Foreland Agents Limited but the two companies will become indirect wholly-owned subsidiaries of Haier-CCT. The service fee payable by CCT Technology to Foreland Agents Limited will be eliminated upon consolidation of Haier-CCT's accounts.

The monthly service fee payable by CCT Technology to Foreland Agents Limited from April 2001 to March 2021 under the Service Agreement is as follows:

| **For the period from** | **Monthly service fee HK$ (per month)** |
|---|---|
| April 2001 to March 2002 | 5,000,000 |
| April 2002 to March 2003 | 5,000,000 |
| April 2003 to March 2004 | 14,000,000 |
| April 2004 to March 2005 | 14,000,000 |
| April 2005 to March 2006 | 14,000,000 |
| April 2006 to March 2007 | 14,700,000 |
| April 2007 to March 2008 | 15,435,000 |
| April 2008 to March 2009 | 16,207,000 |
| April 2009 to March 2010 | 17,017,000 |
| April 2010 to March 2011 | 17,868,000 |
| April 2011 to March 2012 | 18,761,000 |
| April 2012 to March 2013 | 19,699,000 |
| April 2013 to March 2014 | 20,684,000 |
| April 2014 to March 2015 | 21,719,000 |
| April 2015 to March 2016 | 22,805,000 |
| April 2016 to March 2017 | 23,945,000 |
| April 2017 to March 2018 | 25,142,000 |
| April 2018 to March 2019 | 26,399,000 |
| April 2019 to March 2020 | 27,719,000 |
| April 2020 to March 2021 | 29,105,000 |

(2) Haier Group Company and Haier-CCT have agreed to accelerate the exercise of the PRC JV Option in part in respect of a 15.5% interest in the PRC JV. Based on PRC accounting standards, the audited net asset value of the PRC JV as at 31 December 2001 was approximately HK$212,700,000. The purchase price of the PRC JV Option Interest in part in respect of the 15.5% interest in the PRC JV is HK$204,600,000, representing approximately a 520% premium to the net asset value of the PRC JV, and being the relevant proportionate interest of the full exercise price of the PRC JV Option of HK$673,200,000 as set out in the Agreement. The purchase price of the PRC JV Option Interest in part in respect of the 15.5% interest in the PRC JV will be satisfied by the issue of 1,023,000,000 Haier-CCT Shares at the agreed price of HK$0.20 each.

The issue price of HK$0.20 per Haier-CCT Share represents approximately a 57.5% premium to the closing price of HK$0.127 as at the Latest Practicable Date. Based on the stock price of Haier-CCT as at the Latest Practicable Date, the effective consideration for the PRC JV Option Interest in part in respect of the 15.5% interest in the PRC JV is approximately HK$129,900,000.

Upon completion of the above transfers, Haier-CCT will have acquired indirectly through subsidiaries in aggregate a 64.5% interest in the PRC JV.

(3) Haier-CCT continues to hold the PRC JV Option in respect of the remaining 35.5% interest in the PRC JV and the PRC JV Option will be exercisable pursuant to the terms of the Acceleration Agreement in full or in part at any time during the period from the date of completion in respect of the 15.5% interest in the PRC JV to 31 July 2004 at the price of HK$468,600,000 which will be satisfied by the issue to Haier Group Company or its nominee(s) 2,343,000,000 Haier-CCT Shares at the agreed price of HK$0.20 each. Upon completion of the sale and purchase of such interest pursuant to the exercise of such option in full, Haier-CCT will own the entire interest in the PRC JV.

The exercise of any portion of the PRC JV Option in respect of the remaining 35.5% interest in the PRC JV is conditional upon compliance with any applicable laws and any procedural or other requirements and the obtaining of necessary consent, approval or authorisation from regulators in Hong Kong and the PRC to enable the sale and purchase of interests in the PRC JV pursuant to such exercise of the option to be completed without adverse consequences to the good standing of Haier-CCT as a listed company in Hong Kong.

(4) The Company and Haier-CCT have jointly and severally given representations, warranties and undertakings in respect of Haier-CCT Group (other than the PRC JV and Haier CCT (H.K.) Telecom Co., Limited) and in favour of Haier Group Company and Orient Rich.

**Conditions**

Completion of the sale and purchase of the CCT Technology Option Interest and the assignment of the Shareholder's Loan shall take place on the next Business Day (or such later date as agreed by the parties) after all necessary resolutions have been passed by the independent shareholders of Haier-CCT at its special general meeting, and the Independent Shareholders at the EGM, approving the sale and purchase of CCT Technology Option Interest and the assignment of the Shareholder's Loan and the terms of and transactions contemplated in the Acceleration Agreement.

If the above conditions have not been fulfilled on or before 30 November 2002, or such other date as the parties to the Acceleration Agreement may agree, the provisions in the Acceleration Agreement in respect of the CCT Technology Option will lapse and cease to be of any effect.

Completion of the sale and purchase of the 15.5% interest in the PRC JV is conditional upon:

(a) completion of the sale and purchase of the CCT Technology Option Interest in full and the assignment of the Shareholder's Loan which shall take place on the next Business Day (or such later date as may be agreed by the parties) after all necessary resolutions have been passed by the Independent Shareholders at the EGM and the independent shareholders of Haier-CCT at its special general meeting to be held respectively with respect to the sale and purchase of the CCT Technology Option Interest and the assignment of the Shareholder's Loan and the terms of and transactions contemplated in the Acceleration Agreement;

(b) all necessary resolutions being passed by the Independent Shareholders and the independent shareholders of Haier-CCT approving the terms of and transactions contemplated in the Acceleration Agreement and the implementation thereof;

(c) the approval by relevant authorities in the PRC for the transfer of the 15.5% interest in the PRC JV pursuant to the Acceleration Agreement;

(d) the warranties given by each of the parties to the Acceleration Agreement as set out in the Acceleration Agreement remaining true, accurate and not misleading; and

(e) all other necessary consents or approvals being granted by third parties (including governmental or official authorities in Hong Kong and the PRC) and no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the 15.5% interest in the PRC JV pursuant to the Acceleration Agreement having been proposed, enacted or taken by any governmental or official authority.

If any of the above conditions has not been fulfilled on or before 30 November 2002, or such other date as the parties to the Acceleration Agreement may agree, the provisions in the Acceleration Agreement in respect of the PRC JV Option will lapse and cease to be of any effect and the PRC JV Option under the Agreement is restored in which case Haier-CCT has the right to purchase the 51% interest in the PRC JV in part or in full for HK$673,200,000. However, the sale and purchase of the CCT Technology Option Interest and the assignment of the Shareholder's Loan, if completed, shall remain valid.

