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.

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

CCT TELECOM HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 138)

MAJOR AND CONNECTED TRANSACTION

in respect of

Voluntary Conditional Cash Offer with Securities Exchange Alternative by

DBS

DBS Asia Capital Limited

on behalf of Jade Assets Company Limited, a wholly-owned subsidiary of CCT Telecom Holdings Limited, to acquire all the issued shares and the convertible notes due 2005 of

CCT TECH INTERNATIONAL LIMITED

(other than those already owned by the Offeror and parties acting in concert with it (other than New Capital Industrial Limited)) and

Voluntary Conditional Cash Offer to cancel all outstanding options of

CCT TECH INTERNATIONAL LIMITED

(other than those already owned by the Offeror and parties acting in concert with it)

Financial Adviser to CCT Telecom Holdings Limited

DBS

DBS Asia Capital Limited

Independent Financial Adviser to the Board and the Independent Board Committee of CCT Telecom Holdings Limited and the CCT Telecom Independent Shareholders

VC CAPITAL LIMITED
滙盈融資有限公司
(A Member of Melco Group)

A letter from the Board is set out on pages 7 to 27 of this circular.

A letter from the Independent Board Committee to the CCT Telecom Independent Shareholders is set out on pages 28 to 29 of this circular.

A letter from VC Capital containing its opinion and advice to the Board, the Independent Board Committee and the CCT Telecom Independent Shareholders in connection with the Offers is set out on pages 30 to 48 of this circular.

A notice convening the EGM to be held at 32/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong on Monday, 18 April 2005 at 10:00 a.m. is set out on pages 216 to 217 of this circular. A form of proxy for use by the CCT Telecom Independent Shareholders at the EGM is enclosed herein. Whether or not you intend to attend and vote at the EGM 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 CCT Telecom 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 EGM. Such form of proxy for use at the EGM 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 EGM in person should you so wish.

31 March 2005

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	Date
Despatch date of the Composite Offer Document and the commencement of the Offers *(Note 1)*	Thursday, 31 March 2005
Despatch date of this circular and the proxy form	Thursday, 31 March 2005
Publication of the announcement relating to the despatch of this circular and the notice of the EGM in the newspapers in Hong Kong	Thursday, 31 March 2005
EGM	10:00 a.m. on Monday, 18 April 2005
Publication of the announcement of the results of the EGM in the newspapers in Hong Kong	Tuesday, 19 April 2005
Latest time and date for acceptance of the Offers *(Note 2)*	4:00 p.m. on Thursday, 21 April 2005
First Closing Date *(Note 2)*	Thursday, 21 April 2005
Announcement of the results of the Offers, as at the First Closing Date, through the Stock Exchange's website	7:00 p.m. on Thursday, 21 April 2005
Announcement of the results of the Offers, as at the First Closing Date, in the newspapers in Hong Kong	Friday, 22 April 2005
Latest date for posting of cheques and/or Convertible Bond certificates to the CCT Tech Shareholders, the holder of the CCT Tech 2005 CN and the CCT Tech Optionholders who accept the Offers by the First Closing Date, assuming the Offers become or are declared unconditional on the First Closing Date *(Note 3)*	Tuesday, 3 May 2005
Latest time and date for the Offers to be remained open for acceptance assuming the Offers become or are declared unconditional on the First Closing Date *(Note 4)*	4:00 p.m. on Friday, 6 May 2005
Latest time by which the Offers can be declared unconditional as to acceptance *(Note 5)*	Midnight, Monday, 30 May 2005

Notes:

1. The Offers are made on Thursday, 31 March 2005, being the date of posting of the Composite Offer Document, and is capable of acceptance on and from that date.
2. In accordance with the Takeovers Code, where the offeree board circular is posted on the same day on which the Composite Offer Document is posted, the Offers must initially be open for acceptance for at least 21 days following the date on which the Composite Offer Document was posted. The latest time for acceptance is 4:00 p.m. on Thursday, 21 April 2005.
3. Cheques and/or Convertible Bond certificates in respect of the CCT Tech Shares, the CCT Tech 2005 CN and the CCT Tech Options (as the case may be) tendered under the Offers will be posted by ordinary post to the CCT Tech Shareholders, the holder of the CCT Tech 2005 CN and the CCT Tech Optionholders (as the case may be) accepting the Offers at his/her/its own risks as soon as possible, but in any event within 10 days from the later of the date (i) of receipt by the Registrar, or the company secretary of CCT Tech, as the case may be, of all the relevant documents to render the acceptance under the Offers complete and valid, and (ii) when the Offers become unconditional.

4. In accordance with the Takeovers Code, where the Offers become or are declared unconditional, they should remain open for acceptance for not less than 14 days thereafter. In such case, at least 14 days' notice in writing must be given before the Offers are closed to the CCT Tech Shareholders, the holder of the CCT Tech 2005 CN and the CCT Tech Optionholders who have not accepted the Offers.

5. In accordance with the Takeovers Code, except with the consent of the Executive, the Offers may not become or are declared unconditional as to acceptances after midnight (Hong Kong time) on the 60th day after the day of which the Composite Offer Document is posted. Accordingly, unless the Offers have previously become or been declared unconditional as to acceptances, the Offers will lapse on midnight, Monday, 30 May 2005 unless extended by the Offeror with the consent of the Executive.

6. All time references in this circular refer to Hong Kong time.

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

"acting in concert"	has the meaning ascribed to it in the Takeovers Code
"Announcement"	the announcement dated 31 January 2005 jointly made by CCT Telecom and CCT Tech containing, amongst other things, details of the Offers
"associate"	has the meaning ascribed to it in the Listing Rules
"Board"	the board of the CCT Telecom Directors
"Business Day"	a day (excluding Saturday) on which banks are generally open in Hong Kong for general banking transactions for more than four hours
"Cash Offer with Securities Exchange Alternative"	the voluntary conditional cash offer (with securities exchange alternative) of HK$1,840 in cash or the Convertible Bonds with a face value of HK$1,840, for every 80,000 CCT Tech Shares or every CCT Tech 2005 CN with a face value of HK$800
"CCT Tech"	CCT Tech International Limited, an exempted company incorporated in Bermuda and the shares of which are listed on the main board of the Stock Exchange
"CCT Tech 2005 CN"	the convertible note issued by CCT Tech to New Capital with an outstanding principal amount of HK$45,000,000 as at the Latest Practicable Date, interest fee and with a conversion price of HK$0.01 per CCT Tech Share and due on 17 May 2005
"CCT Tech 2008 CN"	the convertible note issued by CCT Tech to a subsidiary of CCT Telecom, Noble Team Investments Limited, a party acting in concert with the Offeror, with an outstanding principal amount of HK$615,000,000 as at the Latest Practicable Date, carrying interest at prime or best lending rate plus 2% per annum, with a conversion price of HK$0.014 per CCT Tech Share and due on 30 June 2008
"CCT Tech Director(s)"	the director(s) of CCT Tech
"CCT Tech Group"	CCT Tech and its subsidiaries
"CCT Tech Independent Shareholders"	the CCT Tech Shareholders excluding the Offeror and parties acting in concert with it
"CCT Tech Option(s)"	the share options granted by CCT Tech to eligible participants conferring on the grantee thereof the right to subscribe for the CCT Tech Shares at an exercise price of HK$0.014 per CCT Tech Share pursuant to the share option scheme of CCT Tech adopted on 17 September 2002 and were outstanding as at the Latest Practicable Date
"CCT Tech Optionholder(s)"	the holder(s) of the CCT Tech Option(s)

