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 licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

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

CCT TELECOM HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 138)

MAJOR TRANSACTION

A notice convening the Extraordinary General Meeting to be held at 32/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Wednesday, 8 September 2004 at 10:30 a.m. is set out on pages 120 to 121 of this circular. A form of proxy for use by the Shareholders at the Extraordinary General Meeting is enclosed herein. Whether or not you intend to attend and vote at the Extraordinary General Meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch share registrar and transfer office of the Company in Hong Kong, Tengis Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as practicable but in any event, not later than 48 hours before the time appointed for holding the Extraordinary General Meeting. Such form of proxy for use at the Extraordinary General Meeting is also published on the website of the Stock Exchange (www.hkex.com.hk). Completion and return of the form of proxy will not preclude you from attending and voting at the Extraordinary General Meeting in person should you so wish.

20 August 2004

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In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Agreement"	the conditional agreement dated 2 June 2004 entered into between CCT Tech as vendor and the Company as purchaser in respect of the Transaction
"associate"	has the same meaning as given to it in the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (excluding Saturday or Sunday) on which banks are generally open in Hong Kong for business for more than four hours
"BVI"	the British Virgin Islands
"CCT HK"	CCT Telecom (HK) Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of CCT Tech
"CCT Investment"	CCT Investment Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of CCT Tech
"CCT Investment Debt"	the outstanding interest-free debt as at the date of Completion due from CCT Investment to CCT Telecom Product International Holdings Limited, a wholly-owned subsidiary of CCT Tech, and such debt amounted to approximately HK$45 million as at 31 December 2003
"CCT Tech"	CCT Tech International Limited, an exempted company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
"CCT Tech Director(s)"	the director(s) of CCT Tech
"CCT Tech Group"	CCT Tech and its subsidiaries
"CCT Tech Remaining Group"	CCT Tech Group but excluding the First Precision Group and CCT Investment
"CCT Tech Shareholder(s)"	the holder(s) of the share(s) of CCT Tech
"Combined Group"	the Group, First Precision and CCT Investment
"Company"	CCT Telecom Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the main board of the Stock Exchange

"Completion"	completion of the Transaction
"connected person"	has the same meaning as given to it in the Listing Rules
"Consideration"	an amount of HK$139 million for the Transaction
"Convertible Note"	the convertible note due 2008 issued by CCT Tech on 30 June 2003 in favour of Noble Team Investments Limited, an indirect wholly-owned subsidiary of the Company, in the outstanding principal amount of HK$754 million after conversion of an aggregate amount of HK$14 million out of the original principal amount of HK$768 million
"Debts"	the CCT Investment Debt and the First Precision Debt
"Director(s)"	the director(s) of the Company
"ESL"	Electronic Sales Limited, a company incorporated in Hong Kong with limited liability and currently an indirect wholly-owned subsidiary of CCT Tech and was acquired by CCT Tech in May 2002
"Extraordinary General Meeting"	the extraordinary general meeting of the Company to be convened and held at 32/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Wednesday, 8 September 2004 at 10:30 a.m. to consider and, if thought fit, approve the Agreement and the Transaction or any adjournment thereof (as the case may be)
"First Precision"	First Precision Holdings Limited, a company incorporated in the BVI with limited liability and an indirect wholly-owned subsidiary of CCT Tech
"First Precision Debt"	the outstanding interest-free debt as at the date of Completion due from First Precision to CCT Tech Holdings Limited, a wholly-owned subsidiary of CCT Tech, and such debt amounted to approximately HK$68 million as at 31 December 2003
"First Precision Group"	First Precision and its subsidiaries
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China

"Latest Practicable Date"	18 August 2004, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"ODM"	original design manufacturing
"OEM"	original equipment manufacturing
"PRC"	the People's Republic of China, excluding Hong Kong, Macau Special Administrative Region and Taiwan for the purpose of this circular
"Property"	the plot of land together with the factory complex located at No. 3 Hong Yie Dong San Road, Hong Yie Economic Development Zone, Tong Xia Zhen, Dongguan, Guangdong Province, the PRC
"Remaining Group"	the Group but excluding the CCT Tech Group
"Sale Shares"	one share of US$1.00 in First Precision (representing the entire issued share capital of First Precision) and two shares of HK$1.00 each in CCT Investment (representing the entire issued share capital of CCT Investment)
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the ordinary share(s) of HK$0.10 each in the capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder"	has the same meaning as given to it in the Listing Rules
"Transaction"	the proposed sale and purchase of the Sale Shares and the assignment of the Debts by CCT Tech to the Company or its nominee(s)
"US$"	United States dollar(s), the lawful currency of the United States of America
"%"	per cent.

CCT TELECOM HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Executive Directors:
Mak Shiu Tong, Clement
Tam Ngai Hung, Terry
Cheng Yuk Ching, Flora
William Donald Putt

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

Registered office:
The offices of The Harbour Trust Co. Ltd.
P. O. Box 1787 GT
One Capital Place
Grand Cayman
Cayman Islands
British West Indies

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

20 August 2004

To the Shareholders and, for information only, the holders of share options of the Company

Dear Sir/Madam,

MAJOR TRANSACTION

I. INTRODUCTION

The Board has announced on 2 June 2004 that the Company and CCT Tech entered into the Agreement on 2 June 2004, pursuant to which CCT Tech has agreed (i) to sell or procure the sale of the Sale Shares; and (ii) to assign or procure the assignment of the Debts to the Company or its nominee(s). The purpose of this circular is to provide you with information regarding an ordinary resolution in respect of the Agreement and the Transaction to be proposed at the Extraordinary General Meeting to enable you to make an informed decision on whether to vote for or against such ordinary resolution.

II. THE TRANSACTION

The Agreement

Date:	2 June 2004
Vendor:	CCT Tech

Purchaser:	the Company
Assets to be acquired:	(i) the Sale Shares; and
	(ii) the Debts.

Consideration

The aggregate consideration for the Transaction in the amount of HK$139 million was determined after arm's length negotiations between CCT Tech and the Company.

The consideration of HK$105 million for the acquisition of First Precision and the assignment of the First Precision Debt has been determined with reference to the unaudited combined profits after tax of the First Precision Group for the year ended 31 December 2003 of approximately HK$11 million. First Precision will be acquired at a price-earning ratio of approximately 9.3 times.

The consideration of HK$34 million for the acquisition of CCT Investment and the assignment of the CCT Investment Debt has been determined in accordance with the market value of the Property of HK$34 million as at 31 December 2003 which was valued by an independent professional valuer, Vigers Appraisal and Consulting Limited.

The face value of the Debts as at 31 December 2003 was approximately HK$113 million.

The Consideration will be satisfied by cancellation of the Convertible Note to the extent of the same amount of HK$139 million.

Conditions

Completion is conditional on:

(a) CCT Tech having complied fully with the obligations specified in the Agreement;

(b) the warranties given by CCT Tech in the Agreement remaining true and accurate and not misleading at Completion;

(c) the warranties given by the Company in the Agreement remaining true and accurate and not misleading at Completion;

(d) the requisite resolution being passed by the independent shareholders of CCT Tech at its special general meeting in compliance with the Listing Rules; and

(e) the requisite resolution being passed by the Shareholders at the Extraordinary General Meeting in compliance with the Listing Rules.

The Company may waive conditions (a) and (b) above at any time by serving a notice in writing to CCT Tech. CCT Tech may waive condition (c) above at any time by serving a notice in writing to the Company.

In the event that any of the conditions will not have been fulfilled or waived (as the case may be) prior to 31 October 2004 (or such later date as the parties to the Agreement may agree in writing), the Agreement will cease to be of any effect save in respect of claims arising out of any antecedent breach of the Agreement.

Completion

Completion is expected to take place on the third Business Day after the fulfillment of conditions (d) and (e) above.

III. FURTHER INFORMATION ABOUT THE FIRST PRECISION GROUP

First Precision is an investment holding company and the First Precision Group is principally engaged in the design, manufacture and sale of power supply components including linear and switching transformers and adaptors. First Precision is a manufacturer of power supply components to customers for the production of telecom and other consumer products in the PRC including Hong Kong. The production plant of First Precision is located in Dongguan, the PRC. As at 31 December 2003, the First Precision Group had over 1,000 staff members.

With reference to the financial information of the First Precision Group as set out in appendix IB of this circular, the audited combined turnover of the First Precision Group for the two years ended 31 December 2002, 2003 and the six months ended 30 June 2004 were approximately HK$147 million, HK$120 million and HK$65.7 million respectively. The audited combined profits before tax of the First Precision Group for the two years ended 31 December 2002, 2003 and the six months ended 30 June 2004 were approximately HK$1.4 million, HK$14.6 million and HK$5.9 million respectively. The audited combined profits after tax of the First Precision Group for the two years ended 31 December 2002, 2003 and the six months ended 30 June 2004 were approximately HK$1.1 million, HK$12.0 million and HK$6.8 million respectively. As at 31 December 2003, the audited combined net assets of the First Precision Group amounted to approximately HK$56.7 million and the audited combined total assets of the First Precision Group amounted to approximately HK$100 million. As at 30 June 2004, the First Precision Group recorded an audited combined net assets and total assets of approximately HK$63.5 million and approximately HK$100.5 million respectively.

With a consideration of HK$105 million and an audited combined profits after tax of approximately HK$12.0 million for the year ended 31 December 2003, First Precision is being transferred to the Company (i) at a consideration that is approximately HK$48 million above the audited combined net assets of the First Precision Group as at 31 December 2003; and (ii) at a price-earning ratio of approximately 8.8 times.

IV. FURTHER INFORMATION ABOUT CCT INVESTMENT

CCT Investment is a property holding company which holds a plot of land with a three-storey factory complex located at No. 3 Hong Yie Dong San Road, Hong Yie Economic Development Zone, Tong Xia Zhen, Dongguan, Guangdong Province, the PRC which was acquired by CCT Investment in 1993 from a third party independent of and not connected with the substantial shareholders, chief executive and directors of the CCT Tech Group. The area of the land is approximately 21,611 square meters and the gross floor area of the factory complex is approximately 33,822 square meters. The Property was valued by an independent professional valuer, Vigers Appraisal and Consulting Limited, at a value of HK$34 million as at 31 May 2004.

CCT Investment has no other material assets and business besides the holding of the Property. For the two years ended 31 December 2002, 2003 and the six months ended 30 June 2004, CCT Investment recorded an audited net profit attributable to shareholders of approximately HK$2.9 million and an audited net loss attributable to shareholders of approximately HK$1.5 million and HK$0.7 million respectively.

As at 31 December 2003, both the audited total/net assets of CCT Investment before deduction of the CCT Investment Debt amounted to approximately HK$23 million and after deduction of the CCT Investment Debt amounted to an audited net deficit of approximately HK$3 million. As at 30 June 2004, CCT Investment recorded an audited total assets of approximately HK$21.9 million and an audited net deficit of approximately HK$3.5 million.

With a consideration of HK$34 million, CCT Investment is being transferred to the Company at a consideration that is approximately HK$11 million above the audited net assets of CCT Investment as at 31 December 2003 before deduction of the CCT Investment Debt.

V. REASONS FOR THE TRANSACTION

(i) The First Precision Group

First Precision was incorporated in November 2002 as an intermediate holding company for holding 100% interest in ESL by CCT Tech. The transformer business of the First Precision Group is mainly carried out by ESL. The key operating subsidiaries of the First Precision Group are ESL and its wholly-owned subsidiary, 東莞易訊電子制品有限公司 (Dongguan ESL Electronic Products Co., Ltd.).

The Company and CCT Tech have constantly been reviewing their business strategies to enhance their shareholding value. Currently, the CCT Tech Group is principally engaged in the sale, manufacture, design and development of telecom products on an ODM and OEM basis and is also engaged through the First Precision Group, in the manufacture and sale of power supply components, principally for the CCT Tech Group's use for the production of telecom and other consumer products. At present, the Group's principal activities can broadly be categorised into: (i) manufacture and sale of telecom and other consumer products through the CCT Tech Group; (ii) manufacture of power supply components through the First Precision Group; and (iii) manufacture and sale of plastic components and baby and health care products through the Remaining Group.

The Directors believe that it is in the interests of the Company to attach a clearer corporate identity to the Company, with a view to enabling a better evaluation of its businesses.

For the year ended 31 December 2003, the First Precision Group contributed approximately HK$16 million (after elimination of approximately HK$104 million upon consolidation of the CCT Tech Group's accounts) of audited combined turnover and approximately HK$12.0 million of audited combined profit after tax to the CCT Tech Group. The contribution of the First Precision Group of net turnover of approximately HK$16 million and net profit of approximately HK$12.0 million represent approximately 1% of the consolidated turnover of the CCT Tech Group and approximately 16.5% of the net profit after taxation of the CCT Tech Group for the year ended 31 December 2003 respectively. As at 31 December 2003, the audited combined net assets of the First Precision Group amounted to approximately HK$56.7 million which represents approximately 40% of the consolidated net assets of the CCT Tech Group.

The acquisition of the First Precision Group by the Company complements the current plastic component operations of the Remaining Group. The Transaction will enhance management efficiency and provide synergy so that the component business (plastic and electric components) will be managed in one listed company. This will enable the Remaining Group to realign its resources to build up and expand its industrial component business. Furthermore, after Completion, the First Precision Group will be more flexible to find independent customers apart from the CCT Tech Group. Upon Completion, the Company's interest in the Convertible Note will be reduced and its share of the interest income arising from the Convertible Note will be correspondingly reduced. However, on the other hand, the Transaction will increase the Company's share in the profit of the First Precision Group.

After Completion, First Precision will cease to be a subsidiary of CCT Tech and the Company's interest in the First Precision Group will be increased from approximately 35.4% to 100% as First Precision will become an indirect wholly-owned subsidiary of the Company.

(ii) **CCT Investment and the Property**

The Remaining Group is currently expanding its business in the manufacture of industrial components and baby and health care products. The Company intends to increase its production space and facilities for such expansion. Therefore, it is in the interests of the Remaining Group to acquire the Property as this will save time and investment costs to build a new factory. CCT Investment was acquired by CCT Tech through its acquisition of interest in the entire issued share capital of Empire Success Holdings Limited on 30 June 2003. CCT Investment will upon Completion become a wholly-owned subsidiary of the Company.

The Consideration will be satisfied by cancellation of the Convertible Note to the extent of the same amount of HK$139 million. The Transaction will reduce the liability of CCT Tech and improve its financial position and save the financial cost of CCT Tech by approximately HK$9.7 million per annum as the Convertible Note carries an interest at the rate of prime or best lending rate plus 2% per annum. After Completion, the outstanding principal amount of the Convertible Note will be reduced from HK$754 million to HK$615 million.

CCT Tech is treated as a non wholly-owned subsidiary of the Company where its results will be consolidated to the Group. The Directors believe that, after Completion, the reduction of the liabilities and the improvement of the financial position of the CCT Tech Remaining Group will strengthen and improve the operating and financial performance of the CCT Tech Remaining Group which would as a result benefit the Group directly.

Taking into account all the reasons stated in paragraphs (i) and (ii) under the section headed "Reasons for the Transaction", the Directors believe that the Transaction is in the interests of the Company.

CCT Tech is treated as a non wholly-owned subsidiary of the Company where its results will be consolidated to the Group. The Transaction will not significantly affect the revenue and operating results of the Group. The Directors estimate that there will not be substantial gain or loss to the Group from the acquisition of First Precision and CCT Investment.

After Completion, the Remaining Group's principal activities will include (i) power supply component business through the First Precision Group; (ii) plastic component business; and (iii) baby and health care product business. The acquisition of CCT Investment will enable the Remaining Group to increase its production space. The CCT Tech Group will focus on the ODM and OEM businesses in telecom products.

General

CCT Tech is approximately 35.4% owned by the Company and the Company is a substantial shareholder and hence a connected person of CCT Tech under the Listing Rules. CCT Tech is treated as a non wholly-owned subsidiary of the Company. The Transaction constitutes a major transaction for the Company for the purposes of the Listing Rules. The Transaction is therefore subject to the approval by the Shareholders at the Extraordinary General Meeting by way of a poll in respect of the resolution to approve the Agreement and the Transaction.

VI. EXTRAORDINARY GENERAL MEETING

The notice convening the Extraordinary General Meeting to be held at 32/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Wednesday, 8 September 2004 at 10:30 a.m. is set out on pages 120 to 121 of this circular. A form of proxy for use by the Shareholders at the Extraordinary General Meeting is enclosed herein. Whether or not you intend to attend and vote the Extraordinary General Meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch share registrar and transfer office of the Company in Hong Kong, Tengis Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, as soon as practicable but in any event, not less than 48 hours before the time appointed for holding the Extraordinary General Meeting. Such form of proxy for use at the Extraordinary General Meeting is also published on the website of the Stock Exchange (www.hkex.com.hk). Completion and return of the form of proxy will not preclude you from attending and voting at the Extraordinary General Meeting in person should you so wish.