**Warranties**

Haier-CCT and the Company have jointly and severally given representations, warranties and undertakings in respect of the Haier-CCT Group other than the PRC JV and Haier CCT (H.K.) Telecom Co., Limited and in favour of Haier Group Company and Orient Rich that are customary in the transactions which are similar to those as contemplated under the Acceleration Agreement. The aggregate maximum liability of the Company and Haier-CCT in respect of all claims for breach of such representations, warranties and undertakings shall be HK$100 million on a joint and several basis.

## INFORMATION ABOUT THE PRC JV

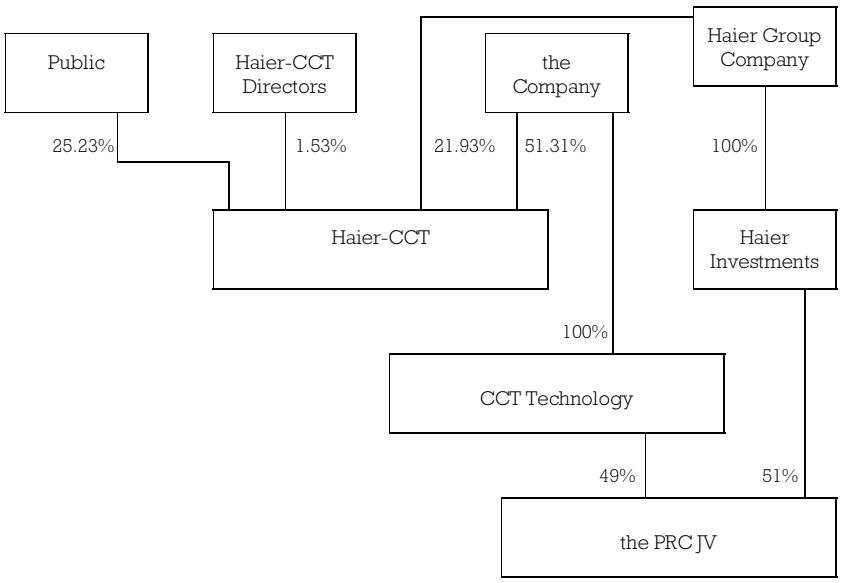
The PRC JV is engaged in the research, development, manufacture and distribution of telecommunications equipment including mobile phones. The establishment of the PRC JV was approved by PRC regulatory authorities on 25 August 2000 for a term of 20 years. The net loss before and after taxation and extraordinary items of the PRC JV were both approximately RMB500,000 (equivalent to approximately HK$500,000) in respect of the financial year ended 31 December 2000 and the net profit before and after taxation and extraordinary items of the PRC JV were both approximately RMB20,700,000 (equivalent to approximately HK$19,300,000) in respect of the financial year ended 31 December 2001. The net asset value of the PRC JV as at 31 December 2000 and 31 December 2001 was approximately RMB98,800,000 (equivalent to approximately HK$92,400,000) and approximately RMB227,600,000 (equivalent to approximately HK$212,700,000) respectively.

## CHANGES IN SHAREHOLDING OF HAIER-CCT

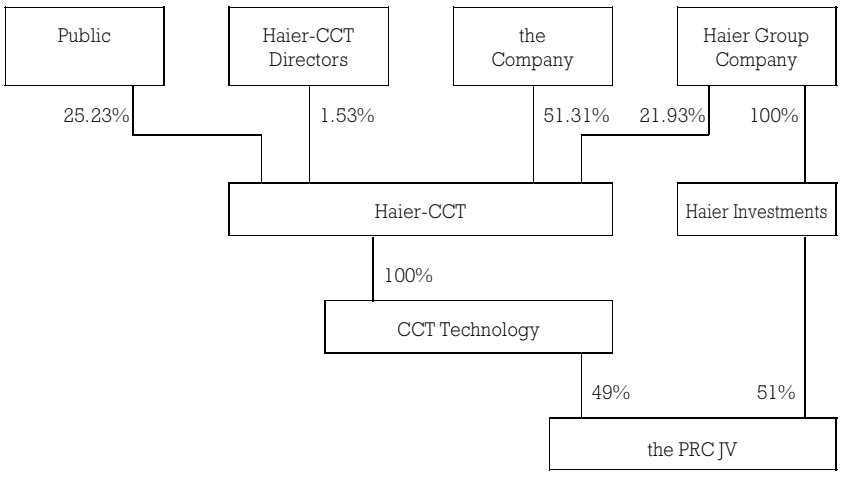
The following table shows the changes in the approximate percentage of shareholding of Haier-CCT immediately upon the exercise of the PRC JV Option in part in respect of a 15.5% interest in the PRC JV and immediately upon the exercise in full of the PRC JV Option in respect of the balance of the 35.5% interest in the PRC JV:

| | **Existing** | **Immediately upon the exercise of the PRC JV Option in part to the extent of a 15.5% interest in the PRC JV** | **Immediately upon the exercise in full of the PRC JV Option in respect of the balance of the 35.5% interest in the PRC JV** |
|---|---|---|---|
| Haier Group Company | 21.93% (1,960,000,000 Haier-CCT Shares) | 29.94% (2,983,000,000 Haier-CCT Shares) | 43.28% (5,326,000,000 Haier-CCT Shares) |
| The Company | 51.31% (4,586,772,486 Haier-CCT Shares) | 46.04% (4,586,772,486 Haier-CCT Shares) | 37.27% (4,586,772,486 Haier-CCT Shares) |
| Haier-CCT Directors | 1.53% (136,711,277 Haier-CCT Shares) | 1.37% (136,711,277 Haier-CCT Shares) | 1.11% (136,711,277 Haier-CCT Shares) |
| Public | 25.23% (2,255,807,237 Haier-CCT Shares) | 22.65% (2,255,807,237 Haier-CCT Shares) | 18.34% (2,255,807,237 Haier-CCT Shares) |
| Total | 100.00% (8,939,291,000 Haier-CCT Shares) | 100.00% (9,962,291,000 Haier-CCT Shares) | 100.00% (12,305,291,000 Haier-CCT Shares) |

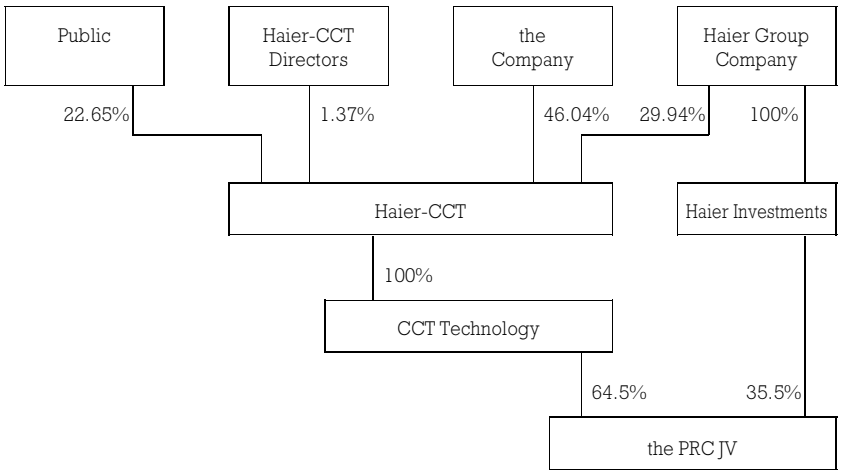
**Shareholding structure of Haier-CCT before the exercise of the CCT Technology Option in full and the exercise of the PRC JV Option**