"CCT Tech Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of CCT Tech
"CCT Tech Shareholder(s)"	the holder(s) of the CCT Tech Share(s)
"CCT Telecom"	CCT Telecom Holdings Limited, a company incorporated in the Cayman Islands and the shares of which are listed on the main board of the Stock Exchange
"CCT Telecom Group"	CCT Telecom and its subsidiaries
"CCT Telecom Independent Shareholders"	the CCT Telecom Shareholders excluding the Offeror and parties acting in concert with it and the connected persons of CCT Telecom, namely Mr. Mak Shiu Tong, Clement, Mr. Tam Ngai Hung, Terry and Ms. Cheng Yuk Ching, Flora
"CCT Telecom Option(s)"	the share options granted by CCT Telecom to eligible participants conferring on the grantee thereof the right to subscribe for CCT Telecom Shares at an exercise price of HK$0.750 per CCT Telecom Share pursuant to the share option scheme of CCT Telecom adopted on 28 February 2002 and were outstanding as at the Latest Practicable Date
"CCT Telecom Remaining Group"	the CCT Telecom Group excluding the CCT Tech Group
"CCT Telecom Share(s)"	the ordinary share(s) of HK$0.10 each in the share capital of CCT Telecom
"CCT Telecom Shareholder(s)" or "Shareholder(s)"	the holder(s) of the CCT Telecom Share(s)
"Closing Date"	the First Closing Date or any subsequent closing date(s) as may be announced by the Offeror and approved by the Executive
"Combined Group"	the CCT Telecom Group and the CCT Tech Group
"Companies Act"	the Bermuda Companies Act 1981 of Bermuda (as amended)
"Composite Offer Document"	the composite offer and response document made by DBS Asia on behalf of the Offeror and by CCT Tech to all CCT Tech Shareholders, the holder of the CCT Tech 2005 CN and the CCT Tech Optionholders in accordance with the Takeovers Code containing, inter alia, details of the Offers, the terms and conditions of the Offers, the forms of acceptance, the letter from the board of CCT Tech, the letter from the independent board committee of CCT Tech to the CCT Tech Independent Shareholders and the CCT Tech Optionholders, and the letter from Altus Capital Limited to the independent board committee of CCT Tech, the CCT Tech Independent Shareholders and the CCT Tech Optionholders

"Conditions"	the conditions to the making of the Offers
"connected person"	has the meaning ascribed to it in the Listing Rules
"Connected Transaction"	the connected transaction relating to the issue of the Convertible Bonds to connected persons of CCT Telecom who accept the Offers
"Convertible Bond(s)"	the convertible bond(s) with a face value of HK$1,840 each to be issued by CCT Telecom pursuant to the Cash Offer with Securities Exchange Alternative
"DBS Asia"	DBS Asia Capital Limited, a deemed licensed corporation under the SFO permitted to engage in types 1, 4 and 6 of the regulated activities as defined in the SFO
"Director(s)" or "CCT Telecom Director(s)"	the director(s) of CCT Telecom
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"EGM"	the extraordinary general meeting of CCT Telecom to be convened and held at 32/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong on Monday, 18 April 2005 at 10:00 a.m. to consider and, if thought fit, amongst others, approve the Offers and the Connected Transaction or any adjournment thereof (as the case may be)
"First Closing Date"	21 April 2005, being the 21st day after the date of posting of the Composite Offer Document
"Grant Sherman"	Grant Sherman Appraisal Limited, an independent valuer for properties and the Convertible Bonds
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent committee of the board of directors of CCT Telecom, comprising Messrs. Tam King Ching, Kenny, Lau Ho Man, Edward and Samuel Olenick, being the independent non-executive directors of CCT Telecom, which has been formed for the purpose of advising the CCT Telecom Independent Shareholders in relation to the making of the Offers and the Connected Transaction
"Last Trading Day"	17 January 2005, being the last trading day prior to the suspension of trading in the CCT Tech Shares and the CCT Telecom Shares on 18 January 2005

"Latest Practicable Date"	29 March 2005, 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
"New Capital"	New Capital Industrial Limited, a company wholly owned by Mr. Mak Shiu Tong, Clement (a party presumed to be acting in concert with the Offeror), the Chairman and an executive director of both CCT Telecom and CCT Tech, and his family members
"ODM"	original design manufacturing
"OEM"	original equipment manufacturing
"Offers"	the Cash Offer with Securities Exchange Alternative and the Option Offer
"Offeror"	Jade Assets Company Limited, an indirect wholly-owned subsidiary of CCT Telecom
"Option Offer"	the voluntary conditional cash offer to cancel the CCT Tech Options at the Option Offer Price
"Option Offer Price"	HK$0.009 per CCT Tech Option
"PRC"	the People's Republic of China
"Registrar"	Tengis Limited, the branch share registrar and transfer office of CCT Telecom in Hong Kong at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder"	has the meaning ascribed to it in the Listing Rules
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"US$"	United States dollar(s), the lawful currency of the United States of America
"VC Capital"	VC Capital Limited, a deemed licensed corporation under the SFO permitted to engage in types 1, 4, 6 and 9 of the regulated activities as defined in the SFO
"%"	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

31 March 2005

To the Shareholders and, for information only, the holders of the CCT Telecom Options

Dear Sir/Madam,

MAJOR AND CONNECTED TRANSACTION

in respect of

Voluntary Conditional Cash Offer with Securities Exchange Alternative by

DBS

DBS Asia Capital Limited

on behalf of Jade Assets Company Limited, a wholly-owned subsidiary of CCT Telecom Holdings Limited, to acquire all the issued shares and the convertible notes due 2005 of

CCT TECH INTERNATIONAL LIMITED

(other than those already owned by the Offeror and parties acting in concert with it (other than New Capital Industrial Limited)) and

Voluntary Conditional Cash Offer to cancel all outstanding options of

CCT TECH INTERNATIONAL LIMITED

(other than those already owned by the Offeror and parties acting in concert with it)

I. INTRODUCTION

On 31 January 2005, CCT Telecom and CCT Tech jointly announced that DBS Asia, on behalf of the Offeror, subject to the conditions as set out in the section headed "Conditions of the Offers" below, will make a voluntary conditional cash offer (with securities exchange alternative) to acquire all the issued CCT Tech Shares and the CCT Tech 2005 CN (other than those already owned by the Offeror and parties acting in concert with it (other than New Capital)) and a voluntary conditional

cash offer to cancel all the outstanding CCT Tech Options. The principal terms of the Offers and the action you should take are set out in the section headed "The Offers" below and in the appendices to this circular. DBS Asia is satisfied that there are sufficient financial resources available to CCT Telecom to satisfy the amount of funds required to meet full acceptance of the Offers.