Pursuant to article 69 of the articles of association of the Company, every resolution submitted to a general meeting shall be determined on a show of hands in the first instance by the Shareholders present in person or by proxy or by authorised representative, but a poll may be demanded (before or on the declaration of the result of the show of hands) by the chairman of the general meeting or by:

(a) at least 3 Shareholders present in person or by proxy or by authorised representative for the time being entitled to vote at the general meeting; or

(b) any Shareholder and Shareholders present in person or by proxy or by authorised representative and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to attend and vote at the general meeting; or

(c) any Shareholder or Shareholders present in person or by proxy or by authorised representative and holding the Shares conferring a right to attend and vote at the general meeting being the Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

The votes of the Shareholders at the Extraordinary General Meeting will be taken by way of a poll.

VII. RECOMMENDATION

The Board is of the opinion that it is in the best interest of the Company and the Shareholders as a whole to approve the Agreement and the Transaction. The Board therefore recommends the Shareholders to vote in favour of the resolution to be proposed at the Extraordinary General Meeting in respect thereof.

VIII. FURTHER INFORMATION

Your attention is drawn to further information as set out in the appendices to this circular.

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

The following is the text of a report, prepared for the purpose of inclusion in this circular from Ernst & Young, Certified Public Accountants, Hong Kong



To the members
CCT Telecom Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 13 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
23 April 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2003

	Notes	**2003** *HK$'million*	**2002 (Restated)** *HK$'million*
TURNOVER	*5*	3,441	3,130
Cost of sales		(2,963)	(2,696)
Gross profit		478	434
Other revenue		32	41
Selling and distribution costs		(49)	(49)
Administrative expenses		(264)	(314)
Other operating expenses		(35)	(72)
Profit from operating activities before net gains/(losses) on investments and impairment of fixed assets		162	40
Net gains/(losses) on disposal/deemed disposal of subsidiaries		(12)	599
Net unrealised holding losses on short term investments		(1)	(383)
Net realised gains/(losses) on disposal of short term investments		5	(12)
Impairment of long term investments		—	(313)
Impairment of fixed assets		(2)	(3)
Deficit on revaluation of investment properties		(3)	—
Net losses on disposal/deemed disposal of associates		—	(129)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	*6*	149	(201)
Finance costs	*7*	(8)	(27)
		141	(228)
Share of profits and losses of jointly-controlled entities		—	5
Share of profits and losses of associates (note)		(200)	(33)
		(200)	(28)
LOSS BEFORE TAX		(59)	(256)
Tax	*10*	(12)	(9)
LOSS BEFORE MINORITY INTERESTS		(71)	(265)
Minority interests		(47)	6
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	*11*	(118)	(259)
DIVIDENDS	*12*		
Interim		6	4
Proposed final		6	8
		12	12
LOSS PER SHARE	*13*		
Basic		HK$0.28	HK$0.61
Diluted		N/A	N/A

Note: Including a realisation of the relevant portion of the unrealised profits of approximately HK$175 million (2002: HK$6 million) arising from the disposal of subsidiaries to an associate in the prior year.

CONSOLIDATED BALANCE SHEET
31 December 2003

	Notes	2003 HK$'million	2002 (Restated) HK$'million
NON-CURRENT ASSETS			
Fixed assets	*14*	1,497	1,412
Intangible assets	*15*	23	23
Goodwill	*16*	26	39
Interests in associates	*18*	297	496
Other assets	*19*	12	12
Long term investments	*20*	4	4
Deferred tax assets	*31*	9	3
		1,868	1,989
CURRENT ASSETS			
Short term investments	*20*	3	15
Inventories	*21*	178	122
Trade and bills receivables	*22*	655	538
Prepayments, deposits and other receivables	*23*	63	106
Pledged time deposits	*24*	100	83
Cash and cash equivalents	*24*	873	783
		1,872	1,647
CURRENT LIABILITIES			
Trade and bills payables	*25*	841	605
Tax payable		25	14
Other payables and accruals	*26*	198	167
Interest-bearing bank and other borrowings	*27*	130	205
Convertible notes	*30*	8	—
		1,202	991
NET CURRENT ASSETS		670	656
TOTAL ASSETS LESS CURRENT LIABILITIES		2,538	2,645
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	*28*	124	161
Finance lease payables	*29*	1	2
Convertible notes	*30*	10	20
Deferred tax liabilities	*31*	7	7
		142	190
MINORITY INTERESTS		101	28
		2,295	2,427
CAPITAL AND RESERVES			
Issued capital	*32*	42	42
Reserves	*34(a)*	2,247	2,377
Proposed final dividend	*12*	6	8
		2,295	2,427

Mak Shiu Tong, Clement
Chairman

Tam Ngai Hung, Terry
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2003

	Notes	Issued share capital HK$'million	Share premium account HK$'million	Capital reserve (Note34(a)) HK$'million	Retained profits/ (accumulated losses) HK$'million	Proposed final dividend HK$'million	Total HK$'million
At 1 January 2002:							
As previously reported		2,110	2,069	—	(1,659)	—	2,520
Prior year adjustment:							
SSAP 12 — restatement of deferred tax	*31*	—	—	—	1	—	1
As restated		2,110	2,069	—	(1,658)	—	2,521
Capital reduction	*32*	(2,068)	—	1,134	934	—	—
Transfer to accumulated losses	*34(b)*	—	(815)	—	815	—	—
Reversal of goodwill upon disposal/deemed disposal of associates		—	—	—	148	—	148
Reversal of goodwill upon disposal of a subsidiary		—	—	—	21	—	21
Net loss for the year (as restated)		—	—	—	(259)	—	(259)
2002 interim dividend	*12*	—	(4)	—	—	—	(4)
Proposed 2002 final dividend	*12*	—	—	(8)	—	8	—
At 31 December 2002		42	1,250	1,126	1	8	2,427
At 1 January 2003:							
As previously reported		42	1,250	1,126	2	8	2,428
Prior year adjustment:							
SSAP 12 — restatement of deferred tax	*31*	—	—	—	(1)	—	(1)
As restated		42	1,250	1,126	1	8	2,427
Net loss for the year		—	—	—	(118)	—	(118)
2002 final dividend	*12*	—	—	—	—	(8)	(8)
2003 interim dividend	*12*	—	—	(6)	—	—	(6)
Proposed 2003 final dividend	*12*	—	—	(6)	—	6	—
At 31 December 2003		42	1,250	1,114	(117)	6	2,295
Retained by:							
Company and subsidiaries		42	1,250	1,114	103	6	2,515
Associates		—	—	—	(220)	—	(220)
At 31 December 2003		42	1,250	1,114	(117)	6	2,295
Company and subsidiaries		42	1,250	1,126	22	8	2,448
Associates		—	—	—	(21)	—	(21)
At 31 December 2002		42	1,250	1,126	1	8	2,427

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

	Notes	**2003** *HK$'million*	**2002** *HK$'million*
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(59)	(256)
Adjustments for:			
Finance costs	*7*	8	27
Share of profits and losses of jointly-controlled entities and associates		200	28
Interest income	*5*	(8)	(15)
Depreciation	*6*	122	122
Amortisation of goodwill	*6*	1	16
Amortisation of intangible assets	*6*	30	31
Write off of deferred development costs	*6*	15	41
Write off of fixed assets	*6*	18	—
Loss on disposal of fixed assets, net	*6*	1	9
Net losses/(gains) on disposal/deemed disposal of subsidiaries		12	(599)
Net unrealised holding losses of short term investments		1	383
Net realised losses/(gains) on disposal of short term investments		(5)	12
Impairment of long term investments		—	313
Impairment of fixed assets		2	3
Deficit on revaluation of investment properties		3	—
Impairment of other assets	*6*	—	2
Net losses on disposal/deemed disposal of associates		—	129
Bad and doubtful debt provisions on trade receivables	*6*	—	2
Bad and doubtful debt provisions on other receivables	*6*	—	2
Provision for slow-moving and obsolete stocks	*6*	8	6
Operating profit before working capital changes		349	256
Increase in inventories		(61)	(37)
Decrease in short term investments		16	106
Increase in trade and bills receivables		(122)	(154)
Decrease/(increase) in prepayments, deposits and other receivables		55	(136)
Increase in trade and bills payables and accruals		272	171
Cash generated from operations		509	206
Interest received		8	15
Interest paid		(8)	(26)
Interest element on finance lease rental payments		—	(1)
Dividend paid		(14)	(4)
Hong Kong profits tax paid		(9)	(7)
Net cash inflow from operating activities		486	183

	Notes	**2003** *HK$'million*	**2002** *HK$'million*
Net cash inflow from operating activities		486	183
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(244)	(130)
Proceeds from disposal of fixed assets		9	11
Additions to intangible assets		(47)	(60)
Disposal/deemed disposal of associates		—	87
Disposal/deemed disposal of subsidiaries	*35(b)*	(1)	(248)
Acquisition of subsidiaries	*35(c)*	(3)	(7)
Decrease/(increase) in pledged time deposits		(17)	97
Net cash outflow from investing activities		(303)	(250)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of convertible notes		—	(120)
Issue of convertible notes		21	20
New bank loans		93	250
Net repayment of trust receipts		(60)	(1)
Repayment of bank loans		(141)	(253)
Capital element of finance lease rental payments		(4)	(5)
Net cash outflow from financing activities		(91)	(109)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		92	(176)
Cash and cash equivalents at beginning of year		781	957
CASH AND CASH EQUIVALENTS AT END OF YEAR		873	781
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*24*	379	196
Non-pledged time deposits with original maturity of less than three months when acquired	*24*	494	587
Bank overdrafts	*28*	—	(2)
		873	781

BALANCE SHEET

31 December 2003

	Notes	**2003**	**2002**
		HK$'million	*HK$'million*
NON-CURRENT ASSETS			
Fixed assets	*14*	1	—
Interests in subsidiaries	*17*	1,840	1,979
		1,841	1,979
CURRENT ASSETS			
Short term investments	*20*	—	11
Prepayments, deposits and other receivables	*23*	3	1
Pledged time deposits	*24*	—	17
Cash and cash equivalents	*24*	379	428
		382	457
CURRENT LIABILITIES			
Other payables and accruals	*26*	5	9
NET CURRENT ASSETS		377	448
		2,218	2,427
CAPITAL AND RESERVES			
Issued capital	*32*	42	42
Reserves	*34(b)*	2,170	2,377
Proposed final dividend	*12*	6	8
		2,218	2,427

Mak Shiu Tong, Clement
Chairman

Tam Ngai Hung, Terry
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2003

1. CORPORATE INFORMATION

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

- the manufacture and sale of telecom products and accessories;
- the manufacture and sale of baby and health care products; and
- magazine publishing (disposed of during the year).

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAP") AND INTERPRETATIONS

The following new and revised SSAP and Interpretations are effective for the first time for the current year's financial statements and have had a significant impact thereon:

- SSAP 12 (Revised): "Income taxes"
- Interpretation 18: "Consolidation and equity method — Potential voting rights and allocation of ownership interests"
- Interpretation 20: "Income taxes — Recovery of revalued non-depreciable assets"

These SSAP and Interpretations prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAP and Interpretations are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 31 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 31 to the financial statements.

Interpretation 18 requires consideration of the existence and effect of all potential voting rights that are presently exercisable or presently convertible in preparing consolidated financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment properties in the deferred tax calculated under SSAP 12.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and equity investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Subsidiaries

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

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

Joint venture companies

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

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

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

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

Associates

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

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

Goodwill

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

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

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

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

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

Impairment of assets

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

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

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

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

Fixed assets and depreciation

Fixed assets, other than investment properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of that asset.

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

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

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

Construction in progress

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

Investment properties

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

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

Intangible assets

Publishing rights

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

Deferred development costs

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

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

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

Club memberships

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

Long term investments

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

Short term investments

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

Inventories

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

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

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

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

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

Leased assets

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

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

Employee benefits

Paid leave carried forward

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

Employment Ordinance long service payments

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

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

Share option scheme

The Company operates two share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes are not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise

of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Pension scheme

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

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

Foreign currencies

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

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

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Cash and cash equivalents

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

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

Revenue recognition

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

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

(b) circulation income, when the magazines are delivered;

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

(d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

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

Dividends

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

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

Related parties

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

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the telecom products segment engages in the manufacture and sale of telecom products, accessories and components;

(b) the baby and health care products segment engages in the manufacture and sale of baby and health care products; and

(c) the corporate and others segment comprises corporate income and expense items and the publishing of magazines.

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

(a) Business segments

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

Group

HK$'million	Telecom products		Baby and health care products		Corporate and others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002 (Restated)
Segment revenue:										
Sales to external customers	3,224	2,864	157	166	52	85	—	—	3,433	3,115
Other revenue	—	—	—	—	32	41	—	—	32	41
Total revenue	3,224	2,864	157	166	84	126	—	—	3,465	3,156
Segment results	215	167	19	6	(86)	(847)	—	—	148	(674)
Interest income									8	15
Unallocated revenue									5	599
Unallocated expenses									(12)	(141)
Profit/(loss) from operating activities									149	(201)
Finance costs									(8)	(27)
Share of profits and losses of:										
Jointly-controlled entities	—	—	—	—	—	5			—	5
Associates	—	—	—	—	(200)	(33)			(200)	(33)
Loss before tax									(59)	(256)
Tax									(12)	(9)
Loss before minority interests									(71)	(265)
Minority interests									(47)	6
Net loss from ordinary activities attributable to shareholders									(118)	(259)

HK$'million	Telecom products		Baby and health care products		Corporate and others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002 (Restated)
Segment assets	2,335	2,847	98	87	5,500	5,657	(4,499)	(5,454)	3,434	3,137
Interests in associates	—	—	—	—	297	496	—	—	297	496
Unallocated assets									9	3
Total assets									3,740	3,636
Segment liabilities	2,190	2,621	37	24	3,311	3,581	(4,499)	(5,454)	1,039	772
Unallocated liabilities									305	409
Total liabilities									1,344	1,181
Other segment information:										
Capital expenditure	149	153	6	5	137	34	—	—	292	192
Depreciation	92	84	3	2	27	36	—	—	122	122
Amortisation	30	31	—	—	1	16	—	—	31	47
Impairment losses recognised directly in the profit and loss account	—	—	—	2	2	316	—	—	2	318
Other non-cash expenses	42	56	—	—	16	528	—	—	58	584

(b) Geographical segments

The following table presents revenue information for the Group's geographical segments. Over 90% of the Group's assets are located in the People's Republic of China (the "PRC") including Hong Kong. Accordingly, no analysis of assets and capital expenditures by geographical segments is presented.

Group

HK$'million	United States of America		PRC, including HK		European Union		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Segment revenue:										
Sales to external customers	3,224	2,864	157	166	52	85	—	—	3,433	3,115
Other revenue	—	—	—	—	32	41	—	—	32	41
Total revenue	3,224	2,864	157	166	84	126	—	—	3,465	3,156
Segment results	215	167	19	6	(86)	(847)	—	—	148	(674)
Interest income									8	15
Unallocated revenue									5	599
Unallocated expenses									(12)	(141)
Profit/(loss) from operating activities									149	(201)
Finance costs									(8)	(27)
Share of profits and losses of:										
Jointly-controlled entities	—	—	—	—	—	5			—	5
Associates	—	—	—	—	(200)	(33)			(200)	(33)
Loss before tax									(59)	(256)
Tax									(12)	(9)
Loss before minority interests									(71)	(265)
Minority interests									(47)	6
Net loss from ordinary activities attributable to shareholders									(118)	(259)

HK$'million	United States of America		PRC, including HK		European Union		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Segment revenue:										
Sales to external customers	2,222	2,198	637	447	119	155	455	315	3,433	3,115
Other revenue	—	—	32	41	—	—	—	—	32	41
Total revenue	2,222	2,198	669	488	119	155	455	315	3,465	3,156

5. TURNOVER

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

Revenue from the following activities has been included in turnover:

	2003	2002
	HK$'million	*HK$'million*
Manufacture and sale of telecom products and accessories	3,224	2,864
Trading of telecom and network equipment and provision of related consultancy services	—	2
Manufacture and sale of baby and health care products	157	166
Provision of multimedia content and services, and magazine publishing	52	83
Interest income	8	15
	3,441	3,130

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging:

		Group	
	Notes	2003	2002
		HK$'million	*HK$'million*
Depreciation	*14*	122	122
Minimum lease payments under operating leases in respect of land and buildings		5	15
Research and development costs:			
Deferred expenditure amortised*	*15*	30	31
Current year expenditure	*15*	47	60
Amortisation of goodwill**	*16*	1	16
Auditors' remuneration		5	5
Staff costs (excluding directors' remuneration — note 8)***			
Wages and salaries		275	252
Pension scheme contributions		5	9
Bad and doubtful debt provisions on trade receivables		—	2
Bad and doubtful debt provisions on other receivables		—	2
Loss on disposal of fixed assets, net		1	9
Write off of fixed assets		18	—
Write off of deferred development costs**	*15*	15	41
Provision for slow-moving and obsolete stocks*		8	6
Impairment of other assets		—	2
and after crediting:			
Gross rental income from investment properties		1	3

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

** The amortisation of goodwill and write off of deferred development costs for the year are included in "Other operating expenses" on the face of the consolidated profit and loss account.