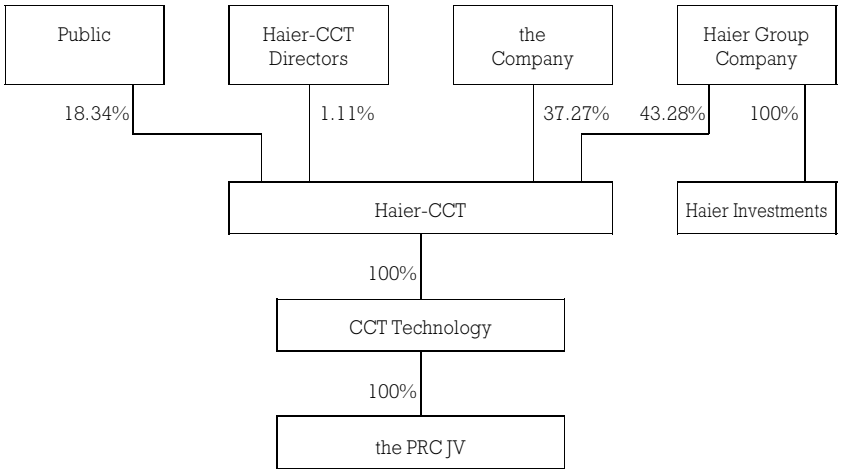

**Shareholding structure of Haier-CCT before the exercise of the PRC JV Option (but after the exercise of the CCT Technology Option in full)**



**Shareholding structure of Haier-CCT immediately upon the exercise of the PRC JV Option in part to the extent of a 15.5% interest in the PRC JV**




**Shareholding structure of Haier-CCT immediately upon the exercise in full of the PRC JV Option in respect of the balance of the 35.5% interest in the PRC JV**




Upon completion of the sale and purchase of the 15.5% interest in the PRC JV, Haier Group Company together with parties acting in concert with it will be interested in approximately 29.94% of the enlarged issued share capital of Haier-CCT.

**REASON FOR THE ACCELERATION OF THE EXERCISE OF THE CCT TECHNOLOGY OPTION IN FULL AND THE PRC JV OPTION IN PART**

The Group is principally engaged in the manufacture and sale of telecommunication products. Haier-CCT is currently engaged in the procurement of materials and distribution of mobile phones. CCT Technology holds 49% interest in the PRC JV.

The acceleration of the exercise of the CCT Technology Option in full and the PRC JV Option in part, as to a 15.5% interest of the PRC JV, allows Haier-CCT to acquire the interests in the PRC JV earlier than as originally provided in the Agreement. The acquisition of CCT Technology and the 15.5% interest of the PRC JV by Haier-CCT from the Company and Haier Investments allows the Company to streamline its group structure. The remaining 35.5% interest in the PRC JV will continue to be held by Haier Investments, a subsidiary of Haier Group Company.

The gain/loss for the Company on disposal of CCT Technology is nil. The Company will have a loss of approximately HK$9 million on deemed disposal of Haier-CCT as a subsidiary.

To the extent permitted under applicable laws, the PRC JV Option provides flexibility to Haier-CCT if and when Haier-CCT wishes to increase its stake in the PRC JV.

The net asset value of the Company as at 31 December 2000 and 31 December 2001 was HK$2,936 million and HK$2,520 million respectively.

The net loss before and after taxation and extraordinary items of the Company for the year ended 31 December 2000 was HK$232 million and HK$245 million respectively and for the year ended 31 December 2001 was HK$666 million and HK$672 million respectively.

The net loss before and after taxation and extraordinary items of Haier-CCT for the year ended 31 December 2000 was HK$1,122 million and HK$1,123 million respectively and for the year ended 31 December 2001 was HK$4 million and HK$5 million respectively.

The profit before and after tax and extraordinary items of CCT Technology for the year ended 31 December 2000 and for the year ended 31 December 2001 was nil and HK$1 billion respectively.

The market capitalisation of Haier-CCT based on the closing price of its shares at HK$0.127 as at the Latest Practicable Date is approximately HK$1,135 million.

**DISCLOSEABLE AND CONNECTED TRANSACTION**

The Acceleration Agreement and the transactions contemplated therein constitute a connected transaction for the Company under Chapter 14 of the Listing Rules as it involves (a) a transaction between Haier-CCT (being a subsidiary of the Company) and Haier Group Company (being a substantial shareholder of Haier-CCT); and (b) a transaction between the Company and Haier-CCT and the Company and Haier-CCT have jointly and severally given representations, warranties and undertakings in respect of the Haier-CCT Group other than the PRC JV and Haier CCT (H.K.) Telecom Co., Limited in favour of Haier Group Company and Orient Rich in the Acceleration Agreement. As such, the proposed transactions under the Acceleration Agreement shall be conditional upon the approval of the Independent Shareholders at the EGM and of the independent shareholders of Haier-CCT at its special general meeting. Upon completion of the sale and purchase of the 15.5% interest in the PRC JV, the interest of the Company in Haier-CCT will be diluted from 51.31% to 46.04% and Haier-CCT will cease to be a subsidiary of the Company. Such dilution will be a deemed disposal by the Company of its interest in Haier-CCT, and hence constitutes a discloseable transaction for the Company under the Listing Rules.

**GENERAL**

An Independent Board Committee comprising the independent non-executive directors of the Company has been formed to advise the Independent Shareholders on whether the connected

transaction in relation to the Acceleration Agreement including the giving of warranties and representations relating to Haier-CCT Group other than the PRC JV and Haier CCT (H.K.) Telecom Co., Limited by the Company in favour of Haier Group Company and Orient Rich is fair and reasonable so far as the Independent Shareholders are concerned. Menlo Capital Limited has been appointed by the Company to advise the Independent Board Committee in respect of such transaction.

**RECOMMENDATION**

The text of a letter to the Independent Shareholders from the Independent Board Committee (comprising two of the independent non-executive directors of the Company, Messrs. Tam King Ching Kenny and Lau Ho Man Edward), containing their recommendation in relation to the Acceleration Agreement, is set out on pages 13 to 14 of this circular. Having considered the advice from the Independent Financial Adviser in relation to the Acceleration Agreement, which is set out on pages 15 to 22 of this circular, the Independent Board Committee is of the opinion that the Acceleration Agreement is in the interests of the Company and the Independent Shareholders as a whole, and that the terms of the Acceleration Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends that the Independent Shareholders vote in favour of the ordinary resolution approving the Acceleration Agreement and the transactions contemplated therein to be proposed at the EGM.