As at the Latest Practicable Date, CCT Telecom and parties acting in concert with it held 5,500,000,000 CCT Tech Shares, representing approximately 34.51% in the issued share capital of CCT Tech. As at the Latest Practicable Date, CCT Telecom also held the CCT Tech 2008 CN in the principal amount of HK$615 million through its wholly owned subsidiary, Noble Team Investments Limited, the full conversion of which would result in the issue of 43,928,571,428 CCT Tech Shares, representing approximately 275.61% of the existing issued capital of CCT Tech and approximately 73.38% of the issued capital of CCT Tech as enlarged thereby.

The Offers and the possible issue of the Convertible Bonds under the Cash Offer with Securities Exchange Alternative to connected persons and their associates constitute a major and connected transaction for CCT Telecom under the Listing Rules and the purpose of this circular is to provide the CCT Telecom Shareholders further information in relation to the Offers and the Connected Transaction.

II. THE OFFERS

The Offers will be made by DBS Asia on behalf of the Offeror.

The Offers, if approved by the CCT Telecom Shareholders, will be made on the following basis:

The Cash Offer with Securities Exchange Alternative

For every 80,000 CCT Tech Shares . . . . . HK$1,840 in cash, representing HK$0.023 per CCT Tech Share

or

Convertible Bond with the face value of HK$1,840, and in the same proportion for any greater number of the CCT Tech Shares

and

For every CCT Tech 2005 CN with a face value of HK$800 . . . . . HK$1,840 in cash, representing HK$0.023 per CCT Tech Share

or

Convertible Bond with the face value of HK$1,840, and in the same proportion for any greater number of the CCT Tech 2005 CN

The Cash Offer with Securities Exchange Alternative will be made on the basis of HK$1,840 in cash or the Convertible Bonds with a face value of HK$1,840 for every 80,000 CCT Tech Shares (representing one board lot of the CCT Tech Shares being traded on the Stock Exchange) or for

every CCT Tech 2005 CN with a face value of HK$800. No fraction of a cent will be payable. The amount of cash payable to the registered CCT Tech Shareholders who accept the Offers and opt for cash will be rounded up to the nearest cent. Since no fraction of the Convertible Bonds will be issued under the Cash Offer with Securities Exchange Alternative, the CCT Tech Shareholders who hold less than 80,000 CCT Tech Shares can only accept the cash alternative under the Cash Offer with Securities Exchange Alternative. The CCT Tech Shareholders whose shareholdings in CCT Tech exceed a board lot of 80,000 CCT Tech Shares but are not a multiple of 80,000 CCT Tech Shares can only opt for the Convertible Bonds in respect of that part of their shareholdings equal to 80,000 CCT Tech Shares or a multiple of 80,000 CCT Tech Shares.

The Cash Offer with Securities Exchange Alternative of HK$1,840 in cash, or the Convertible Bonds with a face value of HK$1,840, for every 80,000 CCT Tech Shares or every CCT Tech 2005 CN with a face value of HK$800, has been determined by the Offeror with reference to the average closing price of the CCT Tech Share of HK$0.023 as quoted on the Stock Exchange for the last thirty days up to and including the Last Trading Day.

The highest and lowest closing prices at which the CCT Tech Shares were traded on the Stock Exchange during the six-month period immediately prior to the Last Trading Day, and up to and including the Latest Practicable Date, were HK$0.03 and HK$0.014 on 6 January 2005 and 28 September 2004, respectively.

Based on the average closing price of HK$0.023 per CCT Tech Share as quoted on the Stock Exchange for the last thirty days up to and including the Last Trading Day, the Cash Offer with Securities Exchange Alternative:

(a) represents a discount of approximately 4.17% to, and a premium of approximately 4.55% over, the closing price of HK$0.024 and HK$0.022 per CCT Tech Share as quoted on the Stock Exchange on the Last Trading Day and the Latest Practicable Date respectively;

(b) represents a discount of approximately 11.54% to, and a premium of approximately 4.55% over, the average closing price of approximately HK$0.026 and HK$0.022 per CCT Tech Share for the last ten trading days up to and including the Last Trading Day and the Latest Practicable Date respectively;

(c) represents a premium of approximately 9.52% over, and equal to, the average closing price of approximately HK$0.021 and HK$0.023 per CCT Tech Share for the last sixty trading days up to and including the Last Trading Day and the Latest Practicable Date respectively; and

(d) represents a premium of approximately 109.09% to the audited consolidated net asset value per CCT Tech Share of approximately HK$0.011 as at 31 December 2003 (based on the audited consolidated net assets of approximately HK$142,143,000 and 13,138,422,562 CCT Tech Shares in issue as at 31 December 2003) and a premium of approximately 53.33% to the unaudited consolidated net asset value per CCT Tech Share of approximately HK$0.015 as at 30 June 2004 (based on the unaudited consolidated net assets of approximately HK$210,599,000 and 14,138,422,562 CCT Tech Shares in issue as at 30 June 2004).