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

7. FINANCE COSTS

	Group	
	2003	**2002**
	HK$'million	*HK$'million*
Interest on bank loans and overdrafts wholly repayable within five years	3	15
Interest on bank loans repayable after five years	4	3
Interest on convertible notes	1	8
Interest on finance leases	—	1
	8	27

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2003	**2002**
	HK$'million	*HK$'million*
Fees:		
Executive directors	—	—
Independent non-executive directors	—	—
	—	—
Executive directors' other emoluments:		
Salaries, allowances and benefits in kind	14	18
Performance related bonuses	12	8
Pension scheme contributions	1	1
	27	27

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

	Number of directors	
	2003	**2002**
Nil - HK$1,000,000	4	5
HK$2,500,001 - HK$3,000,000	—	1
HK$3,500,001 - HK$4,000,000	1	—
HK$6,000,001 - HK$6,500,000	—	1
HK$6,500,001 - HK$7,000,000	1	—
HK$17,000,001 - HK$17,500,000	1	—
HK$17,500,001 - HK$18,000,000	—	1
	7	8

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

During the year, 10,500,000 share options were granted to the directors in respect of their services to the Group, and the details of which are set out in note 33 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2002: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2002: two) non-director, highest paid employees for the year are as follows:

	Group	
	2003	**2002**
	HK$'million	*HK$'million*
Salaries, allowances and benefits in kind	6	6
Performance related bonuses	2	2
Pension scheme contributions	—	—
	8	8

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

	Number of employees	
	2003	**2002**
HK$3,000,001 - HK$3,500,000	1	—
HK$3,500,001 - HK$4,000,000	—	1
HK$4,000,001 - HK$4,500,000	1	—
HK$4,500,001 - HK$5,000,000	—	1
	2	2

During the year, 1,000,000 share options were granted to a non-director, highest paid employee in respect of his service to the Group, further details of which are included in the disclosures in note 33 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise, included in the above non-director, highest paid employees' remuneration disclosures.

10. TAX

The Company is exempted from tax in the Cayman Islands until 2010. Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

	Group	
	2003	**2002**
		(Restated)
	HK$'million	*HK$'million*
Group:		
Current — Hong Kong:		
Charge for the year	14	8
Overprovision in prior years	—	(1)
Current — Elsewhere	5	—
Deferred — *note 31*	(6)	2
	13	9
Share of tax attributable to associates	(1)	—
Total tax charge for the year	12	9

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

Group — 2003

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

Group — 2002

	Hong Kong		Mainland China		Total	
	HK$'million	*%*	*HK$'million*	*%*	*HK$'million*	*%*
Profit/(loss) before tax	(347)		91		(256)	
Tax at the statutory or applicable tax rate	(56)	16.0	22	24.0	(34)	13.3
Adjustment in respect of current tax of previous periods	(1)	0.3	—	—	(1)	0.4
Income not subject to tax	(101)	29.1	—	—	(101)	39.5
Expenses not deductible for tax	157	(45.1)	7	7.7	164	(64.1)
Tax losses not recognised	10	(2.9)	—	—	10	(3.9)
Tax exemption	—	—	(29)	(31.7)	(29)	11.3
Tax charge at the Group's effective rate	9	(2.6)	—	—	9	(3.5)

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was approximately HK$195 million (2002: net profit of HK$1 million). The Group's share of the profits and losses for the year retained by the associates amounted to losses of HK$200 million (2002: HK$33 million).

12. DIVIDENDS

	2003	2002
	HK$'million	*HK$'million*
Interim - HK$0.015 (2002: HK$0.01) per ordinary share	6	4
Proposed final - HK$0.015 (2002: HK$0.02) per ordinary share	6	8
	12	12

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

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of approximately HK$118 million (2002 (restated): HK$259 million), and the weighted average number of 422,105,230 (2002: 422,105,230) ordinary shares in issue during the year.

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

The diluted loss per share amount for the year ended 31 December 2002 is not shown as the potential ordinary shares outstanding during that year had no dilution effect on the basic loss per share for that year.

14. FIXED ASSETS

Group

	Investment properties	Leasehold land and buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*
Cost or valuation:								
At 1 January 2003	13	1,459	259	100	113	17	—	1,961
Additions	—	12	48	26	18	5	136	245
Acquisition of subsidiaries	—	—	—	—	1	—	—	1
Disposals	(3)	(8)	—	—	(1)	(3)	—	(15)
Write off	—	(19)	—	—	—	—	—	(19)
Disposal of subsidiaries	—	—	—	—	(10)	—	—	(10)
Reclassification	—	(2)	—	—	2	—	—	—
Deficit on revaluation	(3)	—	—	—	—	—	—	(3)
Transfers	—	136	—	—	—	—	(136)	—
At 31 December 2003	7	1,578	307	126	123	19	—	2,160
Analysis of cost or valuation:								
At cost	—	1,578	307	126	123	19	—	2,153
At 31 December 2003 valuation	7	—	—	—	—	—	—	7
	7	1,578	307	126	123	19	—	2,160
Accumulated depreciation and impairment:								
At 1 January 2003	—	298	124	56	62	9	—	549
Depreciation provided during the year	—	49	38	16	16	3	—	122
Impairment during the year recognised in the profit and loss account	—	2	—	—	—	—	—	2
Disposals	—	(3)	—	—	(1)	(1)	—	(5)
Write off	—	(1)	—	—	—	—	—	(1)
Disposal of subsidiaries	—	—	—	—	(4)	—	—	(4)
At 31 December 2003	—	345	162	72	73	11	—	663
Net book value:								
At 31 December 2003	7	1,233	145	54	50	8	—	1,497
At 31 December 2002	13	1,161	135	44	51	8	—	1,412

Company

	Furniture and office equipment
	HK$'million
Cost:	
Transfer from subsidiaries and at 31 December 2003	1
Accumulated depreciation:	
Depreciation provided during the year and at 31 December 2003	—
Net book value:	
At 31 December 2003	1

The net book value of the fixed assets of the Group held and under finance leases included in the total amounts of tools, moulds and equipment and motor vehicles as at 31 December 2003, amounted to approximately HK$1,600,000 (2002: HK$3,800,000) and HK$1,900,000 (2002: HK$2,600,000), respectively.

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

	Hong Kong	Elsewhere	Total
	HK$'million	*HK$'million*	*HK$'million*
Long term leases	194	—	194
Medium term leases	63	976	1,039
	257	976	1,233

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

The Group's investment properties were revalued on 31 December 2003 by E. N. Surveyors & Co., independent professionally qualified valuers, on an open market, existing use basis.

15. INTANGIBLE ASSETS

Group

	Deferred development costs	Publishing rights	Total
	HK$'million	*HK$'million*	*HK$'million*
Cost:			
At 1 January 2003	76	2	78
Additions	47	—	47
Write off	(38)	—	(38)
Disposal of subsidiaries	—	(2)	(2)
At 31 December 2003	85	—	85
Accumulated amortisation:			
At 1 January 2003	55	—	55
Amortisation provided during the year	30	—	30
Write back	(23)	—	(23)
At 31 December 2003	62	—	62
Net book value:			
At 31 December 2003	23	—	23
At 31 December 2002	21	2	23

16. GOODWILL

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

Group

	HK$'million
Cost:	
At 1 January 2003	41
Acquisition of subsidiaries	11
Deemed disposal/disposal of subsidiaries	(25)
At 31 December 2003	27
Accumulated amortisation:	
At 1 January 2003	2
Amortisation provided during the year	1
Deemed disposal/disposal of subsidiaries	(2)
At 31 December 2003	1
Net book value:	
At 31 December 2003	26
At 31 December 2002	39

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

The net amount of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was approximately HK$103,000,000 as at 1 January 2003 and 31 December 2003. The net amount of goodwill is stated at its cost of HK$783,000,000, less cumulative impairment of approximately HK$680,000,000 which arose in prior years.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2003	**2002**
	HK$'million	*HK$'million*
Unlisted shares, at cost	424	—
Due from subsidiaries	4,118	4,477
Due to subsidiaries	(600)	(600)
	3,942	3,877
Provision for impairment	(2,102)	(1,898)
	1,840	1,979

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

As at 31 December 2002, the unlisted shares, at cost, amounted to HK$85.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
CCT Marketing Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	34.25#	Trading of telecom products
CCT Telecom (HK) Limited	Hong Kong	HK$2,600,000 Ordinary	—	34.25#	Sourcing of telecom products
CCT Tech International Limited ("CCT Tech")@	Bermuda/ Hong Kong	HK$131,384,226 Ordinary	—	34.25#	Investment Holding
Electronic Sales Limited	Hong Kong	HK$5,948,000 Ordinary	—	34.25#	Sale of Telecom Products
Full Triumph International Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	100	Property Holding
Goldbay Investments Limited	Hong Kong	HK$2 Ordinary	—	100	Property holding
Huge Partner Limited	Hong Kong	HK$10,000 Ordinary	—	100	Property holding
Neptune Holding Limited	Hong Kong	HK$10,000,000 Non-voting* class 'A' shares HK$1,000,000 Voting class 'B' shares	—	100	Trading of plastic casings and parts
Wiltec Industries Limited	Hong Kong	HK$100 Ordinary HK$1,000,000 Deferred**	—	100	Sale of baby care products
Huiyang CCT Telecommunications Products Co., Ltd.	People's Republic of China	HK$80,000,000 Registered^	—	34.25#	Manufacturing of telecom products
Huiyang CCT Plastic Products Co., Ltd.	People's Republic of China	HK$48,600,000 Registered^	—	100	Manufacturing of plastic casings and parts
Innovative Industrial Limited~	Hong Kong	HK$1,000,000 Ordinary	—	60	Sale of soft toys
Pollister Limited~	British Virgin Islands	US$10,000 Ordinary	—	60	Investment holding

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

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

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

~ Acquired during the year.

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

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

During the year, the Group acquired Pollister Limited and Innovative Industrial Limited. Further details of the acquisitions are included in note 35(c) to the financial statements.

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

18. INTERESTS IN ASSOCIATES

	Group	
	2003	**2002**
	HK$'million	*HK$'million*
Share of net assets	543	917
Unrealised profits arising from the disposal of subsidiaries *(Note)*	(246)	(421)
	297	496

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

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

Name	**Business structure**	**Place of incorporation and operations**	**Nominal value of issued share capital**	**Percentage of ownership interest attributable to the Group**		**Principal activities**
				2003	**2002**	
Haier-CCT Holdings Limited ("Haier-CCT")*	Corporate	Bermuda/ Hong Kong	HK$996,401,657 Ordinary	43.6	43.6	Investment holding

* Listed on the Stock Exchange.

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

	As at 31 December 2003	As at 31 December 2002 (Restated)
	HK$'million	*HK$'million*
Non-current assets	1,144	1,791
Current assets	1,197	832
Current liabilities	(1,019)	(438)
Minority interests	(76)	(83)
	1,246	2,102

	Year ended 31 December 2003	Year ended 31 December 2002 (Restated)
	HK$'million	*HK$'million*
Turnover	1,665	500
Loss before tax	(866)	(73)
Tax	2	1
Loss before minority interests	(864)	(72)
Minority interests	8	6
Net loss from ordinary activities attributable to shareholders	(856)	(66)

The above amounts are extracted from the published audited financial statements of Haier-CCT for the year ended 31 December 2003.

19. OTHER ASSETS

	Group	
	2003	2002
	HK$'million	*HK$'million*
Club memberships, at cost	14	14
Provision for impairment	(2)	(2)
	12	12

20. INVESTMENTS

	Group		Company	
	2003	2002	2003	2002
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*
Long term investments				
Unlisted equity investments, at cost	317	317	—	—
Provision for impairment	(313)	(313)	—	—
	4	4	—	—
Short term investments				
Listed equity investments, at market value:				
Hong Kong	3	4	—	—
Elsewhere	—	11	—	11
	3	15	—	11

As at 31 December 2003, the number of shares of the following companies held by the Group exceeded 20% of their respective total issued shares:

Name	Place of incorporation	Description and value of shares held	Percentage holding
Tradeeasy Holdings Limited*	Cayman Islands	HK$4,201,183 Ordinary	23.34
Sendo Holdings PLC	United Kingdom	GBP31,526,000 Ordinary GBP31,474,000 Preference	32.1

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

21. INVENTORIES

	Group	
	2003	2002
	HK$'million	*HK$'million*
Raw materials	45	41
Work in progress	47	34
Finished goods	86	47
	178	122

The carrying amount of inventories carried at net realisable value included in the above balance was nil (2002: Nil) as at the balance sheet date.

22. TRADE AND BILLS RECEIVABLES

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

	Group			
	2003	2002		
	Balance	Percentage	Balance	Percentage
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*
Current to 30 days	274	42	212	40
31 to 60 days	199	30	162	30
61 to 90 days	164	25	140	26
Over 90 days	18	3	24	4
	655	100	538	100

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

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	2003	2002
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*
Prepayments	36	42	—	—
Deposits and other receivables	27	64	3	1
	63	106	3	1

24. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2003	2002	2003	2002
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*
Cash and bank balances	379	196	18	7
Time deposits	594	670	361	438
	973	866	379	445
Less: Time deposits pledged for bank borrowings	(100)	(83)	—	(17)
	873	783	379	428

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$13 million (2002: HK$20 million). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. TRADE AND BILLS PAYABLES

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

	Group			
	2003		2002	
	Balance	Percentage	Balance	Percentage
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*
Current to 30 days	212	25	198	32
31 to 60 days	227	27	114	19
61 to 90 days	164	20	113	19
Over 90 days	238	28	180	30
	841	100	605	100

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003	2002	2003	2002
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*
Other payables	67	62	—	5
Accruals	131	105	5	4
	198	167	5	9

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

		Group	
	Notes	2003	2002
		HK$'million	*HK$'million*
Bank overdrafts — secured		—	2
Current portion of bank loans		129	200
	28	129	202
Current portion of finance lease payables	*29*	1	3
		130	205

28. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

	Group	
	2003	**2002**
	HK$'million	*HK$'million*
Bank overdrafts:		
Secured	—	2
Bank loans:		
Secured	253	361
	253	363
Bank overdrafts repayable within one year or on demand	—	2
Bank loans repayable:		
Within one year or on demand	129	200
In the second year	18	37
In the third to fifth years, inclusive	44	47
Beyond five years	62	77
	253	361
	253	363
Portion classified as current liabilities — *note 27*	(129)	(202)
Non-current portion	124	161

29. FINANCE LEASE PAYABLES

The Group leases certain of its tools, moulds and equipment and motor vehicles for business use. These leases are classified as finance leases and have remaining lease terms ranging from one to two years.

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

Group

	Minimum lease payments 2003	**Minimum lease payments 2002**	**Present value of minimum lease payments 2003**	**Present value of minimum lease payments 2002**
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*
Amounts payable:				
Within one year	1	3	1	3
In the second year	1	3	1	2
Total minimum finance lease payments	2	6	2	5
Future finance charges	—	(1)		
Total net finance lease payables	2	5		
Portion classified as current liabilities — *note 27*	(1)	(3)		
Non-current portion	1	2		

30. CONVERTIBLE NOTES

	Group	
	2003	**2002**
	HK$'million	*HK$'million*
2004 Convertible notes — *note (a)*	8	20
2005 Convertible notes — *note (b)*	10	—
	18	20
Portion classified as current liabilities	(8)	—
Non-current portion	10	20

(a) On 19 July 2002, CCT Technology Holdings Limited, an indirect non-wholly owned subsidiary of the Company, issued convertible notes with aggregate principal amounts of HK$20 million to an independent third party and which were subsequently replaced by the convertible notes in the same amount issued by CCT Tech on 4 November 2002. The convertible notes provide the holder the option right to convert the principal amount into ordinary shares of CCT Tech of HK$0.01 each on any business day 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 the convertible notes will mature on the second anniversary of the date of their issue.

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

(b) On 14 May 2003, CCT Tech issued convertible notes with aggregate principal amounts of HK$21 million through a placing agent to several independent places. The convertible notes provide the holders option right to covert the principal amount into ordinary shares of CCT Tech at 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 the convertible notes will mature on the second anniversary of the date of their issue.