**EGM**

A notice convening the EGM to be held at 32/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, on Wednesday, 25 September 2002, at 10:30 a.m. is set out on pages 27 to 28 of this circular at which an ordinary resolution will be proposed to approve the Acceleration Agreement and the transactions contemplated therein. The Directors who are Haier-CCT Directors and/or Haier-CCT Shareholders (i.e. Mr Mak Shiu Tong Clement, Ms Cheng Yuk Ching Flora, Mr Tam Ngai Hung, Mr William Donald Putt and Mr Samuel Olenick) and their respective associates will abstain from voting in respect of such resolution at the EGM.

A form of proxy is enclosed. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

Yours faithfully,
For and on behalf of
**CCT TELECOM HOLDINGS LIMITED**
**Mak Shiu Tong Clement**
*Chairman*

# CCT TELECOM HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

*The Independent Board Committee:*
Lau Ho Man Edward
Tam King Ching Kenny

*Registered office:*
The Office of The Harbour Trust Co Ltd
PO Box 1787GT
One Capital Place
Grand Cayman
Cayman Islands
British West Indies

*Head office and principal place of business:*
32/F., China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

5 September 2002

*To the Independent Shareholders*

Dear Sir/Madam,

**CONNECTED TRANSACTION**

**Acceleration of exercise of CCT Technology Option and PRC JV Option and Assignment of Shareholder's Loan**

## INTRODUCTION

We refer to the circular dated 5 September 2002 (the ''Circular'') of which this letter forms part. Terms used in this letter shall have the same meaning as defined in the Circular unless the context requires otherwise.

We, being the independent non-executive Directors constituting the Independent Board Committee, are writing to you to set out our opinion in respect of the connected transaction in the Acceleration Agreement (the ''Connected Transaction''). The Independent Board Committee was set up to advise you as an Independent Shareholder whether in its view the terms of the Connected Transaction are in the interests of the Company and the Independent Shareholders and are fair and reasonable so far as the Independent Shareholders are concerned.

The terms of the Connected Transaction are summarised in the ''Letter from the Board'' set out on pages 4 to 12 of the Circular. In addition, the Independent Board Committee has been advised by the Independent Financial Adviser in considering the terms of the Connected Transaction. You are strongly urged to read the letter from the Independent Financial Adviser to the Independent Board Committee, which is set out on pages 15 to 22 of the Circular. As referred to in the ''Letter from the Board'' in the Circular, the Directors who are Haier-CCT Directors and/or Haier-CCT Shareholders and their respective associates will abstain from voting on the ordinary resolution to be proposed at the EGM to approve the Connected Transaction.

**RECOMMENDATION**

As the Independent Board Committee, we have discussed with the management of the Company the reasons for the Connected Transaction. We have also discussed with the Independent Financial Adviser regarding the basis upon which its advice has been given to us.

Taking into account the recommendation of the Independent Financial Adviser, the Independent Board Committee considers that the Connected Transaction is in the interests of the Company and the Independent Shareholders as a whole, and the terms of the Connected Transaction as described in the ''Letter from the Board'' in the Circular are fair and reasonable so far as the Independent Shareholders of the Company are concerned. We accordingly recommended that the Independent Shareholders vote in favour of the ordinary resolution set out in the notice of EGM to approve the Connected Transaction.

Yours faithfully,
**The Independent Board Committee**
**CCT Telecom Holdings Limited**

| | |
|---|---|
| **Lau Ho Man Edward** | **Tam King Ching Kenny** |
| *Independent non-executive Director* | *Independent non-executive Director* |

*The following is the text of a letter from Menlo Capital Limited for the purpose of incorporation in this circular, in connection with its advice to the Independent Board Committee in relation to the connected transaction:*




**MENLO CAPITAL LIMITED**
Room 505, Nan Fung Tower
173 Des Voeux Road, Central
Hong Kong

5 September 2002

*To the Independent Board Committee of*
*CCT Telecom Holdings Limited*

Dear Sirs,

**CONNECTED TRANSACTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee on the connected transaction, details of which are set out in the Letter from the Board (the ''Letter'') contained in the circular of the Company dated 5 September 2002 (the ''Circular'') of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context of this letter otherwise requires.

On 8 August 2002, the Company, Orient Rich, Haier-CCT and Haier Group Company entered into the Acceleration Agreement amending certain terms of the Agreement in respect of the CCT Technology Option and the PRC JV Option. The Acceleration Agreement and the transactions contemplated therein constitute a connected transaction for the Company under Chapter 14 of the Listing Rules as it involves (a) a transaction between Haier-CCT (being a subsidiary of the Company) and Haier Group Company (being a substantial shareholder of Haier-CCT); and (b) a transaction between the Company and Haier-CCT while the Company and Haier-CCT have jointly and severally given representations, warranties and undertakings in respect of the Group other than the PRC JV and Haier CCT (H.K.) Telecom Co., Limited in favour of Haier Group Company and Orient Rich in the Acceleration Agreement. As such, the proposed transactions under the Acceleration Agreement shall be conditional upon the approval of the Independent Shareholders at the EGM.

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors or management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance, which would render the information provided, and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they

believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Company.

**PRINCIPAL FACTORS AND REASONS TAKEN INTO ACCOUNT**

In arriving at our advice to the Independent Board Committee in respect of the connected transaction, we have taken the following principal factors and reasons into consideration:

**I. Background**

Following the successful expansion of the business activities of the Group, the Directors have felt the need to streamline the Group's structure, with a view to enabling investors to have a better understanding of the Group's activities and in particular, a full appreciation of the value of the joint venture business with Haier Group Company. In view of the entry of the PRC into the World Trade Organisation, the Directors believe that the joint venture business with Haier Group Company has enormous potential and Haier-CCT should focus on developing such a promising business. In such case, the Directors believe that the Agreement is transforming Haier-CCT into a group of companies listed on the Stock Exchange focusing on the development of the mobile phone business with Haier Group Company and will accordingly improve the long term profitability of the enlarged Haier-CCT and hence the Company.

Pursuant to the terms of the Agreement, Haier-CCT was entitled to require each of the Company and Haier Investments, during an exercise period commencing on the first anniversary of the Agreement Completion Date and ending on the third anniversary thereof, that is, from 17 December, 2002 to 17 December, 2004, to transfer all or part of the issued share capital of CCT Technology owned by the Company and the 51% interest in the PRC JV owned by Haier Investments respectively upon Haier-CCT exercising the CCT Technology Option and the PRC JV Option. The exercise price of the CCT Technology Option was agreed to be the net asset value of CCT Technology at the time of exercise of the CCT Technology Option and the exercise price of the PRC JV Option was agreed to be HK$673,200,000 which will be satisfied by the issue to Haier Group Company or its nominee(s) the PRC JV Option Consideration Shares at HK$0.20 each. The Agreement and the transactions contemplated therein constituted a connected transaction of the Company under Chapter 14 of Listing Rules at the time when the Agreement was entered. Such connected transaction was approved by the then independent shareholders of the Company at an extraordinary general meeting of the Company held on 14 September, 2001.