The CCT Tech 2005 CN and the CCT Tech 2008 CN

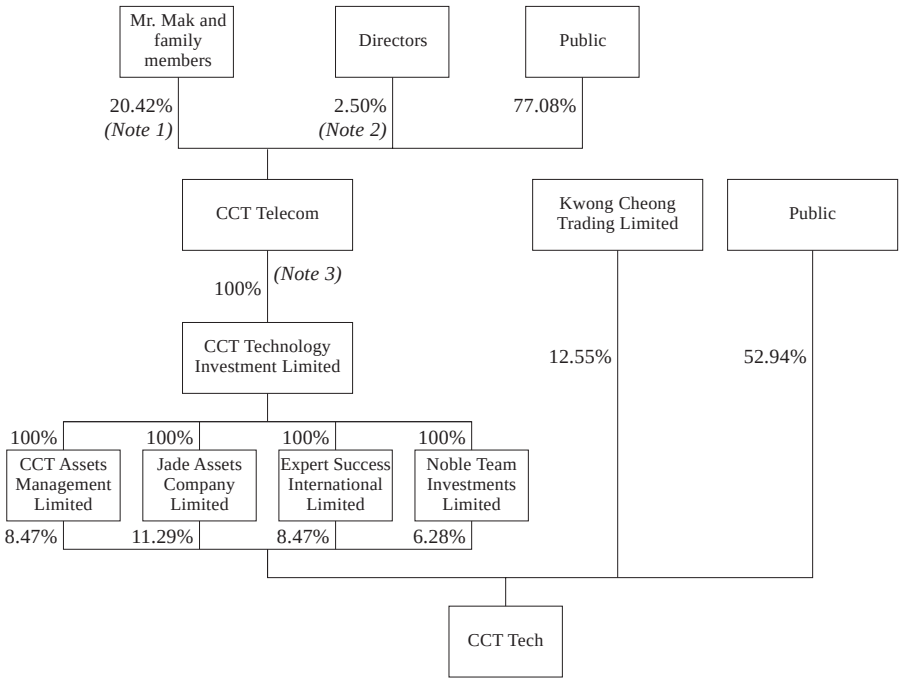
As at the Latest Practicable Date, New Capital, a company wholly owned by Mr. Mak Shiu Tong, Clement, the Chairman and an executive director of both CCT Telecom and CCT Tech, and his family members, was the registered holder of the CCT Tech 2005 CN. The full conversion of the CCT Tech 2005 CN would result in the issue of 4,500,000,000 new CCT Tech Shares (representing approximately 28.23% of the existing issued capital of CCT Tech and approximately 22.02% of the issued share capital of CCT Tech as enlarged thereby).

New Capital has provided an irrevocable undertaking, which is not subject to any conditions, to the Offeror to accept the Offers in the form of the CCT Tech 2005 CN or the 4,500,000,000 new CCT Tech Shares immediately upon the Offers having been approved by the CCT Telecom Shareholders and opt for the Convertible Bonds. The above irrevocable undertaking cannot be cancelled or terminated by New Capital except in the case that the Offers are not successful or are terminated or lapsed. The consideration of the CCT Tech 2005 CN is based on value of the underlying 4,500,000,000 new CCT Tech Shares at the offer price of HK$0.023 per CCT Tech Share. During the period commencing six months before the date of the Announcement and ending on the Latest Practicable Date, save for the CCT Tech 2005 CN, New Capital had not owned, controlled or dealt in any CCT Telecom Shares, CCT Tech Shares, CCT Tech Options, shares of the Offeror, or convertible securities, warrants, options or derivatives in respect of the CCT Telecom Shares, shares of the Offeror or the CCT Tech Shares.

The CCT Tech 2008 CN in the outstanding principal amount of HK$615 million as at the Latest Practicable Date was held by an indirect wholly owned subsidiary of CCT Telecom, Noble Team Investments Limited, a party acting in concert with the Offeror. As CCT Telecom owns the entire interest in the CCT Tech 2008 CN through its wholly owned subsidiary, the CCT Tech 2008 CN will not form part of the Offers.

The following charts show the shareholding of CCT Tech as at the Latest Practicable Date assuming no Offers had been made (i) before conversion of the CCT Tech 2005 CN and the CCT Tech 2008 CN; and (ii) after conversion of the CCT Tech 2005 CN and the CCT Tech 2008 CN in full:

(i) Shareholding of CCT Tech before conversion of the CCT Tech 2005 CN and the CCT Tech 2008 CN at the Latest Practicable Date:



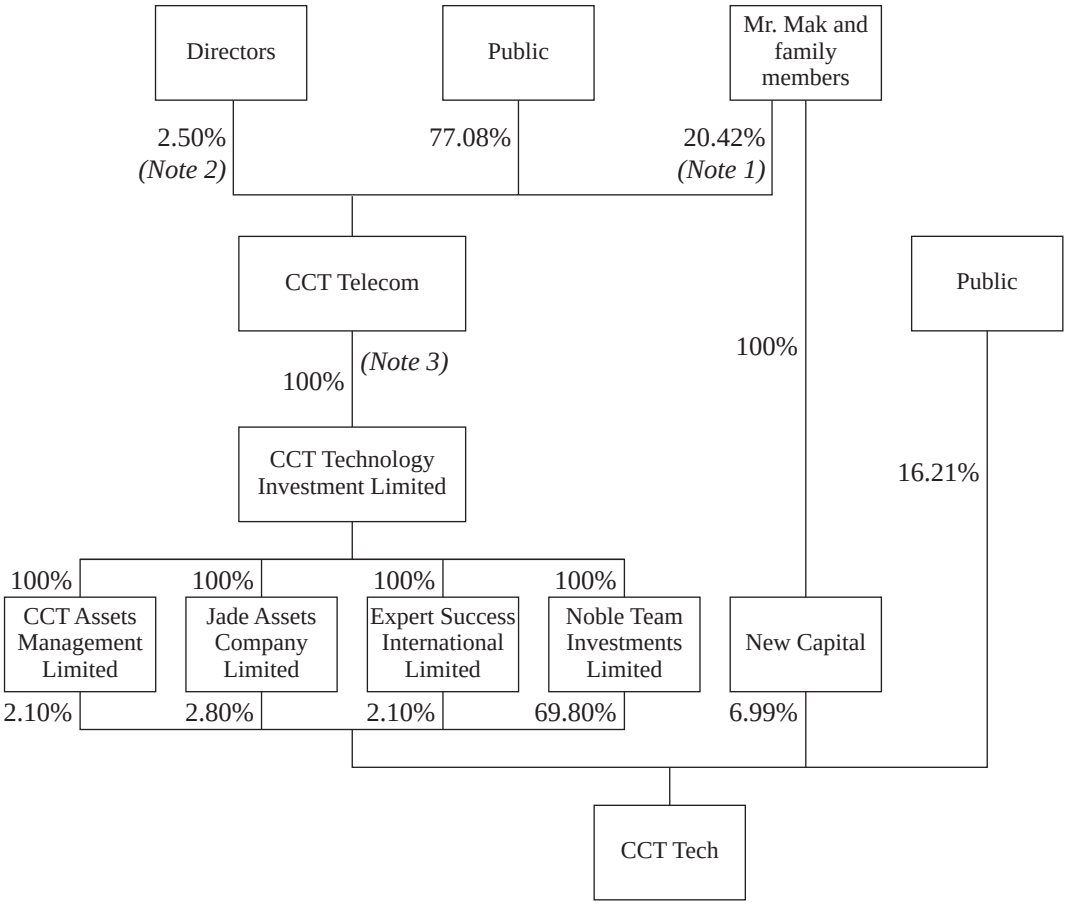
Notes:

1. The 20.42% interest in CCT Telecom is owned through Capital Force International Limited and Capital Interest Limited, which are corporations wholly owned by Mr. Mak Shiu Tong, Clement and his family members.