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

31. DEFERRED TAX

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

Deferred tax liabilities

Group

	2003 **Accelerated tax depreciation** *HK$'million*
At 1 January 2003	
As previously reported	3
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	4
As restated	7
Deferred tax charged to the profit and loss account during the year — *note 10*	—
Gross deferred tax liabilities at 31 December 2003	7

Deferred tax assets

Group

	2003 **Losses available for offset against future taxable profit** *HK$'million*
At 1 January 2003	
As previously reported	—
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	3
As restated	3
Deferred tax credited to the profit and loss account during the year — *note 10*	6
Gross deferred tax assets at 31 December 2003	9
Net deferred tax assets at 31 December 2003	2

Deferred tax liabilities

Group

	2002 Accelerated tax depreciation *HK$'million*
At 1 January 2002	
As previously reported	3
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	4
As restated	7
Deferred tax charged to the profit and loss account during the year — *note 10*	—
Gross deferred tax liabilities at 31 December 2002	7

Deferred tax assets

Group

	2002 Losses available for offset against future taxable profit *HK$'million*
At 1 January 2002	
As previously reported	—
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	5
As restated	5
Deferred tax charged to the profit and loss account during the year — *note 10*	(2)
Gross deferred tax assets at 31 December 2002	3
Net deferred tax liabilities at 31 December 2002	4

The Group has tax losses arising in Hong Kong of HK$281 million (2002: HK$313 million) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

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

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax assets as at 31 December 2003 and 2002 by HK$9 million and HK$3 million, respectively and an increase in the Group's deferred tax liabilities as at 31 December 2003 and 2002 by HK$4 million and HK$4 million, respectively. As a consequence, the consolidated net losses attributable to shareholders for the years ended 31 December 2003 and 2002 have been decreased and increased by HK$6 million and HK$2 million, respectively, and the consolidated retained profits at 1 January 2003 and accumulated losses at 1 January 2002 have been decreased by HK$1 million and HK$1 million, respectively, as detailed in the consolidated statement of changes in equity.

32. SHARE CAPITAL

Shares

	Company	
	2003	**2002**
	HK$'million	*HK$'million*
Authorised:		
2,000,000,000 (2002: 2,000,000,000) ordinary shares of HK$0.10 (2002: HK$0.10) each	200	200
Issued and fully paid:		
422,105,230 (2002: 422,105,230) ordinary shares of HK$0.10 (2002: HK$0.10) each	42	42

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

	Number of ordinary shares of HK$0.10 each	**Issued share capital**
	(in millions)	*HK$'million*
At 1 January 2002	422	2,110
Capital reduction *(Note)*	—	(2,068)
As 31 December 2002 and 2003	422	42

Note:

Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 8 April 2002, the nominal value of each of the 422,105,230 issued ordinary shares of the Company was reduced by HK$4.90, from HK$5.00 to HK$0.10 per ordinary share (the "Capital Reduction"). Accordingly, the Company's then existing issued share capital of HK$2,110 million was reduced by HK$2,068 million to HK$42 million.

The credit arising from the Capital Reduction, in the sum of HK$2,068 million, was first applied towards the elimination of the accumulated losses of up to HK$934 million of the Company and the balance of such credit was credited to the capital reserve of the Company.

The 377,894,770 unissued ordinary shares of the Company was cancelled and the authorised share capital of the Company was immediately thereafter increased to HK$200,000,000 by the subsequent creation of 1,577,894,770 unissued new ordinary shares of HK$0.10 each that the authorised share capital of the Company thereafter consists of 2,000,000,000 ordinary shares of HK$0.10 each.

Share options

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

33. SHARE OPTION SCHEME

The share option scheme adopted by the Company on 25 May 2001 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted by the Company on 28 February 2002 to comply with the new amendments to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in respect of the share option schemes of a listed company. As a result, the Company may no longer grant any further shares options under the Old Share Option Scheme. However, all shares options granted prior to the termination of the Old Share Option Scheme will remain in full force and effect. Unless otherwise cancelled or amended, the New Share Option Scheme will remain in force for 10 years from the date of the adoption. As at 31 December 2003, there were 42,200,000 share options outstanding under the New Share Option Scheme and there were no outstanding share options under the Old Share Option Scheme. Based on these outstanding share options, the total number of shares available for issue is 42,200,000, which represents approximately 10% of the existing issued share capital of the Company as at the date of this report.

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

Pursuant to the New Share Option Scheme, the maximum number of shares in respect of which share options may be granted under the New Share Option Scheme is such number of shares, when aggregated with shares subject to any other share option scheme(s) of the Company (which, for this purpose, excludes the Old Share Option Scheme), must not exceed 10% of the issued share capital of the Company as at the date of adoption of the New Share Option Scheme. The maximum number of shares issuable upon exercise of the share options granted under the New Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding share options) to each eligible participant in any 12-month period is limited to 1% of the shares of the Company in issue as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the shareholders' approval of the Company at a general meeting.

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

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

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

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

	Number of share options							
Name or category of participant	**Outstanding as at 1 January 2003**	**Granted during the year**	**Exercised during the year**	**Lapsed/ Cancelled during the year**	**Outstanding as at 31 December 2003**	**Date of grant of share options** *(Note 1)*	**Exercise period of share options**	**Exercise price per share** *(Note 2)* *HK$*
Executive directors								
Mak Shiu Tong, Clement	5,000,000	—	—	(5,000,000)	—	13/8/2001	16/8/2001 -15/8/2003	2.936
Cheng Yuk Ching, Flora	1,250,000	—	—	(1,250,000)	—	13/8/2001	16/8/2001 -15/8/2003	2.936
Tam Ngai Hung, Terry	750,000	—	—	(750,000)	—	11/6/2001	13/6/2001 -12/6/2003	3.732
	1,250,000	—	—	(1,250,000)	—	13/8/2001	16/8/2001 -15/8/2003	2.936
	8,250,000	—	—	(8,250,000)	—			
Other employees								
In aggregate	625,000	—	—	(625,000)	—	27/6/2001	29/12/2001 -28/6/2003	3.553
	250,000	—	—	(250,000)	—	30/6/2001	30/6/2001 -30/12/2003	3.533
	750,000	—	—	(750,000)	—	8/8/2001	8/2/2002 -7/8/2003	3.085
	3,975,000	—	—	(3,975,000)	—	13/8/2001	16/2/2002 -15/8/2003	2.936
	5,600,000	—	—	(5,600,000)	—			
	13,850,000	—	—	(13,850,000)	—			

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.

2. 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.

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

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 1)* HK$	Price of the shares of the Company at grant date of share options *(Note 2)* HK$
	Outstanding as at 1 January 2003	Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year	Outstanding as at 31 December 2003				
Executive directors									
Mak Shiu Tong, Clement	—	420,000	—	—	420,000	17/3/2003	17/3/2003 -16/3/2008	0.750	0.760
Cheng Yuk Ching, Flora	—	4,200,000	—	—	4,200,000	17/3/2003	17/3/2003 -16/3/2008	0.750	0.760
Tam Ngai Hung, Terry	—	4,200,000	—	—	4,200,000	17/3/2003	17/3/2003 -16/3/2008	0.750	0.760
William Donald Putt	—	420,000	—	—	420,000	17/3/2003	17/3/2003 -16/3/2008	0.750	0.760
	—	9,240,000	—	—	9,240,000				
Independent non-executive directors									
Samuel Olenick	—	420,000	—	—	420,000	17/3/2003	17/3/2003 -16/3/2008	0.750	0.760
Tam King Ching, Kenny	—	420,000	—	—	420,000	17/3/2003	17/3/2003 -16/3/2008	0.750	0.760
Lau Ho Man, Edward	—	420,000	—	—	420,000	17/3/2003	17/3/2003 -16/3/2008	0.750	0.760
	—	1,260,000	—	—	1,260,000				
Other employees									
In aggregate	—	31,700,000	—	—	31,700,000	17/3/2003	17/3/2003 -16/3/2008	0.750	0.760
	—	31,700,000	—	—	31,700,000				
	—	42,200,000	—	—	42,200,000				

Notes:

1. 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.

2. The price of the shares of the Company as at the date of grant of the share options is the closing price of the shares of the Company as listed on the Stock Exchange on the trading day immediately before the date on which the share options were granted.

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

The directors of the Company do not consider it appropriate to disclose a theoretical value of the share options granted to the directors and the employees of the Company during the year 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.

34. RESERVES

(a) **Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 38 of the financial statements.

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

The Group's capital reserve was created from the reduction of share capital on 8 April 2002. Further details are set out in note 32 to the financial statements.

(b) **Company**

	Note	**Share premium account**	**Capital reserve**	**Retained profits/ (accumulated losses)**	**Total**
		HK$'million	*HK$'million*	*HK$'million*	*HK$'million*
Balance at 1 January 2002		2,069	—	(1,749)	320
Capital reduction	*32*	—	1,134	934	2,068
Transfer to accumulated losses		(815)	—	815	—
Profit for the year		—	—	1	1
2002 interim dividend		(4)	—	—	(4)
Proposed 2002 final dividend		—	(8)	—	(8)
At 31 December 2002 and beginning of year		1,250	1,126	1	2,377
Loss for the year		—	—	(195)	(195)
2003 interim dividend		—	(6)	—	(6)
Proposed 2003 final dividend		—	(6)	—	(6)
At 31 December 2003		1,250	1,114	(194)	2,170

Note:

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

In accordance with the Company's Articles of Association, dividends can only be distributed out of the profits and reserves available for distribution, including the share premium account and capital reserve of the Company. As at 31 December 2003, the Company had a net credit balance of approximately HK$2,176 million (2002: HK$2,385 million) maintained in the reserve accounts which is available for distribution.

The Company's capital reserve was created from the reduction of share capital on 8 April 2002. Further details are set out in note 32 to the financial statements.

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the finance leases of HK$1 million (2002: HK$2 million).

(b) Disposal/deemed disposal of subsidiaries

	2003	2002
	HK$'million	*HK$'million*
Net assets disposed of:		
Fixed assets	6	22
Intangible assets	2	—
Interests in jointly-controlled entities	—	124
Interests in associates	—	61
Goodwill	—	359
Cash and bank balances	2	305
Trade and bills receivables	10	13
Inventories	—	30
Prepayments, deposits and other receivables	2	117
Trade and bills payables	(11)	(58)
Other payables and accruals	(4)	(127)
Finance lease payables	—	(1)
Tax payable	—	(1)
Minority interests	(4)	(810)
	3	34
Reclassification to interests in associates	—	(597)
Reversal of goodwill upon disposal/deemed disposal of subsidiaries	23	21
Net gains/(losses) on disposal/deemed disposal of subsidiaries	(12)	599
	14	57
Satisfied by:		
Cash	1	57
Other receivables	13	—
	14	57

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

	2003	2002
	HK$'million	*HK$'million*
Cash consideration	1	57
Cash and bank balances disposed of	(2)	(305)
Net outflow of cash and cash equivalents in respect of the disposal/deemed disposal of subsidiaries	(1)	(248)

The results of the subsidiary disposed of during the year had no significant impact on the Group's consolidated turnover or loss after tax before minority interests for the year ended 31 December 2003.

The subsidiaries disposed of in the prior year contributed HK$223 million to the Group's consolidated turnover and HK$37 million to the Group's consolidated loss after tax and before minority interests for the year ended 31 December 2002.

(c) **Acquisition of subsidiaries**

	2003	2002
	HK$'million	*HK$'million*
Net assets acquired:		
Fixed assets	1	10
Cash and bank balances	9	18
Trade receivables	5	5
Inventories	3	—
Deposits and other receivables	8	—
Trade payables	(2)	(10)
Bank loan	—	(2)
Other payables and accruals	(5)	(2)
Tax payable	(1)	—
Minority interests	(7)	(17)
	11	2
Goodwill on acquisition — *note 16*	11	29
	22	31
Satisfied by:		
Cash	12	20
Cash paid for incidental acquisition costs	—	5
Reclassification from interests in associates	—	6
Other receivables	7	—
Other payables	3	—
	22	31

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

	2003	2002
	HK$'million	*HK$'million*
Cash paid	(12)	(25)
Cash and bank balances acquired	9	18
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(3)	(7)

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

The subsidiaries acquired in the prior year contributed approximately HK$106 million to the Group's consolidated turnover and a post-acquisition profit of approximately HK$98 million to the consolidated loss after tax before minority interests for the year ended 31 December 2002.

36. CONTINGENT LIABILITIES

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

	Group		Company	
	2003	2002	2003	2002
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	—	—	183	646
Guarantee given to an independent third party in respect of a rental arrangement	45	40	45	40
	45	40	228	686

As at 31 December 2003, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$142 million (2002: HK$360 million).

(b) The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$8 million as at 31 December 2003 (2002: HK$7 million), as further explained in note 3 to the financial statements. The contingent liability has arisen as a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

37. PLEDGE OF ASSETS

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

(i) Pledges of the Group's fixed deposits amounting to approximately HK$100 million (2002: HK$83 million); and

(ii) Fixed charges over certain of the Group's leasehold land and buildings with an aggregate net book value amounting to approximately HK$255 million (2002: HK$277 million).

38. OPERATING LEASE ARRANGEMENTS

As lessee

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

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

	Group	
	2003	**2002**
	HK$'million	*HK$'million*
Within one year	2	5
In the second to fifth years, inclusive	2	3
	4	8

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

	Group	
	2003	**2002**
	HK$'million	*HK$'million*
Within one year	1	1
In the second to fifth years, inclusive	8	5
After five years	117	76
	126	82

39. COMMITMENTS

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

Capital commitments:

	Group	
	2003	**2002**
	HK$'million	*HK$'million*
Contracted, but not provided for		
Construction in progress	60	56
Purchases of plant and machinery and equipment	2	4
	62	60

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

	Group	
	2003	**2002**
	HK$'million	*HK$'million*
Contracted, but not provided for	8	20
Authorised, but not contracted for	—	81
	8	101

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

40. POST BALANCE SHEET EVENTS

(a) On 14 January 2004, the Group entered into a sale and purchase agreement with an independent third party to dispose of certain of its land and buildings situated in Hong Kong for a cash consideration of approximately HK$84,000,000. This transaction was completed on 27 February 2004.

(b) On 2 March 2004, the Company entered into a sale and purchase agreement with New Capital Industrial Limited ("NCIL"), a company controlled by Mr. Mak Shiu Tong, Clement, the Chairman of the Company, and his associates to dispose of the HK$45 million zero coupon convertible note issued to the Company by CCT Tech for a cash consideration of HK$45 million. This transaction was approved by the independent shareholders of the Company on 15 April 2004.

On 15 April 2004, the Company announced that a board meeting of the Company will be convened on 28 April 2004 to consider the declaration and payment of a special interim dividend in the amount of approximately HK$0.10 per share of the Company, subject to adjustment. The special dividend is to be paid out of the net sale proceeds from the disposal of the abovementioned convertible note to NCIL.

(c) On 5 March 2004, Haier-CCT, an associate of the Group, has conditionally agreed with Haier Group, a substantial shareholder of Haier-CCT, for (i) the transfer by Haier Group of the washing machine business to Haier-CCT and; (ii) the exercise of the call option to acquire the remaining 35.5% interest in Pegasus Telecom (Qingdao) Co., Ltd. (collectively referred to as the "Asset Injection"), in exchange of cash, shares in Haier-CCT and the convertible notes at an aggregate consideration of HK$1,503,407,200. The consideration for the acquisition of the washing machine business and the proportion between the number of the consideration shares and the principal amount of the convertible notes are subject to adjustment. Upon completion of the Asset Injection but before conversion of the convertible notes to be issued by Haier-CCT, the Company's shareholding in Haier-CCT will be diluted from approximately 43.62% to approximately 26.61%.

Further details of this event are set out in Haier-CCT's press announcement dated 2 April 2004.

41. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2004.

INDEBTEDNESS

(a) Statement of indebtedness of the Group

As at the close of business on 30 June 2004 (being the Latest Practicable Date for the ascertaining information regarding this indebtedness statement) and based on the unaudited management accounts of the Group (other than the First Precision Group and CCT Investment) as at 30 June 2004, the audited accounts of the First Precision Group as at 30 June 2004 and the audited accounts of CCT Investment as at 30 June 2004, the Group (including the First Precision Group and CCT Investment through CCT Tech Group) had outstanding borrowings of approximately HK$255 million. The borrowings comprised secured bank loans of approximately HK$200 million, secured trust receipt loans of approximately HK$49 million and obligations under finance lease contracts of approximately HK$6 million. The Group's borrowings were secured by (i) fixed charges over certain freehold land and buildings held by the Group; (ii) the fixed deposits of approximately HK$100 million. In addition, as at the same date, the Group had outstanding convertible notes with a principal sum of HK$57 million.

As at 30 June 2004, the Group had contingent liabilities in respect of a guarantee in lieu of property rental of HK$45 million and possible future long service payments to employees under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), with a maximum possible amount of approximately HK$9 million.

Save as aforesaid and as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have any bank loans, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures or other loan capital, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 30 June 2004.