The Company, Orient Rich, Haier-CCT and Haier Group Company have on 8 August 2002 entered into the Acceleration Agreement amending certain terms of the Agreement in respect of the CCT Technology Option and the PRC JV Option. Pursuant to the Acceleration Agreement, Haier -CCT has agreed to:

(1) accelerate the exercise of the CCT Technology Option in full and the PRC JV Option in part in respect of a 15.5% interest in the PRC JV;

(2) acquire the Shareholder's Loan; and

(3) continue to hold the PRC JV Option in respect of the remaining 35.5% interest in the PRC JV and such option will be exercisable in full or in part at any time during the period from the date of completion in respect of the 15.5% interest in PRC JV to 31 July, 2004 at the price of HK$468,600,000 which will be satisfied by the issue to Haier Group Company or its nominee(s) shares of Haier-CCT at the agreed price of HK$0.20 each.

**CCT Technology**

CCT Technology is an indirect wholly-owned subsidiary of the Company and is incorporated for the purpose of holding 49% of the equity interest in the PRC JV.

**The PRC JV**

The PRC JV is engaged in the research, development, manufacture and distribution of telecommunications equipment including mobile phones. PRC regulatory authorities approved the establishment of the PRC JV on 25 August 2000 for a term of 20 years. The net loss before and after taxation and extraordinary items of the PRC JV were both approximately RMB500,000 (equivalent to approximately HK$500,000) in respect of the financial year ended 31 December 2000 and the net profit before and after taxation and extraordinary items of the PRC JV were both approximately RMB20,700,000 (equivalent to approximately HK$19,300,000) in respect of the financial year ended 31 December 2001. The net asset value of the PRC JV as at 31 December 2000 and 31 December 2001 was approximately RMB 98,800,000 (equivalent to approximately HK$92,400,000) and approximately RMB 227,600,000 (equivalent to approximately HK$212,700,000) respectively.

**II. Reasons for the acceleration of the exercise of the CCT Technology Option in full and the PRC JV Option in part**

The Group is engaged principally in the manufacture and distribution of telecommunications products.

The Directors believe that the acceleration of the exercise of the CCT Technology Option in full and the PRC JV Option in part, as to a 15.5% interest of the PRC JV, allows Haier-CCT to acquire the interests in the PRC JV earlier than as originally provided in the Agreement. The acquisition of CCT Technology and the 15.5% interest of the PRC JV by Haier-CCT from the Company and Haier Investments respectively allow Haier-CCT to become engaged in the manufacture of mobile phones and the Company will benefit from streamlining its group structure. The remaining 35.5% interest in the PRC JV will continue to be held by Haier Investments, a subsidiary of Haier Group Company.

With reference to the World Telecommunication Development Report 2002 published in March 2002 by International Telecommunication Union (''ITU''), the forecast mobile cellular subscribers will be increased from approximately by 100% from 2001 to 2004. The number of cellular mobile subscribers in PRC increased from 3.42 per 100 inhabitants in 1999 to 11.17 per 100 inhabitants in 2001, representing an annualized growth rate of approximately 80% from 1999 to 2001. We agree with the Directors' view that the earlier the Haier-CCT can move into the PRC mobile phone market, the faster and the greater the chance will be for Haier-CCT to capture a higher market share after considering the favourable outlook of the positive growth momentum of the mobile phone industry as forecast by ITU as mentioned above. This in turn will translate into a competitive edge of Haier-CCT. The financial benefit derived from the early exercise of the CCT Technology Option and PRC JV Option will ultimately transferred to the shareholders of Haier-CCT, among which the Company is one. On this basis, we are of the opinion that the acceleration of exercise of the CCT Technology Option in full and the PRC JV Option in part under the Acceleration Agreement is in line with the strategic direction of the Company and is in the interest of the Company and the Shareholders as a whole. As the operations of Haier CCT (H.K.) Telecom Co., Limited (the ''HK JV'') and PRC JV are complementary of each other, the centralisation and integration of the HK JV and the PRC JV into Haier-CCT will simplify the operating structure and corporate structure and benefit Haier-CCT and its shareholders including the Company.

**III. Terms of the Acceleration Agreement**

The purchase price of the CCT Technology Option Interest (representing 100% of the issued share capital of CCT Technology) is HK$1 payable in cash, being the equivalent of the net asset value of CCT Technology, which has a net deficit of HK$4,928,000 as at 31 July, 2002. The purchase price of the Shareholder's Loan is HK$54,940,947 payable in cash, being a sum equivalent to the face value of the Shareholder's Loan, which shall be funded by internal resources of Haier-CCT. The exercise price of the CCT Technology Option has previously been agreed and approved by the independent shareholders of Haier-CCT and the Company. As the proceeds from the assignment of the Shareholder's Loan is in form of cash, we are of the view that the cash balance as well as the liquidity position of the Company will be increased by HK$54,940,948 and are in the interests of the Company.

Completion of the sale and purchase of the CCT Technology Option Interest and the assignment of the Shareholder's Loan shall take place on the next business day (or such later date as may be agreed by the parties) after all necessary resolutions have been passed by the independent shareholders of Haier-CCT and the Company at the SGM and EGM respectively with respect to the sale and purchase of the CCT Technology Option Interest and the assignment of the Shareholder's Loan and the terms of and transactions contemplated in the Acceleration Agreement. Upon completion of the sale and purchase of the CCT Technology Option Interest, the Company will cease to hold any share in CCT Technology, which will become an indirect wholly-owned subsidiary of Haier-CCT.

The purchase price of the 15.5% interest in the PRC JV is HK$204,600,000, representing approximately a 520% premium to the net asset value of the PRC JV, and being the relevant proportionate amount of the full exercise price of the PRC JV Option of HK$673,200,000 as set out in the Agreement, which will be satisfied by the issue to Haier Group Company or its nominee(s) 1,023,000,000 shares of Haier-CCT (the ''Consideration Shares'') at the agreed price of HK$0.20 each. According to the best estimation of the Directors, there will be no material change in the net asset value of the PRC JV as at 17 December 2002, the original commencement date of the exercisable period of the PRC JV Option, compared with that of the date of the Acceleration Agreement was entered into. Therefore, we consider that the change in premium during this period will be insignificant. The aggregate value of the Consideration Shares to be issued by Haier-CCT amounted to HK$104,346,000 based on the closing price of the shares of Haier-CCT of HK$0.102 as at 7 August, 2002, being the last trading day of the shares of Haier-CCT prior to its suspension on 8 August, 2002. The issue price of HK$0.20 per share of Haier-CCT represents approximately 96.08% premium to the closing price of the shares of Haier-CCT of HK$0.102 as at 7 August, 2002. The premium to the current market price is favourable to the shareholders (other than Haier Group Company) including the Company of Haier-CCT and therefore beneficial to the Independent Shareholders.