2. The 2.50% interest in CCT Telecom is held by Ms. Cheng Yuk Ching, Flora (as to 2.36%), Dr. William Donald Putt (as to 0.04%), Mr. Samuel Olenick (as to 0.03%) and Mr. Tong Chi Hoi (as to 0.07%). Ms. Cheng and Dr. Putt are executive directors of CCT Telecom and CCT Tech. Mr. Olenick is an independent non-executive director of CCT Telecom and Mr. Tong is an executive director of CCT Tech.

3. CCT Telecom, through its subsidiaries, holds an aggregate interest of 34.51% in CCT Tech.

(ii) Shareholding of CCT Tech assuming full conversion of the CCT Tech 2005 CN and the CCT Tech 2008 CN at the Latest Practicable Date:



Notes:

1. The 20.42% interest in CCT Telecom is owned through Capital Force International Limited and Capital Interest Limited, which are corporations wholly owned by Mr. Mak Shiu Tong, Clement and his family members.

2. The 2.50% interest in CCT Telecom is held by Ms. Cheng Yuk Ching, Flora (as to 2.36%), Dr. William Donald Putt (as to 0.04%), Mr. Samuel Olenick (as to 0.03%) and Mr. Tong Chi Hoi (as to 0.07%). Ms. Cheng and Dr. Putt are executive directors of CCT Telecom and CCT Tech. Mr. Olenick is an independent non-executive director of CCT Telecom and Mr. Tong is an executive director of CCT Tech.

3. CCT Telecom, through its subsidiaries, holds an aggregate interest of 76.80% in CCT Tech.

The Option Offer

For cancellation of each outstanding CCT Tech Option . . . . . HK$0.009 in cash

As at the Latest Practicable Date, CCT Tech had 1,082,781,000 outstanding CCT Tech Options. The exercise in full of the 1,082,781,000 CCT Tech Options would result in the issue of additional 1,082,781,000 CCT Tech Shares (representing approximately 6.36% of the issued share capital of CCT Tech as enlarged thereby).

The exercise price for the outstanding CCT Tech Options is HK$0.014 per CCT Tech Option. The Option Offer Price of HK$0.009 in cash per CCT Tech Option represents the difference between the cash price under the Cash Offer with Securities Exchange Alternative of HK$0.023 per CCT Tech Share and the exercise price of HK$0.014 per CCT Tech Option. The details of the CCT Tech Optionholders are as follows:

CCT Tech Optionholders	Number of the CCT Tech Options held	Exercise period
Executive directors of CCT Tech		
Mak Shiu Tong, Clement	100,000,000	30.4.2003–29.4.2008
Tam Ngai Hung, Terry	100,000,000	30.4.2003–29.4.2008
Cheng Yuk Ching, Flora	100,000,000	30.4.2003–29.4.2008
Tong Chi Hoi	50,000,000	30.4.2003–29.4.2008
Independent non-executive directors of CCT Tech		
Lau Ho Kit, Ivan	8,000,000	30.4.2003–29.4.2008
Chow Siu Ngor	8,000,000	30.4.2003–29.4.2008
Other qualified participants *(Note)*	716,781,000	30.4.2003–29.4.2008
Total	1,082,781,000	

Note: They are employees of CCT Tech who are independent of, and not connected with the directors, chief executive or substantial shareholders of CCT Tech or its subsidiaries or any of their respective associates.

Save for the CCT Tech 2005 CN, the CCT Tech 2008 CN and the CCT Tech Options, as at the Latest Practicable Date, CCT Tech had no other convertible securities, options, derivatives or warrants outstanding and has not entered into any agreement for the issue of any convertible securities, options, warrants or derivatives of CCT Tech.

Convertible Bonds

The Convertible Bonds will be issued by CCT Telecom to the CCT Tech Shareholders and the holder of the CCT Tech 2005 CN who accept the Cash Offer with Securities Exchange Alternative and opt for the Convertible Bonds instead of cash. The Convertible Bonds can be converted into the CCT Telecom Shares during the conversion period as mentioned below. The principal terms of the Convertible Bonds are as follows:

Principal amount:	Each Convertible Bond has a face value of HK$1,840
Interest:	No interest is payable
Conversion right:	The whole or part of the principal amount of the Convertible Bonds may be converted into the CCT Telecom Shares on any Business Day at the conversion price as mentioned below at any time during the conversion period as mentioned below
Conversion period:	The period during which the holders of the Convertible Bonds can convert the Convertible Bonds into the CCT Telecom Shares, will start from the date of issue of the Convertible Bonds and end on the fifth Business Day before the maturity date of the Convertible Bonds
Conversion price:	HK$1.267 per CCT Telecom Share, subject to adjustment as provided in the terms and conditions of the Convertible Bonds
Maturity:	The fifth anniversary from the date of issue of the Convertible Bonds. Unless converted into the CCT Telecom Shares or repaid by CCT Telecom, the outstanding balance of the Convertible Bonds shall be automatically redeemed in full on maturity
Repayment:	CCT Telecom may at its sole discretion, repay in whole or in part of the outstanding balance of the Convertible Bonds not yet repaid or converted into the CCT Telecom Shares any time before maturity by giving the holders of the Convertible Bonds a prior written notice of 14 days
Transferability:	The Convertible Bonds may be transferred to any third party subject to compliance with the terms and conditions of the Convertible Bonds and further subject to the conditions, approvals, requirements and any other provisions of or under all applicable laws and regulations and the Listing Rules. If the Convertible Bonds are transferred to the connected person(s) of CCT Telecom or its associate(s), CCT Telecom shall immediately notify the Stock Exchange and all such transfers will be made subject to full compliance with the Listing Rules

Charges and processing time:	No charge will be imposed on the first issue of the Convertible Bonds certificates which shall be issued with a face value of HK$1,840 or the multiples thereof Subsequent transfer or splitting of the Convertible Bonds certificate(s) with the face value of HK$1,840 or its multiple may be made upon the holder's request. Scrip fee of HK$2.5 (as may be revised from time to time) will be charged for the issue of each new Convertible Bond certificate. It usually takes approximately 10 Business Days for the issue of the Convertible Bond certificate(s) after the receipt of all requisite documents Under normal circumstances, no charge will be imposed for the issue of the CCT Telecom Share certificates upon conversion of the Convertible Bonds with a face value of HK$1,840 or the multiples thereof and unless otherwise requested by the Convertible Bond holder(s), only one CCT Telecom Share certificate will be issued. It usually takes approximately 5 Business Days for the issue of the CCT Telecom Share certificate(s) after receipt of all requisite documents. If a holder of the Convertible Bonds applies for conversion and requests for the issue of a large number of the CCT Telecom Share certificates each in a denomination unreasonably small, appropriate charges will be imposed on the Convertible Bond holder(s) as CCT Telecom may determine and it will take more than 5 Business Days for the issue of the CCT Telecom Share certificates
Application for listing:	Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the new CCT Telecom Shares which may be issued under the Convertible Bonds. No listing application will be made for the Convertible Bonds
Voting:	The holder of the Convertible Bonds shall not be entitled to attend or vote at any general meeting of CCT Telecom by reason only of its being the holder of the Convertible Bonds

The conversion price of HK$1.267 has been determined by the Offeror with reference to the average closing price of the CCT Telecom Shares as quoted on the Stock Exchange for the last thirty days up to and including the Last Trading Day.