(b) Statement of indebtedness of the First Precision Group and CCT Investment

As at the close of business on 30 June 2004, the First Precision Group and CCT Investment did not have any outstanding borrowings.

As at 30 June 2004, the First Precision Group and CCT Investment had contingent liabilities in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of approximately HK$236,000.

WORKING CAPITAL

The Directors are of the opinion that taking account the Group's internal, resources, available banking and other borrowing facilities, the Group has sufficient working capital for its present requirement.

The following is the text of a report, prepared for the purpose of inclusion in this circular from Ernst & Young, Certified Public Accountants, Hong Kong

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

20 August 2004

The Directors
First Precision Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding First Precision Holdings Limited ("First Precision") and its subsidiaries (hereinafter collectively referred to as the "First Precision Group"), for each of the three years ended 31 December 2003 and the six months ended 30 June 2004 (the "Relevant Periods"), prepared on the basis set out in Section 1 below, for inclusion in the circular of CCT Telecom Holdings Limited ("CCT"), the ultimate holding company of First Precision, dated 20 August 2004 (the "Circular") in relation to the proposed acquisition of the entire issued capital of First Precision by CCT (the "Proposed Acquisition").

First Precision was incorporated with limited liability in the British Virgin Islands under the International Business Companies Act on 26 November 2002.

The statutory auditors of 東莞易訊電子製品有限公司 (Dongguan ESL Electronic Products Co., Ltd.) were 東莞市德正會計師事務所 (Dongguan City De Zheng Certified Public Accountants) for each of the Relevant Periods. For the purpose of this report, we have performed independent audits in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants (the "HKSA") on the management accounts of 東莞易訊電子製品有限公司 (Dongguan ESL Electronic Products Co., Ltd.) for the Relevant Periods.

As at the date of this report, no audited financial statements have been prepared for First Precision, Terrison Limited and Canova Limited for each of the Relevant Periods or since the dates of their incorporation, where this is a shorter period. We have, however, performed our own independent review of all the relevant transactions of these companies for each of the Relevant Periods or since the dates of their incorporation, where this is a shorter period, and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies in this report.

We have acted as auditors of Electronic Sales Limited for each of the Relevant Periods.

For the purpose of this report, we have examined the audited financial statements or, where appropriate, the management accounts of each of the companies now comprising the First Precision Group for each of the Relevant Periods or from the dates of their incorporation/registration, where this is a shorter period, in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the HKSA.

The summaries of the combined results, combined statements of changes in equity and combined cash flow statements of the First Precision Group for the Relevant Periods and of the combined balance sheets of the First Precision Group as at 31 December 2001, 2002 and 2003, and 30 June 2004 (the "First Precision Summaries") set out in this report have been prepared from the audited financial statements or, where appropriate, the management accounts of the companies now comprising the First Precision Group, after making such adjustments as we consider appropriate, and are presented on the basis set out in Section 1 below.

The directors of First Precision are responsible for the preparation of the First Precision Summaries. In preparing the First Precision Summaries, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion on the First Precision Summaries.

In our opinion, the First Precision Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the combined results and cash flows of the First Precision Group for each of the Relevant Periods and of the combined balance sheets of the First Precision Group as at 31 December 2001, 2002 and 2003 and 30 June 2004.

1. BASIS OF PRESENTATION

The First Precision Summaries, which are based on the audited financial statements or, where appropriate, the management accounts of the companies now comprising the First Precision Group, after making such adjustments as we consider appropriate, include the results, statements of changes in equity, cash flow statements and balance sheets of the companies now comprising the First Precision Group as if the current First Precision Group structure had been in existence throughout the Relevant Periods, or since the dates of their incorporation/registration, where this is a shorter period.

All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, First Precision had direct or indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated/registered outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company name	Place and date of incorporation/ registration	Nominal value of issued and fully-paid/ registered share capital	Percentage of equity attributable to First Precision		Principal activities
			Direct	Indirect	
Electronic Sales Limited	Hong Kong 2 July 1972	HK$5,948,000 Ordinary	100	—	Sale of telecom products
東莞易訊電子製品有限公司 (Dongguan ESL Electronic Products Co., Ltd.)	Mainland China 5 February 2001	HK$60,000,000 Registered	—	100	Manufacture of telecom products
Terrison Limited	Hong Kong 3 July 1994	HK$2 Ordinary	—	100	Dormant
Canova Limited	Hong Kong 26 October 1994	HK$2 Ordinary	—	100	Dormant

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the First Precision Group in arriving at the financial information set out in this report, which conform with accounting principles generally accepted in Hong Kong, are set out below:

Subsidiaries

A subsidiary is a company whose financial and operating policies First Precision controls, directly or indirectly, so as to obtain benefits from its activities.

Related parties

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

Impairment of assets

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

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

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

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

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the combined profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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

Plant and machinery	15%
Tools, moulds and equipment	15%
Furniture and office equipment	15%
Motor vehicles	15% - 30%

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

Deferred development costs

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

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

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

Income tax

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

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Leased assets

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

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

Inventories

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

Cash equivalents

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

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

Revenue recognition

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

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

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

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Employee benefits

Paid leave carried forward

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

Employment Ordinance long service payments

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

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

Pension scheme

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

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

Foreign currencies

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

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

For the purpose of the combined cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

3. COMBINED RESULTS

The following is a summary of the combined results of the First Precision Group for the Relevant Periods, prepared on the basis set out in Section 1 "Basis of presentation" above:

		Year ended 31 December			Six months ended 30 June
	Notes	**2001**	**2002**	**2003**	**2004**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	(a)	144,830	146,906	120,404	65,653
Cost of sales		(120,454)	(129,558)	(99,521)	(58,523)
Gross profit		24,376	17,348	20,883	7,130
Other revenue and gains	(a)	875	1,014	800	750
Selling and distribution costs		(696)	(723)	(633)	(244)
Administrative expenses		(17,751)	(10,539)	(6,142)	(1,719)
Other operating expenses		(585)	(5,661)	(345)	—
Profit from operating activities	(b)	6,219	1,439	14,563	5,917
Finance costs	(c)	(688)	(74)	(2)	—
Profit before tax		5,531	1,365	14,561	5,917
Tax	(f)	(828)	(282)	(2,543)	890
Net profit from ordinary activities attributable to shareholders		4,703	1,083	12,018	6,807
Dividend	(g)	—	—	—	—

Notes:

(a) **Turnover, other revenue and gains**

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, during the Relevant Periods.

An analysis of turnover, other revenue and gains is as follows:

	Year ended 31 December			Six months ended 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
Manufacture and sale of telecom products and accessories	144,777	146,814	120,358	65,647
Interest income	53	92	46	6
	144,830	146,906	120,404	65,653
Other revenue				
Exchange gains, net	—	—	—	258
Rental income for mould and equipment	—	309	—	—
Sale of scrap materials	776	482	535	490
Others	45	223	230	2
	821	1,014	765	750
Gains				
Gain on disposal of fixed assets, net	54	—	35	—
	875	1,014	800	750

(b) **Profit from operating activities**

The First Precision Group's profit from operating activities is arrived at after charging/(crediting):

	Year ended 31 December			Six months ended 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation	2,804	3,037	3,147	1,767
Minimum lease payments under operating leases in respect of land and buildings	2,352	1,621	2,123	911
Bad and doubtful debt provisions on trade receivables	585	380	—	—
Bad and doubtful debt provisions on amount due from a fellow subsidiary	—	1,305	—	—
Provision for slow-moving and obsolete stock*	2,748	6,103	628	—
Amortisation of deferred development costs*	769	318	366	—
Write off of deferred development costs**	—	2,969	345	—
Staff costs:				
Wages and salaries	22,300	13,778	10,198	5,178
Pension scheme contributions	592	218	128	72
Less: Forfeited contributions	—	—	—	(409)
Net pension contribution	592	218	128	(337)
	22,892	13,996	10,326	4,841
Auditors' remuneration	200	120	120	60
Write off of fixed assets	—	1,007	—	—
Exchange losses, net	432	136	93	—

* The amortisation of deferred development costs and provision for slow-moving and obsolete stocks for the Relevant Periods are included in "Cost of sales" on the face of the combined results.

** The write off of deferred development costs for the Relevant Periods is included in "Other operating expenses" on the face of the combined results.

(c) **Finance costs**

	Year ended 31 December			Six months ended 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	614	23	2	—
Interest on finance leases	74	51	—	—
	688	74	2	—

(d) **Directors' remuneration**

Details of the directors' remuneration are as follows:

	Year ended 31 December			Six months ended 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fees	—	—	—	—
Salaries, housing benefits and other allowances	—	—	—	—
Pension scheme contributions	—	—	—	—
	—	—	—	—

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

	Number of directors			
	Year ended 31 December			Six months ended 30 June
	2001	**2002**	**2003**	**2004**
Nil - HK$1,000,000	3	3	3	4

During the Relevant Periods, no remuneration was paid by the First Precision Group to any of the directors as an inducement to join or upon joining the First Precision Group, or as compensation for loss of office. No director waived or agreed to waive any remuneration during the Relevant Periods.

(e) **Five highest paid employees**

The five highest paid employees of the First Precision Group did not include any director during the Relevant Periods. Details of the remuneration of the five non-director, highest paid individuals during each of the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Salaries, housing benefits and other allowances	3,003	1,963	1,384	694
Pension scheme contributions	192	131	75	33
	3,195	2,094	1,459	727

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

	Number of employees			
	Year ended 31 December			Six months ended 30 June
	2001	2002	2003	2004
Nil - HK$1,000,000	4	5	5	5
HK$1,000,001 - HK$1,500,000	1	—	—	—
	5	5	5	5

During the Relevant Periods, no remuneration was paid by the First Precision Group to any of the non-director, highest paid employees as an inducement to join or upon joining the First Precision Group, or as compensation for loss of office.

(f) **Tax**

Hong Kong profits tax has been provided at the rate of 17.5% in the six months period ended 30 June 2004 and the year ended 31 December 2003, and 16% in the two years ended 31 December 2002 on the estimated assessable profits arising in Hong Kong. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003 and the six months ended 30 June 2004.

東莞易訊電子製品有限公司 (Dongguan ESL Electronic Products Co., Ltd.) is entitled to preferential tax treatments including full exemption from the corporate income tax in the PRC for two years starting from the first profit-making year, followed by a 50%-reduction for the next consecutive three years.

	Year ended 31 December			Six months ended 30 June
	2001	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current - Hong Kong				
Charge for the year/period	604	752	2,550	878
Overprovision in prior periods	—	—	—	(1,898)
Current - Elsewhere	—	—	51	76
Deferred tax - note 4(k)	224	(470)	(58)	54
Total tax charge/(credit) for the year/period	828	282	2,543	(890)

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

2001

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	4,743		788		5,531	
Tax at the statutory or appropriate tax rate	759	16.0	189	24.0	948	17.1
Higher tax rate for specific provinces or local authority	—	—	24	3.0	24	0.4
Income not subject to tax	(9)	(0.2)	—	—	(9)	(0.1)
Expenses not deductible for tax	78	1.7	—	—	78	1.4
Tax exemption	—	—	(213)	(27.0)	(213)	(3.8)
Tax charge	828	17.5	—	—	828	15.0

2002

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	514		851		1,365	
Tax at the statutory or appropriate tax rate	82	16.0	204	24.0	286	20.9
Higher tax rate for specific provinces or local authority	—	—	26	3.0	26	1.9
Income not subject to tax	(8)	(1.6)	—	—	(8)	(0.6)
Expenses not deductible for tax	208	40.4	—	—	208	15.3
Tax exemption	—	—	(230)	(27.0)	(230)	(16.8)
Tax charge	282	54.8	—	—	282	20.7

2003

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	14,181		380		14,561	
Tax at the statutory or appropriate tax rate	2,482	17.5	91	24.0	2,573	17.7
Higher tax rate for specific provinces or local authority	—	—	11	3.0	11	0.1
Effect on opening deferred tax of increase in rates	18	0.2	—	—	18	0.1
Income not subject to tax	(8)	(0.1)	—	—	(8)	(0.1)
Tax exemption	—	—	(51)	(13.5)	(51)	(0.3)
Tax charge	2,492	17.6	51	13.5	2,543	17.5

Six months ended 30 June 2004

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	5,321		596		5,917	
Tax at the statutory or appropriate tax rate	931	17.5	143	24.0	1,074	18.2
Higher tax rate for specific provinces or local authority	—	—	18	3.0	18	0.3
Adjustments in respect of current tax of previous periods	(1,898)	(35.7)	—	—	(1,898)	(32.1)
Income not subject to tax	1	0.1	1	0.2	2	0.1
Tax exemption	—	—	(80)	(13.4)	(80)	(1.4)
Others	—	—	(6)	(1.0)	(6)	(0.1)
Tax charge	(966)	(18.1)	76	12.8	(890)	(15.0)

(g) **Dividend**

No dividend had been paid or declared by First Precision since the date of its incorporation.

(h) **Earnings per share**

No basic and diluted earnings per share amount is presented as its inclusion, for the purpose of this report, is not considered meaningful.

(i) **Related party transactions**

During the Relevant Periods, the First Precision Group had the following material transactions with related parties:

		Year ended 31 December			Six months ended 30 June
	Notes	**2001**	**2002**	**2003**	**2004**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Sales of products to fellow subsidiaries	(i)	83,122	99,544	103,767	57,454
Purchases of raw materials from fellow subsidiaries	(ii)	1,333	24,037	24,427	12,381
Management fee expenses paid to a fellow subsidiary	(iii)	—	1,600	1,200	—
Factory rental expense	(iv)	—	1,200	1,800	750
Office rental expenses	(v)	625	323	323	161

Notes:

(i) The sales of products included transformers, AC/DC adaptors and custom built-in power supply. The prices of which were determined based on the direct material costs plus a mark-up of up to 50% of such direct material costs.

(ii) The purchases of raw materials included plastic moulds and materials and tooling charges for specific models of telecom products. The prices of which were determined based on direct material costs plus a mark-up of up to 50% of such direct material costs.

(iii) The management fee expenses were paid for the provision of general administration, management information system consultation and hardware maintenance services and were determined based on actual costs incurred.

(iv) The factory rental expense was charged to Electronic Sales Limited ("ESL"), a wholly-owned subsidiary of First Precision, by CCT Properties (Dongguan) Limited ("CCT Prop"), a wholly-owned subsidiary of CCT, for the provision of factory spaces in Dongguan, the PRC. The rates were determined in accordance with the terms and conditions set out in three tenancy agreements entered into between ESL and CCT Prop on 12 April 2002, 15 April 2003 and 14 January 2004, respectively.

(v) The office rental expense was charged to ESL by Goldbay Investment Limited ("Goldbay"), a wholly-owned subsidiary of CCT, for the provision of office spaces in Hong Kong. The rates were determined in accordance with the terms and conditions set out in four tenancy agreements entered into between ESL and Goldbay on 1 September 2000, 7 October 2000, 11 February 2002 and 20 January 2003, respectively.

In the opinion of the directors of First Precision, all of the above transactions were conducted in the ordinary course of the First Precision Group's business.

In addition, ESL guaranteed certain banking facilities granted to a fellow subsidiary of the First Precision Group up to HK$50,000,000 (2001: nil; 2002: nil; 2003: HK$50,000,000) as at 30 June 2004.