The exercise price has previously been agreed and approved by the independent shareholders of Haier-CCT and the Company.

The Consideration Shares represent approximately 11.44 % of the issued share capital of the Haier-CCT as at the Latest Practicable Date. Assuming that no further shares of Haier-CCT will be issued other than the Consideration Shares, the Consideration Shares will represent approximately 10.27% of Haier-CCT's issued share capital as enlarged by the issue of the Consideration Shares.

Upon completion of the sale and purchase of the 15.5% interest in the PRC JV, the shareholding of Haier Group Company in Haier-CCT will increase from 1,960,000,000 shares,

representing approximately 21.93% of the existing issued share capital of Haier-CCT, to 2,983,000,000 shares, representing approximately 29.94% of the enlarged issued share capital of Haier-CCT. The increase of Haier Group Company's interest in Haier-CCT signifies its confidence in Haier-CCT, which will in turn strengthen the relationship between the two companies. With the support from Haier Group Company, Haier-CCT will be able to leverage on the network and popular brand name of Haier Group Company. This will enable Haier-CCT to share at an earlier date the promising mobile phone business in China. This will in turn benefit the shareholders of Haier-CCT including the Company.

We also consider that, to the extent permitted under applicable laws, the PRC JV Option provides flexibility to Haier-CCT if and when Haier-CCT wishes to increase its stake in the PRC JV.

**IV. Potential financial effects on the Group**

**1. Net Assets**

The net asset value of the Company as at 31 December 2000 and 31 December 2001 were HK$2,936 million and HK$2,520 million respectively. The net asset value of Haier-CCT as at 31 December 2000 and 31 December 2001 were HK$237 million and HK$1,856 million respectively.

Immediately upon completion of the Acceleration Agreement, the shareholding of the Company in Haier-CCT will reduce from 51.31% to 46.04% in which it induces a potential dilutive loss of approximately HK$9 million on a consolidated level. The net assets of the Group will be reduced correspondently by the same amount immediately upon completion of the Acceleration Agreement, representing a reduction of 0.4% to the audited consolidated net assets of the Group as at 31 December 2001.

Before exercising the CCT Technology Option and the PRC JV Option under the Acceleration Agreement, the HK JV is a wholly-owned subsidiary of Haier-CCT while the PRC JV is owned as to 51% by Haier Group Company and 49% by the Company. Although the operations of the HK JV and the PRC JV are complementary of each other, their major shareholders are different and they are under separate management of Haier-CCT and Haier Group Company respectively.

Upon completion of the Acceleration Agreement, the HK JV and the PRC JV will become subsidiaries of the same parent, Haier-CCT. This will simplify the corporate structure and enable Haier-CCT to streamline the operations between the HK JV and the PRC JV leading to an improvement in efficiency and management control. Furthermore, the Acceleration Agreement will transform Haier-CCT into an integrated mobile phone manufacturer and distributor and enable Haier-CCT to penetrate into the promising mobile industry in the PRC at an earlier date. In view of the aforesaid reasons, the Directors believe the Acceleration Agreement will improve the long-term profitability of Haier-CCT. As the Company is the substantial shareholder of Haier-CCT, the long-term profitability in terms of sharing of the earnings in Haier-CCT will in turn be enhanced as well.

On the above basis, we concur with the view of the Directors that the long term benefit derived from the Acceleration Agreement by Haier-CCT and the Company as a substantial shareholder of Haier-CCT will outweigh the insignificant reduction in net assets of the Group upon completion of the Acceleration Agreement.

**2. Earnings**

The net loss before and after taxation and extraordinary items of Haier-CCT for the year ended 31 December 2000 were HK$1,122 million and HK$1,123 million respectively and for the year ended 31 December 2001 were HK$4 million and HK$5 million respectively.

Before completion of the Acceleration Agreement, the Company holds (i) the entire interest in CCT Technology, (ii) a 49% interest in the PRC JV, (iii) a 51.31% interest in Haier-CCT which in turn holds 100% shareholding in Foreland Agents Limited (''Foreland''). Pursuant to the Service Agreement, CCT Technology shall pay a service fee (''Service Fee'') to Foreland as disclosed in the Letter. On consolidation of the Group's accounts:

(a) the Group book 49% share of the result of the PRC JV;

(b) the Service Fee is eliminated as CCT Technology and Foreland are both subsidiaries of the Company; and

(c) the interest of minority shareholders holding 48.69% interest in Haier-CCT is deducted from the Group's results and net assets.

After completion of the Acceleration Agreement, the following changes will occur in respect of the corporate ownership:

(a) the Company's shareholding in Haier-CCT will be reduced from 51.31% to 46.04%;

(b) CCT Technology will become a wholly-owned subsidiary of Haier-CCT; and

(c) the PRC JV will become a 64.5% subsidiary of Haier-CCT and the effective interest of the Company in the PRC JV will be reduced from 49% to 29.70% (46.04% x 64.5%).

The accounting impact on the Group after completion of the Acceleration Agreement is as follows:

(a) as both CCT Technology and Foreland will become wholly-owned subsidiaries of Haier-CCT, the Service Fee payable by CCT Technology to Foreland will be fully eliminated at Haier-CCT's level. As a result, minority interest of Haier-CCT will not share the Service Fee after completion of the Acceleration Agreement and this will have a positive impact to the Group's result due to such saving; and

(b) the Group's share of result in the PRC JV will be reduced from 49% to 29.7%.

To the Shareholders, this would translate into an improvement of only HK$0.02 per Share based on the weighted average number of Shares in issue during the financial year ended 31 December, 2001. There was no diluted loss per Share as the impact of the potential ordinary shares was anti-dilutive.

With respect to reported figures concerning the cellular mobile market from World Telecommunication Development Report 2002 as mentioned under the heading ''Reasons for the acceleration of the exercise of the CCT Technology Option in full and the PRC JV Option in part'' of this letter, a favourable outlook of the positive growth momentum of the PRC mobile phone industry is forecasted by ITU. As the PRC JV is engaged in the research, development, manufacture and distribution of mobile phones, the Directors are optimistic with respect to the

sales turnover and earnings of the PRC JV, which will be consolidated to the financial statements of Haier-CCT after becoming a 64.5% subsidiary of Haier-CCT upon the completion of PRC JV Option. The centralization of control of the HK JV and PRC JV into Haier-CCT will streamline the operations and enable Haier-CCT to turn into an integrated manufacturer and distributor of mobile phones. This will benefit Haier-CCT in the long term and will improve its long-term profitability.