The highest and lowest closing prices at which the CCT Telecom Shares were traded on the Stock Exchange during the six-month period immediately prior to the Last Trading Day, and up to and including the Latest Practicable Date, were HK$1.41 and HK$0.89 on 15 November 2004 and 16 August 2004, respectively.

The conversion price of HK$1.267:

(a) represents a discount of approximately 4.74% to, and a premium of approximately 0.56% over, the closing price of HK$1.33 and HK$1.26 per CCT Telecom Share as quoted on the Stock Exchange on the Last Trading Day and the Latest Practicable Date respectively;

(b) represents a discount of approximately 4.31% to, and a premium of approximately 0.96% over, the average closing price of approximately HK$1.324 and HK$1.255 per CCT Telecom Share for the last ten trading days up to and including the Last Trading Day and the Latest Practicable Date respectively;

(c) represents a discount of approximately 0.71% to, and a premium of approximately 0.40% over, the average closing price of approximately HK$1.276 and HK$1.262 per CCT Telecom Share for the last sixty trading days up to and including the Last Trading Day and the Latest Practicable Date respectively; and

(d) represents a discount of approximately 76.70% to the audited consolidated net asset value per CCT Telecom Share of approximately HK$5.437 as at 31 December 2003 (based on the audited consolidated net assets of approximately HK$2,295,000,000 and 422,105,230 CCT Telecom Shares in issue as at 31 December 2003) and a discount of approximately 76.78% to the unaudited consolidated net asset value per CCT Telecom Share of approximately HK$5.456 as at 30 June 2004 (based on the unaudited consolidated net assets of approximately HK$2,303,000,000 and 422,105,230 CCT Telecom Shares in issue as at 30 June 2004).

Conversion of the Convertible Bonds into the CCT Telecom Shares should be made in each face value of HK$1,840 or its multiple. Fraction of a CCT Telecom Share will not be issued upon conversion of the Convertible Bonds. Any fractional entitlements shall be ignored and any sum paid in respect thereof shall be retained by CCT Telecom. The number of shares to be issued upon conversion of the Convertible Bonds will be rounded down to the nearest one CCT Telecom Share.

Total consideration for the Offers

As at the Latest Practicable Date, there were a total of 15,938,422,562 CCT Tech Shares in issue of which 10,438,422,562 CCT Tech Shares were held by the CCT Tech Shareholders other than the Offeror and the parties acting in concert with it. On the basis of the cash consideration of HK$1,840 or a Convertible Bond of a principal amount of HK$1,840, for every 80,000 CCT Tech Shares or for every CCT Tech 2005 CN with a face value of HK$800 (as the case may be), the entire issued share capital of CCT Tech held by the CCT Tech Shareholders (other than the Offeror and the parties acting in concert with it) and the CCT Tech 2005 CN are valued at approximately HK$240,083,718.93 and HK$103,500,000.00 respectively.

On the basis of the Option Offer Price for cancellation of each outstanding CCT Tech Option, the 1,082,781,000 outstanding CCT Tech Options as at the Latest Practicable Date are valued at approximately HK$9,745,029.00. Assuming full conversion of the CCT Tech Options into the CCT Tech Shares, and based on the offer price of HK$0.023 per CCT Tech Share, the 1,082,781,000 CCT Tech Shares are valued at approximately HK$24,903,963.00.

DBS Asia is satisfied that there are sufficient financial resources available to CCT Telecom to satisfy the amount of funds required to meet full acceptance of the Offers. The Offers will be funded by internal sources of CCT Telecom.

Terms of the Offers

Acceptance of the Offers by any CCT Tech Shareholder or the holder of the CCT Tech 2005 CN or the CCT Tech Optionholder (as the case may be) will be deemed to constitute a warranty by such person that all the CCT Tech Shares or the CCT Tech 2005 CN or the CCT Tech Options (as the case may be) to be sold by such person under the Cash Offer with Securities Exchange Alternative or the Option Offer (as the case may be) will be acquired free from all liens, charges, options, claims, equities, adverse interests, third-party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, in the case of the CCT Tech Shares, the right to receive dividends and distributions declared, made or paid, if any, on or after the date of the Composite Offer Document.

Under the terms of the Option Offer, the CCT Tech Options together with all rights attaching thereto will be entirely cancelled and renounced.

The availability of the Cash Offer with Securities Exchange Alternative to persons not resident in Hong Kong may be affected by the applicable laws of the relevant jurisdictions. Persons who are not resident in Hong Kong should inform themselves about and observe any applicable requirements in their own jurisdictions.

III. CONDITIONS OF THE OFFERS

The Offers are conditional upon the following:

(a) the Offers having been approved by the CCT Telecom Shareholders at the EGM in accordance with the requirements under the Listing Rules;

(b) each and every member of the CCT Tech Group remaining solvent and not subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, provisional liquidator, receiver or other person carrying out any similar function has been appointed anywhere in the world in respect of the whole or any part of the assets or undertakings of any member of the CCT Tech Group from the date of the Announcement up to the date when conditions (a), (c), (d) and (e) are all satisfied;

(c) no event having occurred on or before the date on which condition (d) below has been fulfilled which would make the Offers or the acquisition of any of the CCT Tech Shares by the Offeror and/or cancellation of the CCT Tech Options void, unenforceable, illegal or unable to be proceeded or would impose any additional material conditions or obligations with respect to the Offers or any part thereof or the acquisition of any of the CCT Tech Shares and/or cancellation of any CCT Tech Options;

(d) valid acceptances of the Cash Offer with Securities Exchange Alternative having been received (and, where permitted, not withdrawn) by 4:00 p.m. on the Closing Date (or such later times(s) and/or date(s) as the Offeror may decide and the Executive may

approve) in respect of the CCT Tech Shares, which together with the CCT Tech Shares already held by the Offeror and parties acting in concert with it, constitute more than 50% of the voting rights normally exercisable at general meetings of CCT Tech; and

(e) the Stock Exchange granting the listing of, and permission to deal in, the new CCT Telecom Shares to be issued pursuant to the terms of the Convertible Bonds.

IV. WAIVER OF THE CONDITIONS OF THE OFFERS

CCT Telecom reserves the right to waive all or any of the above conditions (except conditions (a), (d) and (e) which cannot be waived) in whole or in part on or before the Closing Date.