4. COMBINED BALANCE SHEETS

The following is a summary of the combined balance sheets of the First Precision Group as at 31 December 2001, 2002 and 2003 and 30 June 2004 prepared on the basis set out in Section 1 "Basis of presentation" above:

	Notes	As at 31 December 2001 HK$'000	2002 HK$'000	2003 HK$'000	As at 30 June 2004 HK$'000
NON-CURRENT ASSETS					
Fixed assets	(a)	12,893	11,365	12,597	11,778
Deferred development costs	(b)	3,545	496	—	—
		16,438	11,861	12,597	11,778
CURRENT ASSETS					
Inventories	(c)	11,531	1,849	4,492	5,513
Trade and bills receivables	(d)	38,240	31,467	40,415	44,382
Prepayments, deposits and other receivables		533	1,025	496	140
Due from fellow subsidiaries	(e)	31,226	443	6,988	1,922
Pledged time deposits	(f)	—	5,043	—	—
Cash and cash equivalents	(f)	22,460	27,019	34,543	36,792
		103,990	66,846	86,934	88,749
CURRENT LIABILITIES					
Trade and bills payables	(g)	26,030	25,682	32,623	29,571
Tax payable		772	770	3,371	1,063
Other payables and accruals	(h)	6,644	5,751	6,336	5,851
Due to fellow subsidiaries	(e)	31,858	1,600	337	317
Interest-bearing bank and other borrowings	(i)	10,507	—	—	—
		75,811	33,803	42,667	36,802
NET CURRENT ASSETS		28,179	33,043	44,267	51,947
TOTAL ASSETS LESS CURRENT LIABILITIES		44,617	44,904	56,864	63,725
NON-CURRENT LIABILITIES					
Finance lease payables	(j)	326	—	—	—
Deferred tax	(k)	666	196	138	192
		992	196	138	192
		43,625	44,708	56,726	63,533
CAPITAL AND RESERVES					
Issued capital	5	5,948	5,948	5,948	5,948
Reserves		37,677	38,760	50,778	57,585
		43,625	44,708	56,726	63,533

Notes:

(a) **Fixed assets**

	As at 31 December			As at 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost:				
Plant and machinery	18,454	15,490	18,641	18,777
Tools, moulds and equipment	3,900	4,861	5,443	6,201
Furniture and office equipment	6,357	5,055	5,649	5,697
Motor vehicles	2,001	2,750	2,270	2,274
	30,712	28,156	32,003	32,949
Accumulated depreciation:				
Plant and machinery	11,390	10,262	11,925	12,916
Tools, moulds and equipment	2,440	2,773	3,215	3,502
Furniture and office equipment	2,691	2,120	2,808	3,187
Motor vehicles	1,298	1,636	1,458	1,566
	17,819	16,791	19,406	21,171
Net book value:				
Plant and machinery	7,064	5,228	6,716	5,861
Tools, moulds and equipment	1,460	2,088	2,228	2,699
Furniture and office equipment	3,666	2,935	2,841	2,510
Motor vehicles	703	1,114	812	708
	12,893	11,365	12,597	11,778

The net book value of the fixed assets of the First Precision Group held under finance leases included in the total amounts of fixed assets is as follows:

	As at 31 December			As at 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Furniture and office equipment	426	—	—	—
Motor vehicles	13	—	—	—
	439	—	—	—

(b) **Deferred development costs**

	As at 31 December			As at 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost	6,506	762	434	—
Accumulated amortisation	(2,961)	(266)	(434)	—
Net book value	3,545	496	—	—

(c) **Inventories**

	As at 31 December			As at 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	8,700	193	579	1,614
Work in progress	1,187	98	438	854
Finished goods	1,644	1,558	3,475	3,045
At cost	11,531	1,849	4,492	5,513

(d) **Trade and bills receivables**

The First Precision Group allows an average credit period of 30 to 120 days to its trade customers. An aged analysis of the trade and bills receivables as at the balance sheet date, based on payment due date and net of provisions, is as follows:

	As at 31 December			As at 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current to 30 days	27,023	29,859	39,902	44,168
31 to 60 days	7,553	1,464	276	32
61 to 90 days	2,871	99	118	69
Over 90 days	793	45	119	113
	38,240	31,467	40,415	44,382

Included in the above balances are trade receivables from fellow subsidiaries of the First Precision Group of approximately HK$23,891,000, HK$24,007,000, HK$37,750,000 and HK$43,037,000 as at 31 December 2001, 2002, 2003 and 30 June 2004, respectively, which are repayable within 120 days.

(e) **Due from/(to) fellow subsidiaries**

The balances with fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(f) **Cash and cash equivalents and pledged time deposits**

	As at 31 December			As at 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	22,460	27,019	34,543	36,792
Time deposits	—	5,043	—	—
	22,460	32,062	34,543	36,792
Less: Pledged time deposits for bank borrowings	—	(5,043)	—	—
Cash and cash equivalents	22,460	27,019	34,543	36,792

(g) **Trade and bills payables**

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

	As at 31 December			As at 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current to 30 days	4,296	18,995	25,464	28,568
31 to 60 days	5,476	4,118	4,590	425
61 to 90 days	7,168	2,386	1,497	394
Over 90 days	9,090	183	1,072	184
	26,030	25,682	32,623	29,571

Included in the above balances are trade payables to fellow subsidiaries of the First Precision Group of approximately HK$752,000, HK$5,794,000, HK$9,102,000 and HK$9,363,000 as at 31 December 2001, 2002, 2003 and 30 June 2004, respectively, which are repayable within 120 days.

(h) **Other payables and accruals**

	As at 31 December			As at 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	165	165	684	819
Accruals	6,479	5,586	5,652	5,032
	6,644	5,751	6,336	5,851

(i) **Interest-bearing bank and other borrowings**

	As at 31 December			As at 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current portion of bank loans	10,206	—	—	—
Current portion of finance lease payables — *note 4(j)*	301	—	—	—
	10,507	—	—	—

At 31 December 2001, the First Precision Group's bank loans were secured by:

(i) the pledge of certain fixed deposits of a fellow subsidiary of the First Precision Group; and

(ii) fixed charges over certain of the leasehold land and buildings of a fellow subsidiary of the First Precision Group.

In addition, First Precision's ultimate holding company executed guarantees in favour of certain banks for the First Precision Group's banking facilities as at 31 December 2001.

(j) **Finance lease payables**

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

	Minimum lease payments 31 December 2001	Minimum lease payments 31 December 2002	Minimum lease payments 31 December 2003	Minimum lease payments 30 June 2004	Present value of minimum lease payments 31 December 2001	Present value of minimum lease payments 31 December 2002	Present value of minimum lease payments 31 December 2003	Present value of minimum lease payments 30 June 2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable:								
Within one year	337	—	—	—	301	—	—	—
In the second year	255	—	—	—	242	—	—	—
In the third to fifth years, inclusive	86	—	—	—	84	—	—	—
Total minimum finance lease payments	678	—	—	—	627	—	—	—
Future finance charges	(51)	—	—	—				
Total net finance lease payables	627	—	—	—				
Portion classified as current liabilities — *note 4(i)*	(301)	—	—	—				
Long term portion	326	—	—	—				

(k) **Deferred tax**

The movement in deferred tax liabilities during the Relevant Periods is as follows:

31 December 2001

	Accelerated tax depreciation	Deferred development costs	Total
	HK$'000	*HK$'000*	*HK$'000*
At beginning of the year	62	380	442
Deferred tax charged/(credited) to the profit and loss account during the year — *note 3(f)*	(40)	264	224
Deferred tax liabilities at the end of the year	22	644	666

31 December 2002

	Accelerated tax depreciation	Deferred development costs	Total
	HK$'000	*HK$'000*	*HK$'000*
At beginning of the year	22	644	666
Deferred tax charged/(credited) to the profit and loss account during the year — *note 3(f)*	50	(520)	(470)
Deferred tax liabilities at the end of the year	72	124	196

31 December 2003

	Accelerated tax depreciation	Deferred development costs	Total
	HK$'000	*HK$'000*	*HK$'000*
At beginning of the year	72	124	196
Deferred tax charged/(credited) to the profit and loss account during the year — *note 3(f)*	66	(124)	(58)
Deferred tax liabilities at the end of the year	138	—	138

30 June 2004

	Accelerated tax depreciation	Deferred development costs	Total
	HK$'000	*HK$'000*	*HK$'000*
At beginning of the period	138	—	138
Deferred tax charged to the profit and loss account during the period — *note 3(f)*	54	—	54
Deferred tax liabilities at the end of the period	192	—	192

At the balance sheet date, there is no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the First Precision Group's subsidiaries as the First Precision Group has no liability to additional tax should such amounts be remitted.

(l) **Operating lease arrangements**

First Precision leases its office premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

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

	As at 31 December			As at 30 June
	2001	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	146	323	323	161
In the second to fifth years, inclusive	98	—	—	—
	244	323	323	161

(m) **Commitments**

At 30 June 2004, First Precision had no significant commitments (2001: nil; 2002: nil; 2003: nil).

(n) **Contingent liabilities**

The First Precision 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$236,000 as at 30 June 2004 (2001: HK$236,000; 2002: HK$215,000; 2003: HK$552,000), as further explained under the heading "Employee benefits" in note 2 of this report. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the First Precision Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the First Precision Group.

5. COMBINED STATEMENTS OF CHANGES IN EQUITY

	Issued share capital	Share premium account	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2001	5,948	276	32,698	38,922
Net profit for the year	—	—	4,703	4,703
At 31 December 2001 and 1 January 2002	5,948	276	37,401	43,625
Net profit for the year	—	—	1,083	1,083
At 31 December 2002 and 1 January 2003	5,948	276	38,484	44,708
Net profit for the year	—	—	12,018	12,018
At 31 December 2003 and 1 January 2004	5,948	276	50,502	56,726
Net profit for the period	—	—	6,807	6,807
At 30 June 2004	5,948	276	57,309	63,533

6. COMBINED CASH FLOW STATEMENTS

The following is a summary of the combined cash flow statements of the First Precision Group for the Relevant Periods, prepared on the basis set out in Section 1 "Basis of presentation" above:

	Year ended 31 December			Six months ended 30 June
	2001	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	5,531	1,365	14,561	5,917
Adjustments for:				
Finance costs	688	74	2	—
Interest income	(53)	(92)	(46)	(6)
Depreciation	2,804	3,037	3,147	1,767
Amortisation of deferred development costs	769	318	366	—
Write off of deferred development costs	—	2,969	345	—
Write off of fixed assets	—	1,007	—	—
Bad and doubtful debt provisions on trade receivables	585	380	—	—
Bad and doubtful debt provisions on amount due from a fellow subsidiary	—	1,305	—	—
Provision for slow-moving and obsolete stocks	2,748	6,103	628	—
Gain on disposal of fixed assets, net	(54)	—	(35)	—
Operating profit before working capital changes	13,018	16,466	18,968	7,678
Decrease/(increase) in inventories	2,555	3,579	(3,271)	(1,021)
Decrease/(increase) in trade and bills receivables	32,313	6,393	(8,948)	(3,967)
Decrease/(increase) in prepayments, deposits and other receivables	274	(492)	529	356
Decrease/(increase) in due from fellow subsidiaries	(31,186)	29,817	(6,545)	5,066
Increase/(decrease) in trade and bills payables	302	(348)	6,941	(3,052)
Increase/(decrease) in other payables and accruals	1,907	(893)	585	(485)
Increase/(decrease) in due to fellow subsidiaries	3,249	(30,258)	(1,263)	(20)
Cash generated from operations	22,432	24,264	6,996	4,555
Interest received	53	92	46	6
Interest paid	(614)	(23)	(2)	—
Interest element on finance lease rental payments	(74)	(51)	—	—
Hong Kong profits tax paid	(259)	(754)	—	(1,364)
Net cash inflow from operating activities	21,538	23,528	7,040	3,197

	Year ended 31 December			Six months ended 30 June
	2001	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of fixed assets	(4,313)	(2,855)	(4,783)	(948)
Proceeds from disposals of fixed assets	68	—	439	—
Additions to deferred development costs	(2,420)	(238)	(215)	—
Decrease/(increase) in pledged time deposits	—	(5,043)	5,043	—
Net cash inflow/(outflow) from investing activities	(6,665)	(8,136)	484	(948)
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital element of finance lease rental payments	(524)	(627)	—	—
Net additions/(repayment) of trust receipt loans	3,477	(10,206)	—	—
Net cash inflow/(outflow) from financing activities	2,953	(10,833)	—	—
NET INCREASE IN CASH AND CASH EQUIVALENTS	17,826	4,559	7,524	2,249
Cash and cash equivalents at beginning of year/period	4,634	22,460	27,019	34,543
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	22,460	27,019	34,543	36,792
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	22,460	27,019	34,543	36,792

Note:

Major non-cash transactions

	Year ended 31 December			Six months ended 30 June
	2001	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Transfer of fixed assets at net book value to a fellow subsidiary	—	339	—	—

7. SEGMENT INFORMATION

No business segment and geographical segment information are presented as over 90% of the First Precision Group's revenue and assets related to manufacture and sale of telecom products and accessories and based in the PRC including Hong Kong.

8. SUBSEQUENT EVENT

No significant event has taken place subsequent to 30 June 2004.

9. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by First Precision or any of the companies now comprising the First Precision Group in respect of any period subsequent to 30 June 2004.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of inclusion in this circular from Ernst & Young, Certified Public Accountants, Hong Kong

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

20 August 2004

The Directors
CCT Investment Limited

Dear Sirs,

We set out below our report on the financial information regarding CCT Investment Limited ("CCT Investment"), for each of the three years ended 31 December 2003 and the six months ended 30 June 2004 (the "Relevant Periods"), prepared on the basis set out in Section 2 below, for inclusion in the circular of CCT Telecom Holdings Limited ("CCT"), the ultimate holding company of CCT Investment, dated 20 August 2004 (the "Circular") in relation to the proposed acquisition of the entire issued capital of CCT Investment by CCT (the "Proposed Acquisition").

CCT Investment was incorporated with limited liability in Hong Kong on 10 December 1991.

We have acted as auditors of CCT Investment for each of the Relevant Periods. For the purpose of this report, we have examined the audited financial statements of CCT Investment for each of the three years ended 31 December 2003 and the management accounts of CCT Investment for the six months ended 30 June 2004 in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the Hong Kong Society of Accountants.

The summaries of the results, statements of changes in equity and cash flow statements of CCT Investment for the Relevant Periods and of the balance sheets of CCT Investment as at 31 December 2001, 2002 and 2003, and 30 June 2004 (the "CCT Investment Summaries") set out in this report have been prepared from the audited financial statements or, where appropriate, the management accounts of CCT Investment after making such adjustments as we consider appropriate, and are presented on the basis set out in Section 2 below.

The directors of CCT Investment are responsible for the preparation of the CCT Investment Summaries. In preparing the CCT Investment Summaries, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion on the CCT Investment Summaries.

In our opinion, the CCT Investment Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the results and cash flows of CCT Investment for each of the Relevant Periods and of the balance sheets of CCT Investment as at 31 December 2001, 2002 and 2003, and 30 June 2004, which have been prepared on the basis set out in Section 2 below.

1. PRINCIPAL ACTIVITIES

At the date of this report, the principal activity of CCT Investment is the holding of a plot of land with a factory building situated thereon in Dongguan ("Dongguan Factory"), the People's Republic of China (the "PRC").

During the Relevant Periods, CCT Investment had two wholly-owned subsidiaries namely, Huiyang CCT Plastic Products Co., Ltd. ("HCT") and Dongguan Eswire Electronics Co., Ltd. ("DEL"), which were principally engaged in the manufacture of plastic casings, cordless phones and related parts.

On 25 June 2002, CCT Investment disposed of its entire interest in HCT to CCT Plastic Products Limited, a fellow subsidiary of CCT Investment, at a consideration determined based on CCT Investment's carrying cost of investment in HCT of HK$40,000,000. On 20 May 2004, CCT Investment disposed of its entire interest in DEL to Techno Faith Holdings Limited, a fellow subsidiary of CCT Investment, at a consideration determined based on CCT Investment's carrying cost of investment in DEL of HK$40,057,000.

2. BASIS OF PRESENTATION

The CCT Investment Summaries, which are based on the audited financial statements or, where appropriate, the management accounts of CCT Investment, after making such adjustments as we consider appropriate, include the results, statements of changes in equity, cash flow statements and the balance sheets of CCT Investment.

For the purpose of this report, all the related results, assets and liabilities of HCT and DEL were excluded from the CCT Investment Summaries as if the disposals had been completed on 31 December 2000.

In addition to the above, on 1 January 2003, Dongguan CCT Telecommunications Products Co., Ltd., a fellow subsidiary of CCT Investment, transferred the building cost of the Dongguan Factory to CCT Investment at a consideration of approximately HK$25,270,000, determined based on its carrying value at 31 December 2002. The CCT Investment Summaries were prepared as if CCT Investment had recorded the building cost of the Dongguan Factory since 1 January 2001.

The CCT Investment Summaries have been prepared under the going concern concept because CCT Tech International Limited, a holding company of CCT Investment, has agreed to provide adequate funds for CCT Investment to meet its liabilities until the completion of the Proposed Acquisition. CCT has agreed to provide adequate funds for CCT Investment to meet its liabilities subsequent to the Proposed Acquisition.

3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by CCT Investment in arriving at the financial information set out in this report, which conform with accounting principles generally accepted in Hong Kong are set out below:

Impairment of assets

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

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

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

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

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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

Leasehold land and buildings	5%
Motor vehicle	20%

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

Income tax

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

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to CCT Investment, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

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

Cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily

convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of CCT Investment's cash management.

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to CCT Investment and when revenue can be measured reliably. Rental income is recognised on a time proportion basis over the lease terms.