As explained above, the Acceleration Agreement will provide a net benefit to the Company in both short term and long term. We are, therefore of the opinion that it is in the interests of the Company to enter into the Acceleration Agreement.

**3. Liquidity Position**

The Directors confirm that since the consideration of the acceleration of exercise of CCT Technology Option and assignment of Shareholder's Loan will be satisfied by approximately HK$55 million in cash, the Acceleration Agreement enhances the cash level and the liquidity position of the Company. Hence, we concur with the view of the Directors that the settlement method for the consideration of the Acceleration Agreement is reasonable and in the interests of the Shareholders as a whole.

**4. Dilutive effect on the shareholding interest in Haier-CCT**

The Company is currently the controlling shareholder holding 51.31% of Haier-CCT's issued share capital. Immediately upon completion of the CCT Technology Option and the sale and purchase of the 15.5% interest in the PRV JV under the PRC JV Option, the shareholding interest of the Company in Haier-CCT as enlarged by the issue of the Consideration Shares (assuming no further Haier-CCT Shares will be issued) will be decreased to approximately 46.04%. Accordingly, the attributable interest of the Company in Haier-CCT will then be diluted by approximately 5.27%. Despite the dilution effect, we are of the view that the acceleration of the exercise of CCT Technology Option and the PRC JV Option is justifiable and in the interests of the Company as the long-term benefit derived by Haier-CCT from the acquisition of the PRC JV will outweigh such dilution.

**V. CCT Warranties**

In the Acceleration Agreement, Haier-CCT and the Company have jointly and severally given representations, warranties and undertakings in respect of the Haier-CCT Group other than the PRC JV and Haier CCT (H.K.) Telecom Co., Limited, and in favour of Haier Group Company and Orient Rich that are customary in transactions which are similar to those as contemplated under the Acceleration Agreement. The aggregate maximum liability of the Company and Haier-CCT in respect of all claims for breach of such representations, warranties and undertakings shall be HK$100 million on a joint and several basis.

The limitation of liabilities under the warranties as provided by the Company and Haier-CCT in the Acceleration Agreement was determined on arm's length negotiation. The Directors are of the view that none of the warranties will be breached and therefore the likelihood of such liabilities to be crystallised is minimum.

On the other hand, Haier Group Company and Orient Rich have jointly and severally given reciprocal warranties in the Acceleration Agreement. We are of the view that the above warranties are standard and fair clauses, which form part of the Acceleration Agreement, and the aggregate maximum liability of HK$100 million is adequate for transactions of the type similar to those transactions contemplated under the exercise of the CCT Technology Option and the PRC JV Option pursuant to the Acceleration Agreement.

### VI. Opinion

Taking into consideration of the above principal factors, the financial situation of the Group and reasons of the consideration, we are of the view that the acceleration of exercise of the CCT Technology Option and the PRC JV Option in part are in the interests of the Company and the Independent Shareholders and the provision of warranties to Haier Group Company as a whole and the terms of the Acceleration Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Having reviewed the terms and conditions of the Agreement and the Acceleration Agreement, we consider that the Company has taken appropriate measures to govern its entering into the connected transactions and hence to safeguard the interests of the Shareholders thereunder.

## RECOMMENDATION

Based on the information and representations provided and opinions given by the Board and having taken into account the above principal factors and reasons, we are of the view that the terms of the connected transactions in respect of the acceleration of exercise of the CCT Technology Option in full and the PRC JV Option in part are fair and reasonable so far as the Independent Shareholders are concerned and that the connected transactions, which offer sufficient safeguards to the Shareholders, are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions in connection with the connected transactions at the EGM.

Yours faithfully,
For and on behalf of
**Menlo Capital Limited**
**Michael Leung**
*Director*

## 1 RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts, the omission of which would make any statement herein misleading.

## 2 DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors and the chief executive of the Company in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Stock Exchange and the Company pursuant to Section 28 of the SDI Ordinance (including interests which were deemed or taken to have under Section 31 or Part 1 of the Schedule to the SDI Ordinance) or which were required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein or which were required to be notified to the Stock Exchange and the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies are set out below:

### (a) Interests in the Shares

| | | Number of Shares beneficially held and nature of interest | | |
|---|---|---|---|---|
| **Name of Director** | *Notes* | **Personal** | **Family** | **Corporate** |
| Mak Shiu Tong Clement | 1 | 856,000 | 1,407,500 | 83,998,441 |
| Cheng Yuk Ching Flora | | 9,876,713 | – | – |
| William Donald Putt | | 171,500 | – | – |
| Samuel Olenick | 2 | – | – | 125,000 |

### (b) Interests in the shares and warrants of an associated corporation – Haier-CCT

| | | Number of Haier-CCT Shares beneficially held and nature of interest | | |
|---|---|---|---|---|
| **Name of Director** | *Notes* | **Personal** | **Family** | **Corporate** |
| Mak Shiu Tong Clement | 3 | 20,574,412 | 1,150,391 | 85,494,864 |
| Cheng Yuk Ching Flora | | 19,312,498 | – | – |
| Tam Ngai Hung | | 10,000,000 | – | – |
| William Donald Putt | | 179,112 | – | – |
| Samuel Olenick | 4 | – | – | 130,548 |

| | | Amount of 2004 warrants beneficially held and nature of interest | | |
|---|---|---|---|---|
| **Name of Director** | *Notes* | **Personal** | **Family** | **Corporate** |
| | | *HK$* | *HK$* | *HK$* |
| Mak Shiu Tong Clement | 3 | 1,069,869.32 | 59,820.28 | 4,444,651.64 |
| Cheng Yuk Ching Flora | | 1,004,249.48 | – | – |
| Tam Ngai Hung | | 520,000.00 | – | – |
| William Donald Putt | | 9,313.72 | – | – |
| Samuel Olenick | 4 | – | – | 6,788.08 |

*Notes: –*

1. The family interest of Mr. Mak Shiu Tong Clement in 1,407,500 Shares was held by his wife, Ms. Yiu Yu Ying, and the corporate interest of Mr. Mak Shiu Tong Clement in 83,998,441 Shares was held by Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons had beneficial interests, pursuant to Section 31 and Clause 5 of Part 1 of the Schedule of the SDI Ordinance.

2. The Shares were deemed to be interested by Mr. Samuel Olenick pursuant to Clause 5 of Part 1 of the Schedule of the SDI Ordinance.

3. The family interest of Mr. Mak Shiu Tong Clement in 1,150,391 Haier-CCT Shares and HK$59,820.28 2004 warrants in Haier-CCT was held by his wife, Ms. Yiu Yu Ying, and the corporate interest of Mr. Mak Shiu Tong Clement in 85,494,864 Haier-CCT Shares and HK$4,444,651.64 2004 warrants in Haier-CCT was held by Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons had beneficial interests, pursuant to Section 31 and Clause 5 of Part 1 of the Schedule of the SDI Ordinance.