If the Offeror does not receive valid acceptances of the Cash Offer with Securities Exchange Alternative by the Closing Date, which together with the CCT Tech Shares already held by the Offeror and parties acting in concert with it before or during the Offers will result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights of CCT Tech, the Offers cannot become unconditional and the Offers will lapse unless they are revised or extended. The Offeror reserves the right to revise or extend the Offers as permitted under the Takeovers Code. Any revised offers or extension of the Offers are subject to the provisions as stated in Rule 16 of the Takeovers Code. If in the course of the Offers, the Offeror revises its terms, all CCT Tech Shareholders (other than the Offeror and parties acting in concert with it), New Capital (either as holder of the CCT Tech 2005 CN or as the CCT Tech Shareholder if New Capital converts the CCT Tech 2005 CN into the CCT Tech Shares), and the CCT Tech Optionholders, whether or not they have already accepted the Offers, will be entitled to the revised terms. A revised offer must be open for at least 14 days following the date on which the revised offer document is posted.

V. LAPSE OF THE OFFERS

According to Rule 5 of the Takeovers Code, except with the consent of the Executive and subject to the notes to Rule 5 of the Takeovers Code, the Offeror must proceed with the Offers unless the Offers are subject to the fulfilment of a specific condition and that condition has not been met. Except with the consent of the Executive, all Conditions must be fulfilled or, in respect of Conditions (b) and (c) only, waived by the Offeror in its sole discretion, otherwise, subject to full compliance with the Takeovers Code, in particular, Note 2 of Rule 30.1, the Offers must lapse within 21 days of the First Closing Date or of the date of the Offers becoming or are declared unconditional as to acceptances, whichever is the later, unless extended by the Offeror with the consent of the Executive. In that case, the Offeror will issue a press announcement as soon as practicable thereafter. In addition, under the Takeovers Code, the latest date on which the Offeror can declare the Offers unconditional in all respects as to acceptances is 60 days after the date of the posting of the Composite Offer Document i.e. Monday, 30 May 2005.

VI. STAMP DUTY

Seller's ad valorem stamp duty for the CCT Tech Shares registered on the Hong Kong branch share register arising in connection with acceptance of the Cash Offer with Securities Exchange Alternative will be payable by the CCT Tech Shareholders, at the rate of HK$1.00 for every HK$1,000 or part thereof of the consideration payable by the Offeror for such person's CCT Tech Shares and will be deducted from the cash amount due to such person under the Cash Offer with Securities Exchange Alternative. If the CCT Tech Shareholders elect to receive the Convertible

Bonds and in the case of the CCT Tech 2005 CN, both the seller's and buyer's ad valorem stamp duty in respect of the relevant acceptance will be borne by CCT Telecom. No stamp duty is payable on the acceptance of the Option Offer.

VII. INFORMATION ON CCT TECH

CCT Tech is an indirect non wholly-owned subsidiary of CCT Telecom which held, as at the Latest Practicable Date, a beneficial interest of approximately 34.51% in CCT Tech. As at the Latest Practicable Date, the executive directors of CCT Tech were Mr. Mak Shiu Tong, Clement, Mr. Tam Ngai Hung, Terry, Ms. Cheng Yuk Ching, Flora, Mr. Tong Chi Hoi and Dr. William Donald Putt, with the exception of Mr. Tong Chi Hoi, all of whom were also executive directors of CCT Telecom. Mr. Mak Shiu Tong, Clement is the Chairman of both CCT Tech and CCT Telecom.

In June 2003, the CCT Tech Group acquired the telecom product design and manufacturing business from its ultimate holding company, CCT Telecom, through the acquisition of Empire Success Holdings Limited and its subsidiaries. In September 2004, CCT Tech disposed of its power supply components business and an unused industrial property to CCT Telecom. After completion of these restructuring transactions, the CCT Tech Group realigned to focus on its operations in ODM and OEM business in telecom products.

The CCT Tech Group is principally engaged in the sale, manufacture, design and development of telecom products and electronic products on an ODM and OEM basis. The audited consolidated net assets of CCT Tech as at 31 December 2002 and 31 December 2003 amounted to approximately HK$46 million and HK$142 million respectively, or approximately HK$0.0043 and HK$0.011 per CCT Tech Share respectively. The audited consolidated turnover of CCT Tech for each of the financial period ended 30 September 2001, 31 December 2002 and 31 December 2003 amounted to approximately HK$84 million, HK$106 million and HK$1,926 million respectively. The audited consolidated net profit/(net loss) before taxation of CCT Tech for each of the financial period ended 30 September 2001, 31 December 2002 and 31 December 2003 amounted to approximately HK$(45) million, HK$100 million and HK$82 million respectively. The audited consolidated net profit/(net loss) after taxation and minority interests of CCT Tech for each of the financial period ended 30 September 2001, 31 December 2002 and 31 December 2003 amounted to approximately HK$(45) million, HK$98 million and HK$73 million respectively. The unaudited consolidated turnover and net profit before taxation and after taxation of CCT Tech for the six months ended 30 June 2004 amounted to approximately HK$1,783 million, HK$64 million and HK$57 million respectively. The unaudited consolidated net assets of CCT Tech as at 30 June 2004 amounted to HK$211 million or approximately HK$0.015 per CCT Tech Share.

VIII. SHAREHOLDING STRUCTURE OF CCT TECH AND SUBSTANTIAL SHAREHOLDERS OF CCT TECH AS AT THE LATEST PRACTICABLE DATE AS RECORDED IN THE REGISTER REQUIRED TO BE KEPT BY CCT TECH UNDER SECTION 336 OF THE SFO

	Number of the CCT Tech Shares	**%**
CCT Telecom *(Note 1)*	5,500,000,000	34.51
Kwong Cheong Trading Limited *(Note 2)*	2,000,000,000	12.55
Public shareholders	8,438,422,562	52.94
Total	**15,938,422,562**	**100.00**

Note 1: The 5,500,000,000 CCT Tech Shares comprise 1,800,000,000 CCT Tech Shares held by Jade Assets Company Limited, 1,350,000,000 CCT Tech Shares held by CCT Assets Management Limited, 1,350,000,000 CCT Tech Shares held by Expert Success International Limited and 1,000,000,000 CCT Tech Shares held by Noble Team Investments Limited, all of them are indirect wholly-owned subsidiaries of CCT Telecom.

Note 2: Other than its holding of a 12.55% interest in CCT Tech, Kwong Cheong Trading Limited is independent of, and not connected or acting in concert with CCT Telecom, its directors, chief executive, substantial shareholders and their respective associates.