Related parties

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

4. RESULTS

The following is a summary of the results of CCT Investment for the Relevant Periods, prepared on the basis set out in Section 2 "Basis of presentation" above:

		Year ended 31 December			Six months ended 30 June
	Notes	**2001**	**2002**	**2003**	**2004**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover		—	—	—	—
Other revenue		—	4,347	1,800	3,000
Administrative expenses		(1,376)	(1,408)	(3,234)	(3,694)
Other operating expenses		—	—	(41)	—
Profit/(loss) from operating activities	*(a)*	(1,376)	2,939	(1,475)	(694)
Finance costs	*(b)*	(2)	(11)	—	—
Profit/(loss) before tax		(1,378)	2,928	(1,475)	(694)
Tax	*(e)*	—	—	—	—
Net profit/(loss) from ordinary activities attributable to shareholders		(1,378)	2,928	(1,475)	(694)
Dividend	*(f)*	—	—	—	—

Notes:

(a) **Profit/(loss) from operating activities**

CCT Investment's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Year ended 31 December			Six months ended 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation	1,370	1,400	1,391	681
Auditors' remuneration	—	—	20	10
Minimum lease payments under operating leases in respect of land and buildings	—	—	1,800	3,000
Staff costs	—	—	—	—
Loss on disposal of a fixed asset	—	—	41	—
Rental income	—	—	(1,800)	(3,000)
Waiver of amount due to a fellow subsidiary	—	(4,347)	—	—

Auditors' remuneration has been absorbed by CCT Investment's fellow subsidiaries during the year ended 31 December 2001 and 2002.

(b) **Finance costs**

	Year ended 31 December			Six months ended 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest on finance leases	2	11	—	—

(c) **Directors' remuneration**

Details of the directors' remuneration are as follows:

	Year ended 31 December			Six months ended 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fees	—	—	—	—
Salaries, housing benefits and other allowances	—	—	—	—
Pension scheme contributions	—	—	—	—
	—	—	—	—

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

	Number of directors			
	Year ended 31 December			Six months ended 30 June
	2001	**2002**	**2003**	**2004**
Nil - HK$1,000,000	3	3	2	2

During the Relevant Periods, no remuneration was paid by CCT Investment to any of the directors as an inducement to join or upon joining the Company, or as compensation for loss of office. No director waived or agreed to waive any remuneration during the Relevant Periods.

(d) **Five highest paid employees**

The five highest paid employees of CCT Investment did not include any director during the Relevant Periods. Details of the remuneration of the five non-director, highest paid individuals during each of the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Salaries, housing benefits and other allowances	—	—	—	—
Pension scheme contributions	—	—	—	—
	—	—	—	—

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

	Number of employees			
	Year ended 31 December			Six months ended 30 June
	2001	2002	2003	2004
Nil - HK$1,000,000	5	5	5	5

During the Relevant Periods, no remuneration was paid by CCT Investment to any of the non-director, highest paid employees as an inducement to join or upon joining the Company, or as compensation for loss of office.

(e) **Tax**

No provision for Hong Kong profits tax has been made as CCT Investment did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate to the tax expense at the effective tax rate are as follows:

	Year ended 31 December						Six months ended 30 June	
	2001		2002		2003		2004	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	(1,378)		2,928		(1,475)		(694)	
Tax at the statutory tax rate	(220)	(16.0)	468	16.0	(258)	(17.5)	(121)	(17.5)
Income not subject to tax	—	—	(695)	(23.7)	(315)	(21.3)	(525)	(75.6)
Expenses not deductible for tax	220	16.0	227	7.7	573	38.8	646	93.1
Tax charge	—	—	—	—	—	—	—	—

There was no unprovided deferred tax for the Relevant Periods and as at 31 December 2001, 2002 and 2003 and 30 June 2004.

(f) **Dividend**

No dividend had been paid or declared by CCT Investment during the Relevant Periods.

(g) **Earnings/(loss) per share**

No basic and diluted earnings/(loss) per share amount is presented as its inclusion, for the purpose of this report, is not considered meaningful.

(h) **Related party transactions**

During the Relevant Periods, CCT Investment had the following material transactions with related parties:

	Notes	Year ended 31 December			Six months ended 30 June
		2001	**2002**	**2003**	**2004**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Factory rental expense	*(i)*	—	—	1,800	3,000
Factory rental income	*(ii)*	—	—	1,800	3,000

(i) The factory rental expense was charged to CCT Investment by CCT Properties (Dongguan) Limited ("CCT Prop"), a wholly-owned subsidiary of CCT, for the provision of factory space in Dongguan, the PRC, at a rate determined in accordance with the terms and conditions set out two tenancy agreements entered into between CCT Investment and CCT Prop on 15 May 2003 and 14 January 2004, respectively.

(ii) The factory rental income was received from DEL for sub-leasing the Dongguan Factory to DEL with the same terms as set out in the aforementioned tenancy agreements.

5. BALANCE SHEETS

The following is a summary of the balance sheets of CCT Investment as at 31 December 2001, 2002 and 2003 and 30 June 2004, prepared on the basis set out in Section 2 "Basis of presentation" above.

	Notes	As at 31 December 2001	2002	2003	As at 30 June 2004
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS					
Fixed assets	*(a)*	25,483	24,083	22,581	21,900
CURRENT ASSETS					
Other receivables		19	—	—	—
Cash and cash equivalents	*(b)*	1	—	712	6
		20	—	712	6
CURRENT LIABILITIES					
Accruals		—	—	—	10
Due to immediate holding company	*(c)*	29,584	25,397	26,082	25,379
Current portion of finance lease payables	*(d)*	69	—	—	—
		29,653	25,397	26,082	25,389
NET CURRENT LIABILITIES		(29,633)	(25,397)	(25,370)	(25,383)
TOTAL ASSETS LESS CURRENT LIABILITIES		(4,150)	(1,314)	(2,789)	(3,483)
NON-CURRENT LIABILITIES					
Non-current portion of finance lease payables	*(d)*	92	—	—	—
		(4,242)	(1,314)	(2,789)	(3,483)
DEFICIENCIES IN ASSETS					
Issued capital	*6*	1	1	1	1
Accumulated losses		(4,243)	(1,315)	(2,790)	(3,484)
		(4,242)	(1,314)	(2,789)	(3,483)

Notes:

(a) **Fixed assets**

	As at 31 December			As at 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost:				
Leasehold land and buildings	27,276	27,276	27,276	27,276
Motor vehicle	179	179	—	—
	27,455	27,455	27,276	27,276
Accumulated depreciation:				
Leasehold land and buildings	1,966	3,330	4,695	5,376
Motor vehicle	6	42	—	—
	1,972	3,372	4,695	5,376
Net book value:				
Leasehold land and buildings	25,310	23,946	22,581	21,900
Motor vehicle	173	137	—	—
	25,483	24,083	22,581	21,900

The net book value of the fixed assets of CCT Investment held under finance leases included in the total amounts of motor vehicle as at 31 December 2001, 2002 and 2003, and 30 June 2004 are HK$173,000, nil, nil and nil, respectively.

CCT Investment's leasehold land and buildings are situated in the PRC and held under medium term leases.

(b) **Cash and cash equivalents**

	As at 31 December			As at 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	1	—	712	6

(c) **Due to immediate holding company**

The amounts due to immediate holding company are unsecured, interest-free and have no fixed terms of repayment.

(d) **Finance lease payables**

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

	Minimum lease payments	Minimum lease payments	Minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
	31 December 2001	31 December 2002	31 December 2003	30 June 2004	31 December 2001	31 December 2002	31 December 2003	30 June 2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable:								
Within one year	78	—	—	—	69	—	—	—
In the second year	78	—	—	—	69	—	—	—
In the third to fifth years, inclusive	25	—	—	—	23	—	—	—
Total minimum finance lease payments	181	—	—	—	161	—	—	—
Future finance charges	(20)	—	—	—				
Total net finance lease payables	161	—	—	—				
Portion classified as current liabilities	(69)	—	—	—				
Long term portion	92	—	—	—				

(e) **Contingent liabilities**

At 30 June 2004, CCT Investment had no significant contingent liabilities.

(f) **Commitments**

At 30 June 2004, CCT Investment had no significant commitments.

6. STATEMENTS OF CHANGES IN EQUITY

	Issued capital	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2001	1	(2,865)	(2,864)
Loss for the year	—	(1,378)	(1,378)
At 31 December 2001 and 1 January 2002	1	(4,243)	(4,242)
Profit for the year	—	2,928	2,928
At 31 December 2002 and 1 January 2003	1	(1,315)	(1,314)
Loss for the year	—	(1,475)	(1,475)
At 31 December 2003 and 1 January 2004	1	(2,790)	(2,789)
Loss for the period	—	(694)	(694)
At 30 June 2004	1	(3,484)	(3,483)

7. CASH FLOW STATEMENTS

The following is a summary of the cash flow statements of CCT Investment for the Relevant Periods, prepared on the basis set out in Section 2 "Basis of presentation" above:

	Year ended 31 December			Six months ended 30 June
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before tax	(1,378)	2,928	(1,475)	(694)
Adjustments for:				
Finance costs	2	11	—	—
Depreciation	1,370	1,400	1,391	681
Loss on disposal of a fixed asset	—	—	41	—
Waiver of amount due to a fellow subsidiary	—	(4,347)	—	—
Operating loss before working capital changes	(6)	(8)	(43)	(13)
Decrease/(increase) in other receivables	(19)	19	—	—
Increase in accruals	—	—	—	10
Increase/(decrease) in amount due to immediate holding company	45	160	685	(703)
Cash generated/(used) from operations	20	171	642	(706)
Interest element on finance lease rental payments	(2)	(11)	—	—
Net cash inflow/outflow from operating activities	18	160	642	(706)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal of fixed assets	—	—	70	—
Net cash inflow from investing activities	—	—	70	—

	Year ended 31 December			Six months ended 30 June
	2001	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital element of finance lease rental payments	(18)	(161)	—	—
Net cash outflow from financing activities	(18)	(161)	—	—
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	—	(1)	712	(706)
Cash and cash equivalents at beginning of year/period	1	1	—	712
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	1	—	712	6
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	1	—	712	6

Note:

Major non-cash transaction

During the year ended 31 December 2001, CCT Investment entered into finance lease arrangements in respect of fixed assets with a total capital value at inception of the finance leases of HK$179,000.

8. SEGMENT INFORMATION

No business segment and geographical segment information are presented as over 90% of the Company's revenue and assets related to property holding and based in the PRC including Hong Kong.

9. SUBSEQUENT EVENT

No significant event has taken place subsequent to 30 June 2004.

10. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by CCT Investment in respect of any period subsequent to 30 June 2004.

Yours faithfully
Ernst & Young
Certified Public Accountants
Hong Kong

安永會計師事務所 ERNST & YOUNG

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

20 August 2004

The Directors
CCT Telecom Holdings Limited

Dear Sirs

CCT Telecom Holdings Limited ("CCT") and its subsidiaries (the "Group")

We report on the unaudited pro forma financial information (the "Pro Forma Financial Information") set out on pages 105 to 106 in Appendix ID to the circular of CCT dated 20 August 2004 (the "Circular"), which has been prepared, for illustrative purposes only, to provide information about how the proposed Transaction (as defined in the Circular) might have affected the financial information presented in respect of the Group.

Responsibilities

It is the responsibility solely of the directors of CCT to prepare the Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board of the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of CCT.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, and accordingly, we do not express any such assurance on the Pro Forma Financial Information.

The Pro Forma Financial Information is for illustrative purpose only, based on the directors' judgements and assumptions, and because of its nature, it does not provide an assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2003 or at any future date.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of CCT; and

(c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 29 of Chapter 4 of the Listing Rules.

Yours faithfully
Ernst & Young
Certified Public Accountants
Hong Kong

Unaudited pro forma statement of assets and liabilities of the Combined Group

The pro forma statement of assets and liabilities of the Combined Group set out below has been prepared to illustrate the effect of the Transaction on the net assets of the Combined Group, as if the Transaction had taken place on 31 December 2003, and is based on the historical consolidated/combined net assets of CCT Telecom Group, First Precision Group and CCT Investment with further adjustments as explained in the notes below. The pro forma statement of assets and liabilities has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the Combined Group.

The consolidated/combined nets assets of CCT Telecom Group, First Precision Group and CCT Investment, have been extracted from their respective audited financial statements/management accounts as at 31 December 2003.

	CCT Telecom Group *HK$'million*	**Adjustments** *HK$'million* *Note*	**Combined Group** *HK$'million*
NON-CURRENT ASSETS			
Fixed assets	1,497	—	1,497
Intangible assets	23	—	23
Goodwill	26	—	26
Interests in associates	297	—	297
Other assets	12	—	12
Long term investments	4	—	4
Deferred tax assets	9	—	9
	1,868		1,868
CURRENT ASSETS			
Short term investments	3	—	3
Inventories	178	—	178
Trade and bills receivables	655	—	655
Prepayment, deposits and other receivables	63	—	63
Pledged time deposits	100	—	100
Cash and cash equivalents	873	—	873
	1,872		1,872
CURRENT LIABILITIES			
Trade and bills payables	841	—	841
Tax payable	25	—	25
Other payables and accruals	198	—	198
Interest-bearing bank and other borrowings	130	—	130
Covertible notes	8	—	8
	1,202		1,202
NET CURRENT ASSETS	670		670
TOTAL ASSETS LESS CURRENT LIABILITIES	2,538		2,538
NON-CURRENT LIABILITES			
Interest-bearing bank loans	124	—	124
Finance lease payables	1	—	1
Covertible notes	10	—	10
Deferred tax liabilities	7	—	7
	142		142
MINORITY INTERESTS	101	—	101
NET ASSETS	2,295		2,295

Note:

First Precision Group and CCT Investment are indirect wholly-owned subsidiaries of CCT Tech, which is an indirect 35.4% owned subsidiary of CCT Telecom. The assets and liabilities of First Precision Group and CCT Investment have already been consolidated in CCT Telecom Group's consolidated balance sheet.

No pro forma adjustment has been made because the Transaction is an intragroup transaction within CCT Telecom Group and should be eliminated in full in CCT Telecom Group's consolidated balance sheet.

The following is the text of a letter with a valuation certificate, prepared for the purpose of inclusion in this circular, from Vigers Appraisal and Consulting Limited, the independent property valuer, in connection with its valuation as at 31 May, 2004 of the property held by CCT Investment.

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

20 August, 2004

The Directors
CCT Tech International Limited
32nd Floor, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

A factory complex located at
No. 3 Hong Yie Dong San Road
Hong Yie
Economic Development Zone
Tong Xia Zhen
Dongguan
Guangdong Province,
the People's Republic of China

In accordance with your instructions for us to value the above property interest (the "Property") in the People's Republic of China (the "PRC"), we confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market value of such the property interest as at 31 May, 2004.

Our valuation is our opinion of the open market value which we would define as intended to mean – "the best price at which the sale of an interest in property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation assuming:

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

(d) that no account is taken of any additional bid by a special purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion."

In our valuation, we have adopted a combination of the market and depreciated replacement cost approaches in assessing the land portion of the property and the buildings and structures standing on the site of the property respectively. Hence, the sum of the two results represents the market value of the property as a whole. In the valuation of the land portions, reference has been made to the standard land price in Tong Xia Zhen determined by the Dongguan City Land Administration Bureau and the sales evidence as available to us in the locality. Due to the nature of the buildings and structures comprised in the property, there are no readily identifiable market sale comparables, and the buildings and structures cannot be valued on the basis of open market value. They have therefore been valued on the basis of their depreciated replacement cost. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar property in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property interest in the absence of a known market based on comparable sales.

We have not caused searches to be made of the title of the property and in some instances we have been provided with extracts from title documents relating to the property. We have not, however, searched the original documents to verify ownership or to verify the existence of any lease amendments which do not appear on the copies handed to us. All documents and leases have been used for reference only. All dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by you and therefore only approximations.

In undertaking our valuation of the property interest, we have relied on the legal opinion provided by 廣東鑄銘律師事務所 (Zhu Ming Lawer Office of GuangDong), the Group's PRC legal advisers ("the PRC Legal Opinion").

For the PRC Legal Opinion, we understand that the status of titles, grant of major approvals, licences and documents for the Property are as follows:-

a.	Land Use Rights Certificate	Yes
b.	Red-Line Drawings	Yes
c.	Real Estate Ownership Certificates	Yes

In the course of our valuation, we have assumed that all consents, approvals and licences from relevant PRC government authorities for development of the Property will be granted without any onerous conditions or undue delay.

We have relied to a considerable extent on information provided by you and have accepted advice given to us by you on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas. We have also been advised by you that no material factors had been concealed or omitted in the information provided to us and we have independently verified the information provided by you.

Our valuation have been made on the assumption that the owner sells the property interest in the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interest. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interest and no forced sale situation in any manner is assumed in our valuation.

In valuing the property interest, we have assumed free and uninterrupted rights to use, occupy or assign the Property for the whole of the unexpired term as granted.

We have inspected the property, but no structural survey has been made and we are therefore unable to report whether the property is free from rot, infestation or any structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the instructing party. The instructing party has also advised us that no material facts have been omitted from the information supplied to us to reach an informed view, and we have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

Unless otherwise stated, all amounts stated are in Renminbi. The exchange rate used in valuing the property interest on 31 May, 2004 was HK$1 = RMB1.06. There has no significant in exchange rate between that date and the date of this letter.

We enclose herewith our valuation certificate.