4. The Haier-CCT Shares were deemed to be interested by Mr. Samuel Olenick pursuant to Clause 5 of Part 1 of the Schedule of the SDI Ordinance.

**(c) Rights to acquire Shares**

| Name of Director | Date of grant | Exercise period | Exercise price per Share *HK$* | Number of share options outstanding |
|---|---|---|---|---|
| Mak Shiu Tong Clement | 13/8/2001 | 16/8/2001 – 15/8/2003 | 2.936 | 5,000,000 |
| Cheng Yuk Ching Flora | 13/8/2001 | 16/8/2001 – 15/8/2003 | 2.936 | 1,250,000 |
| Tam Ngai Hung | 11/6/2001 | 13/6/2001 – 12/6/2003 | 3.732 | 750,000 |
| | 13/8/2001 | 16/8/2001 – 15/8/2003 | 2.936 | 1,250,000 |

**(d) Rights to acquire the shares of an associated corporation — Haier-CCT**

| Name of Director | Date of grant | Exercise period | Exercise price per Haier-CCT Share *HK$* | Number of share options outstanding |
|---|---|---|---|---|
| Mak Shiu Tong Clement | 16/8/2002 | 16/8/2003 – 15/8/2007 | 0.156 | 89,000,000 |
| Cheng Yuk Ching Flora | 16/8/2002 | 16/8/2003 – 15/8/2007 | 0.156 | 89,000,000 |
| Tam Ngai Hung | 16/8/2002 | 16/8/2003 – 15/8/2007 | 0.156 | 89,000,000 |
| William Donald Putt | 16/8/2002 | 16/8/2003 – 15/8/2007 | 0.156 | 5,000,000 |

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interest in any equity or debt securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Stock Exchange and the Company pursuant to Section 28 of the SDI Ordinance (including interests which were deemed or taken to have under Section 31 or Part 1 of the Schedule to the SDI Ordinance) or which were required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein or which were required to be notified to the Stock Exchange and the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

(e) As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons (other than the Directors and their respective associates) were directly or indirectly interested in 10% or more of the issued share capital of the Company carrying rights to vote at general meetings of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

| **Name of shareholder** | **Number of Shares held** |
|---|---|
| Capital Interest Limited *(Note)* | 83,998,441 |
| Yiu Yu Ying *(Note)* | 1,407,500 |
| Mak Shiu Tong Clement | 856,000 |
| Total | 86,261,941 |

*Note:* Pursuant to Section 8 of the SDI Ordinance, Mr. Mak Shiu Tong Clement, a Director of the Company, is deemed to control or have an interest in Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons had beneficial interests. Mr. Mak is also deemed to have an interest in the Shares owned by his wife, Ms. Yiu Yu Ying.

Save as disclosed above, as at the Latest Practicable Date, there was no person (other than the Directors and their respective associates) whose interests are set out above, were directly or indirectly interested in 10% or more of the issued share capital of the Company carrying rights to vote at general meetings of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Save as disclosed in this circular, as at the Latest Practicable Date:-

(i) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group;

(ii) none of the Directors or any proposed directors had entered, or proposed to enter, into a service contract with the Company or any member of the Group which is not expiring or determinable by the relevant member of the Group within one year without payment of compensation, other than statutory compensation;

(iii) Menlo Capital Limited had no shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(iv) none of the Directors or Menlo Capital Limited had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 December 2001, the date to which the latest published audited financial statements of the Group were made up.

## 3 MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2001, the date to which the latest published audited financial statements of the Group were made up.

## 4 LITIGATION

As at the Latest Practicable Date, there is no litigation or claim of material importance known to the Directors to be pending or threatened against the Company or any member of the Group.

## 5 QUALIFICATION AND CONSENT

Menlo Capital Limited is an investment adviser registered under the Securities Ordinance, Chapter 333 of the Laws of Hong Kong. Menlo Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and its letter, in the form and context in which it appears.

## 6 MISCELLANEOUS

(a) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

(b) The secretary of the Company is Ms. Low Pui Man Jaime who is an associate of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.

(c) The principal share registrar and transfer office of the Company is The Harbour Trust Co. Ltd., at the office of The Harbour Trust Co. Ltd., P.O. Box 1787 GT, One Capital Place, Grand Cayman, Cayman Islands, British West Indies.

(d) The branch share registrar and transfer office of the Company in Hong Kong is Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.

## 7 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the head office of the Company at 32/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong during normal business hours on any day (except public holidays) up to and including the date of the EGM and at the EGM:

(a) the memorandum and articles of association of the Company;

(b) the Acceleration Agreement;

(c) the Service Agreement;

(d) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 13 to 14 of this circular;

(e) the letter from Menlo Capital Limited as set out in this circular;

(f) the written consents referred to in this appendix; and

(g) this circular.

# CCT TELECOM HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of CCT Telecom Holdings Limited (the ''Company'') will be held at 32/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Wednesday, 25 September 2002, at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as an ordinary resolution of the Company:

**ORDINARY RESOLUTION**

''**THAT**

(a) the agreement dated 8 August 2002 (''Acceleration Agreement'') entered into between Haier-CCT Holdings Limited (''Haier-CCT''), Orient Rich (H.K.) Limited, 海爾集團公司 (''Haier Group Company'') and the Company, a copy of which has been produced to this meeting and initialled by the chairman of this meeting for the purpose of identification, and pursuant to which the parties have agreed, among other things, to (1) an acceleration of the exercise of (i) the option to require the Company to procure the sale of the entire issued share capital of CCT Technology Group Holdings Limited (''CCT Technology'') held by CCT Mobile Holdings Limited (''CCT Mobile'') to Haier-CCT or as it may direct and (ii) the option to require Haier Group Company to procure the sale of a 51% interest in the registered capital in 海爾 CCT (青島)通訊有限公司 Haier CCT (Qingdao) Telecom Co., Ltd. (''PRC JV'') to Haier-CCT or as it may direct (the ''PRC JV Option'') in part, as to a 15.5% interest in the PRC JV and (2) the assignment of the shareholder's loan in the sum of HK$54,940,947 owed by CCT Technology to CCT Mobile be and is hereby approved, ratified and confirmed;

(b) the terms of and transactions contemplated under the Acceleration Agreement and implementation thereof be and are hereby approved; and

(c) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and do all such acts, matters and things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated under the Acceleration Agreement.''

By order of the Board
**Mak Shiu Tong Clement**
*Chairman*

Hong Kong, 5 September 2002

*Head office and principal place of business:*
32/F China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

*Notes:*

1. A form of proxy for use at the meeting is enclosed herewith.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.

3. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be lodged at the branch share registrar of the Company in Hong Kong, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting (as the case may be).

5. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.

6. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.