Yours faithfully,
For and on behalf of
Vigers Appraisal and Consulting Limited
Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS MHKIS MSc (e-com)
Executive Director

Note : Raymond Ho Kai Kwong, Chartered Surveyor, MRICS, MHKIS, MSc (e-com) has extensive experience in undertaking valuations of properties in Hong Kong and has over ten years' experience in the valuation of properties in the PRC.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 31 May, 2004
A factory complex located at No. 3 Hong Yie Dong San Road, Hong Yie Economic Development Zone, Tong Xia Zhen, Dongguan, Guangdong Province, the PRC.	The property comprises one piece of land with a total site area of approximately 21,611 sq.m.. At present, a factory complex is erected on the property. The total gross floor area of the factory complex is approximately 33,822 sq.m. and detail as follows: **Block** / **No. of Storey** / **Gross Floor Area** *(sq.m.)* / **Year of Completion** 1. Main Factory / 3 / 25,541 / 1992 2. 2# Staff Dormitory / 5 / 1,940 / 1992 3. 3# Staff Dormitory / 5 / 1,940 / 1992 4. 5# Staff Dormitory / 5 / 1,167 / 1992 5. 6# Staff Dormitory / 5 / 1,167 / 1992 6. 7# Staff dormitory / 5 / 1,167 / 1992 7. 4# Canteen / 2 / 900 / 1992 **TOTAL:** / **33,822** According to a State-owned Land Use Rights Certificate (Document No. 東府國用(1993)字第特159號 (Dongfuguoyong (1993) zidite 159), the property is granted with a land use rights for a term of 50 years commencing from April 1993 to April 2043 for industrial uses.	The property is at present vacant	RMB36,000,000 (equivalent to HK$34,000,000)

Notes:

1. Pursuant to the Land Use Right Certificate No. 東府國用(1993)字第特159號 (Dongfuguoyong (1993) zidite 159) dated April, 1993 issued by Dongguan City Government, the site with a site area of approximately 21,611 sq.m. was granted to CCT Investment Limited (香港泰富投資有限公司) (an indirectly wholly-owned subsidiary of CCT Tech International Limited). The permitted use of the site is for industrial and the land use right term is 50 years up to April, 2043.

2. Pursuant to seven Real Estate Ownership Certificates Nos.Yuefangdizhengzidi 1578125, 1578126, 1578127, 1578128, 1578129, 1578130, 1578131, CCT Investment Limited (香港泰富投資有限公司) has the right to use block Nos. 1, 2, 3, 4, 5, 6 and 7 of the property for a term from April, 1993 to April, 2043.

3. Pursuant to the PRC Legal Opinion, we understand that the status of titles, grant of major approvals, licences and documents for the Property are as follows:

a.	Land Use Rights Certificate	Yes
b.	Red-Line Drawings	Yes
c.	Real Estate Ownership Certificates	Yes

4. In the course of our valuation, we have assumed that all consents, approvals and licences from relevant government authorities for development of the property have been granted without any onerous conditions or undue delay.

5. The PRC legal advisers have inspected the original of the Land Use Right Certificate and the Real Estate Ownership Certificates of the property and the Company has confirmed that the conformity to the original documents of all copy documents supplied to the PRC legal advisers. Based on the foregoing, the PRC legal advisers have issued the legal opinion dated 15th June, 2004 (the "PRC Legal Opinion"). Pursuant to the PRC Legal Opinion prepared by 廣東鑄銘律師事務所 (Zhu Ming Lawer Office Of GuangDong), it states that:

   (i) CCT Investment Limited has obtained the legal title of the land use rights and the building ownership of the property and CCT Investment Limited had already fully settled all the land premium of the property.

   (ii) CCT Investment Limited is entitled to freely transfer, let or mortgage the property to any party thereof without payment of any land grant premium.

6. At the date of our recent inspection, we noted that two staff dormitories (Block 5 and Block 6) and a canteen (Block 7) have been demolished.

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, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement contained herein misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Authorised share capital:		*HK$*
2,000,000,000	Shares	200,000,000
Issued and fully paid or credited as fully paid Shares:		
422,105,230	Shares	42,210,523

3. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or were required, pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(1) Interests and short positions in the Shares, underlying Shares and debentures of the Company

(i) Long positions in the Shares:

Name of Director	Notes	Number of Shares beneficially held and nature of interest		Approximate percentage of total shareholding
		Personal	Corporate	(%)
Mak Shiu Tong, Clement	(a)	—	86,261,941	20.44
Cheng Yuk Ching, Flora		9,876,713	—	2.34
William Donald Putt		171,500	—	0.04
Samuel Olenick	(b)	—	125,000	0.03

Notes:

(a) The Shares were held by Capital Force International Limited and Capital Interest Limited, which are corporations controlled by Mr. Mak Shiu Tong, Clement. These interests in the Shares have also been disclosed under the section headed "Substantial Shareholders' Interests" below.

(b) Mr. Samuel Olenick was deemed to be interested in 125,000 Shares under the provisions of Part XV of the SFO.

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

Name of Director	Share options in the Company					
	Date of grant of share options	Exercise period of share options	Exercise price per Share	Number of share options outstanding	Number of total underlying Shares	Approximate percentage of total shareholding
			HK$			(%)
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
William Donald Putt	17/3/2003	17/3/2003 - 16/3/2008	0.750	420,000	420,000	0.10
Samuel Olenick	17/3/2003	17/3/2003 - 16/3/2008	0.750	420,000	420,000	0.10
Tam King Ching, Kenny	17/3/2003	17/3/2003 - 16/3/2008	0.750	420,000	420,000	0.10
Lau Ho Man, Edward	17/3/2003	17/3/2003 - 16/3/2008	0.750	420,000	420,000	0.10

(2) Interests and short positions in the shares, underlying shares and debentures of associated corporations

(i) Long positions in the shares, underlying shares and debentures of Haier-CCT Holdings Limited ("Haier-CCT"):

(1) Shares in Haier-CCT:

Name of Director	*Notes*	Number of shares in Haier-CCT beneficially held and nature of interest		Approximate percentage of total shareholding
		Personal	Corporate	*(%)*
Mak Shiu Tong, Clement	*(a)*	—	107,219,667	1.076
Cheng Yuk Ching, Flora		19,312,498	—	0.194
Tam Ngai Hung, Terry		10,000,000	—	0.100
William Donald Putt		179,112	—	0.002
Samuel Olenick	*(b)*	—	130,548	0.001

Notes:

(a) The shares in Haier-CCT were held by Capital Winner Investments Limited and Capital Interest Limited, which are corporations controlled by Mr. Mak Shiu Tong, Clement.

(b) Mr. Samuel Olenick was deemed to be interested in 130,548 shares in Haier-CCT under the provisions of Part XV of the SFO.

(2) Share options in Haier-CCT:

Name of Director	Date of grant of share options	Exercise period of share options	Exercise price per share	Number of share options outstanding	Number of total underlying shares	Approximate percentage of total shareholding
			HK$			*(%)*
Mak Shiu Tong, Clement	16/8/2002	16/8/2003 - 15/8/2007	0.156	89,000,000	89,000,000	0.89
Cheng Yuk Ching, Flora	16/8/2002	16/8/2003 - 15/8/2007	0.156	89,000,000	89,000,000	0.89
Tam Ngai Hung, Terry	16/8/2002	16/8/2003 - 15/8/2007	0.156	89,000,000	89,000,000	0.89
William Donald Putt	16/8/2002	16/8/2003 - 15/8/2007	0.156	5,000,000	5,000,000	0.05

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

(1) Share options in CCT Tech:

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	0.64
Cheng Yuk Ching, Flora	30/4/2003	30/4/2003 - 29/4/2008	0.014	100,000,000	100,000,000	0.64
Tam Ngai Hung, Terry	30/4/2003	30/4/2003 - 29/4/2008	0.014	100,000,000	100,000,000	0.64

(2) Convertible note in CCT Tech:

Name of Director	Description of equity derivatives held	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	28.96

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.

(b) **Particulars of Directors' other interests**

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into a service contract with the Company or any of its subsidiaries (excluding contracts expiring or determinable within one year without payment of compensation other than statutory compensation).

(c) **Save as disclosed above, as at the Latest Practicable Date**

(i) none of the Directors and the chief executive of the Company and their respective associates held any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required,

pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or which were required, pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange; and

(ii) none of the Directors was interested in any business that was in competition with the Company.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as was known to, or could be ascertained after reasonable enquiries by, the Directors, the following persons (other than the Directors or the chief executive of the Company) had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the Shares:

Name of Shareholder	**Number of Shares held**	**Approximate percentage of total shareholding** *(%)*
Capital Force International Limited *(Note)*	56,850,093	13.47
Capital Interest Limited *(Note)*	29,411,848	6.97
		20.44

Note: Capital Force International Limited and Capital Interest Limited are corporations controlled by Mr. Mak Shiu Tong, Clement. These interests in the Shares have also been disclosed under the section headed "Disclosure of Interests" above.

Save as disclosed above, so far as was known to the Directors, as at the Latest Practicable Date, no other person (other than the Directors or the chief executive of the Company) had any interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

5. MATERIAL ADVERSE CHANGES

Save as disclosed herein, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Company since 31 December 2003, being the date to which the latest published audited financial statements of the Company were made up.

6. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had, since 31 December 2003, being the date of the latest published audited accounts of the Group were made up, been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group taken as a whole.

7. MATERIAL CONTRACTS

In the two years immediately preceding the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business, were entered into by the Company or its subsidiaries which are or may be material:

(i) a conditional agreement dated 15 May 2003 made between the Company and CCT Tech relating to the disposal of the entire equity interest in Empire Success Holdings Limited, a then indirect wholly-owned subsidiary of the Company, and the assignment of a shareholder's loan; and

(ii) the Agreement.

8. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

9. QUALIFICATIONS AND CONSENTS OF EXPERTS

Each of Ernst & Young, the PRC Legal Advisers (as defined below) and Vigers Appraisal and Consulting Limited has given and has not withdrawn its written consent to the issue of this circular with copies of its report or valuation certificate (as the case may be) and the references to its name included herein in the form and context in which they appear.

The following are the qualifications of the experts who have given opinion or advice to the Company and which opinion or advice is contained in this circular:

Name	Qualification
Ernst & Young	Certified public accountants
Vigers Appraisal and Consulting Limited	Property valuer
廣東鑄銘律師事務所 (Zhu Ming Lawyer Office of Guangdong) ("PRC Legal Advisers")	Registered law firm in the PRC

Save as disclosed in this circular, none of the PRC Legal Advisers, Vigers Appraisal and Consulting Limited or Ernst & Young is interested in any Share or share in any member of the Group nor does it have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Share or share in any member of the Group.

10. GENERAL

(a) The branch share registrar and transfer office of the Company in Hong Kong is Tengis Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

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

(c) None of the experts named in paragraph 9 in this appendix has any direct or indirect interest in any asset which had, since 31 December 2003, being the date of the latest published audited accounts of the Group were made up, been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group.

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

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office and the principal place of business of the Company in Hong Kong at 32/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the Extraordinary General Meeting:

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

(b) the annual reports of the Company for the two financial years ended 31 December 2002 and 2003;

(c) the material contracts referred to in the section headed "Material contracts" in this appendix;

(d) the Agreement;

(e) the accountants' reports prepared by Ernst & Young, the text of which are set out in appendices IB to ID to this circular;

(f) the property valuation report prepared by Vigers Appraisal and Consulting Limited, the text of which is set out in appendix II to this circular;

(g) the PRC Legal Opinion referred to in appendix II to this circular;

(h) the written consents referred to in paragraph 9 in this appendix; and

(i) a copy of each circular issued pursuant to the requirements set out in Chapter 14 and/or Chapter 14A since 31 December 2003, being the date of the latest published audited accounts of the Company were made up.

CCT TELECOM HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the shareholders 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, 8 September 2004 at 10:30 a.m. for the purpose of considering and, if thought fit, passing with or without modification the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the agreement (the "**Agreement**") dated 2 June 2004 entered into between the Company and CCT Tech International Limited ("**CCT Tech**"), a copy of which is tabled at the meeting and marked "A" and initialled by the chairman of the meeting for identification purpose, pursuant to which CCT Tech has agreed (i) to sell or procure the sale of the entire issued share capital of each of First Precision Holdings Limited ("**First Precision**") and CCT Investment Limited ("**CCT Investment**"), both being wholly-owned subsidiaries of CCT Tech; and (ii) to assign or procure the assignment of the outstanding debts as at the date of completion of the Agreement due from CCT Investment to CCT Telecom Product International Holdings Limited, a wholly-owned subsidiary of CCT Tech, and the outstanding debts as at the date of completion of the Agreement due from First Precision to CCT Tech Holdings Limited, a wholly-owned subsidiary of CCT Tech, to the Company or its nominee(s), for an aggregate consideration of HK$139 million to be satisfied by cancellation of the Convertible Note (as defined in the circular of the Company dated 20 August 2004, a copy of which is tabled at the meeting and marked "B" and initialled by the chairman of the meeting for identification purpose) to the extent of the same amount of the aggregate consideration and the terms of and the transactions contemplated under the Agreement and the implementation thereof be and are hereby approved, ratified and confirmed; and

(b) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with the matters contemplated in or relating to the completion of the Agreement as he/they may consider necessary, desirable or expedient."

By Order of the Board of
CCT TELECOM HOLDINGS LIMITED
Mak Shiu Tong, Clement
Chairman

Hong Kong, 20 August 2004

Head office and principal place of business in Hong Kong:
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 executed under its common seal or under the hand of any officer, attorney or other person duly authorised to sign the same.*

3. *Any member entitled to attend and vote at the meeting is entitled to appoint not more than two proxies (who must be an individual(s)) to attend and vote instead of him/her on the same occasion. A proxy need not be a member of the Company but must attend the meeting in person to represent him/her.*

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 and transfer office of the Company in Hong Kong, Tengis Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case may be).*

5. *Completion and return of the form of proxy shall not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (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(s), any one of such joint holders may attend and vote at the meeting, either in person or by proxy, in respect of such share(s) as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting or any adjourned meeting thereof (as the case may be), 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.*

CCT TELECOM HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 138)

FORM OF PROXY FOR THE EXTRAORDINARY GENERAL MEETING TO BE HELD ON WEDNESDAY, 8 SEPTEMBER 2004 AND ANY ADJOURNMENT THEREOF

I/We[1] _____

of _____

being the registered holder(s) of[2] _____ shares (the "**Shares**") of HK$0.10 each in the capital of CCT Telecom Holdings Limited (the "**Company**"), HEREBY APPOINT THE CHAIRMAN OF THE MEETING[3], or _____

of _____

as my/our proxy to attend and act for me/us and on my/our behalf at the extraordinary general meeting of the Company to be held at 32/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, on Wednesday, 8 September 2004 at 10:30 a.m. (and at any adjournment thereof, as the case may be) (the "**Meeting**") for the purpose of considering and, if thought fit, passing the ordinary resolution as set out in the notice convening the Meeting and at the Meeting to vote for me/us and in my/our name(s) in respect of such resolution as hereunder indicated, and, if no such indication is given, as my/our proxy thinks fit. My/our proxy will also be entitled to vote on any matter properly put to the Meeting in such manner as he/she thinks fit.

	FOR[4]	**AGAINST[4]**
Ordinary Resolution		

Signature[5] _____ Date _____

Notes:

1. Full name(s) and address(es) must be inserted in BLOCK CAPITALS. The names of all joint registered holders should be stated.
2. Please insert the number of Shares registered in your name(s) to which this proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all Shares registered in your name(s).
3. If any proxy other than the Chairman of the Meeting is preferred, please strike out the words "THE CHAIRMAN OF THE MEETING" and insert the name and address of the proxy desired in the space provided. ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT.
4. **IMPORTANT: If you wish to vote for the resolution, please put a tick in the box marked "FOR". If you wish to vote against the resolution, please put a tick in the box marked "AGAINST". If no direction is given, your proxy may vote or abstain as he/she thinks fit. Your proxy will also be entitled to vote at his/her discretion on any resolution properly put to the Meeting other than the resolution referred to in the notice convening the Meeting.**
5. This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be either executed under its common seal or under the hand of an officer or attorney duly authorised on that corporation's behalf.
6. In the case of joint registered holders of any Share(s), any one of such persons may vote at the Meeting, either in person or by proxy, in respect of such Share(s) as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the Meeting in person or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such Share(s) shall alone be entitled to vote in respect thereof.
7. In order to be valid, this form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the branch share registrar and transfer office of the Company in Hong Kong, Tengis Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the Meeting.
8. A proxy need not be a shareholder of the Company but must attend the Meeting in person to represent you.
9. Completion and deposit of this form of proxy will not preclude you from attending and voting in person at the Meeting if you so wish. If you attend and vote at the Meeting in person, the authority of your proxy will be revoked.