IX. INFORMATION ON THE OFFEROR AND CCT TELECOM

The Offeror is a company incorporated in the British Virgin Islands on 4 January 2000 and is an indirect wholly-owned subsidiary of CCT Telecom. As at the Latest Practicable Date, the directors of the Offeror were Mr. Mak Shiu Tong, Clement and Ms. Cheng Yuk Ching, Flora, both were also executive directors of CCT Telecom. The main business of the Offeror is investment holding. CCT Telecom was incorporated in the Cayman Islands, whose shares are listed on the main board of the Stock Exchange. The CCT Telecom Group's principal activities can be broadly categorised into (i) manufacture, sale, design and development of telecom products and electronic products through the CCT Tech Group; (ii) manufacture of power supply components; and (iii) manufacture and sale of plastic components and baby and health care products. As at the Latest Practicable Date, according to the register kept by CCT Telecom under Section 336 of the SFO, companies controlled by Mr. Mak Shiu Tong, Clement were the substantial shareholders of CCT Telecom and were beneficially interested in 86,261,941 CCT Telecom Shares, representing approximately 20.42% of the existing issued share capital of CCT Telecom.

Based on the latest published audited financial statements of CCT Telecom, the audited consolidated net (loss) before taxation and net (loss) after taxation and minority interests of CCT Telecom were approximately HK$(59) million and approximately HK$(118) million respectively for the financial year ended 31 December 2003. Based on the published unaudited financial statements of CCT Telecom for the six months ended 30 June 2004, the unaudited consolidated net profit before taxation and the net profit after taxation and minority interests of CCT Telecom were approximately HK$101 million and approximately HK$56 million respectively for the six months ended 30 June 2004. Basic earnings/(loss) per CCT Telecom Share was approximately HK$(0.28) and HK$0.133 for the year ended 31 December 2003 and for the six months ended 30 June 2004 respectively. The audited consolidated net asset of the CCT Telecom Group as at 31 December 2003 was approximately HK$2,295 million, and the unaudited net asset of the CCT Telecom Group as at 30 June 2004 was approximately HK$2,303 million or approximately HK$5.44 and HK$5.46 per CCT Telecom Share respectively. The audited consolidated net (loss) before taxation and the consolidated net (loss) after taxation and minority interest of CCT Telecom were approximately HK$(256) million and approximately HK$(259) million respectively for the financial year ended 31 December 2002. Basic (loss) per CCT Telecom Share was approximately HK$(0.61) for the year ended 31 December 2002. The audited consolidated net assets of the CCT Telecom Group as at 31 December 2002 was approximately HK$2,427 million.

As at the Latest Practicable Date, CCT Telecom had outstanding CCT Telecom Options convertible into 41,780,000 CCT Telecom Shares. The details of the holders of the CCT Telecom Options are as follows:

Holders of the CCT Telecom Options	Number of the CCT Telecom Options held	Exercise period
Executive directors of CCT Telecom		
Mak Shiu Tong, Clement	420,000	17.3.2003–16.3.2008
Tam Ngai Hung, Terry	4,200,000	17.3.2003–16.3.2008
Cheng Yuk Ching, Flora	4,200,000	17.3.2003–16.3.2008
William Donald Putt	420,000	17.3.2003–16.3.2008
Independent non-executive directors of CCT Telecom		
Samuel Olenick	420,000	17.3.2003–16.3.2008
Tam King Ching, Kenny	420,000	17.3.2003–16.3.2008
Lau Ho Man, Edward	420,000	17.3.2003–16.3.2008
Executive directors of CCT Tech		
Tong Chi Hoi	1,000,000	17.3.2003–16.3.2008
Other qualified participants *(Note)*	30,280,000	17.3.2003–16.3.2008
Total	41,780,000	

Note: They are employees of CCT Telecom or directors of an associated company of CCT Telecom, who are independent of, and not connected with the directors, chief executive or substantial shareholders of CCT Telecom or its subsidiaries or any of their respective associates.

Neither the Offeror nor parties acting in concert with it has dealt in the CCT Tech Shares in the six-month period prior to the date of the Announcement and ended on the Latest Practicable Date.

Assuming New Capital and all the CCT Tech Independent Shareholders accept the Cash Offer with Securities Exchange Alternative and take the Convertible Bonds instead of cash and none of the CCT Tech Optionholders exercises the CCT Tech Options and accept the Cash Offer with Securities Exchange Alternative to opt for the Convertible Bonds, the Convertible Bonds in the principal amount of HK$343,583,718.93 will be issued. A total of 271,178,941 new CCT Telecom Shares will be issued upon conversion of all Convertible Bonds in the principal amount of HK$343,583,718.93 at the conversion price of HK$1.267 per CCT Telecom Share, representing approximately 39.09% of the enlarged share capital of CCT Telecom or approximately 64.18% of the existing share capital of CCT Telecom. The shareholding structure of CCT Telecom, both before and after completion of the Offers, assuming full acceptance of the Cash Offer with Securities Exchange Alternative electing for the Convertible Bonds, no exercise of the CCT Tech Options for acceptance of the Cash Offer with Securities Exchange Alternative to exchange into the Convertible Bonds and the exercise of CCT Telecom Options in full is as follows:

	Existing Shareholding		**Upon full conversion of the Convertible Bonds and the exercise of the CCT Telecom Options in full**	
	Number of the CCT Telecom Shares	**%**	**Number of the CCT Telecom Shares**	**%**
Shareholdings of directors of CCT Telecom and CCT Tech				
Mak Shiu Tong, Clement	—	—	420,000	0.06
Companies controlled by Mr. Mak and his family members:				
— Capital Force International Limited	56,850,093	13.46	56,850,093	7.73
— Capital Interest Limited	29,411,848	6.96	29,411,848	4.00
— New Capital *(Note)*	—	—	81,689,029	11.10
Subtotal for interests of Mr. Mak	**86,261,941**	**20.42**	**168,370,970**	**22.89**
Cheng Yuk Ching, Flora	9,996,713	2.37	14,196,713	1.93
Tam Ngai Hung, Terry	—	—	4,200,000	0.57
William Donald Putt	171,500	0.04	591,500	0.08
Samuel Olenick	125,000	0.03	545,000	0.07
Tam King Ching, Kenny	—	—	420,000	0.06
Lau Ho Man, Edward	—	—	420,000	0.06
Tong Chi Hoi (an executive director of CCT Tech)	282,000	0.07	1,282,000	0.17
Public	325,688,076	77.07	545,457,988	74.17
Total	**422,525,230**	**100.00**	**735,484,171**	**100.00**

Note: New Capital has provided an undertaking to accept the Cash Offer with Securities Exchange Alternative in the form of the Convertible Bonds and 81,689,029 CCT Telecom Shares will be issued upon conversion of such Convertible Bonds at the initial conversion price of HK$1.267.

X. INTENTION OF THE DIRECTORS AND THE MAJOR SHAREHOLDERS OF CCT TECH

Save for the irrevocable undertaking to accept the Cash Offer with Securities Exchange Alternative by New Capital as described in section headed "The CCT Tech 2005 CN" above, none of the CCT Tech Directors holding in aggregate 366,000,000 CCT Tech Options, representing 366,000,000 new CCT Tech Shares or approximately 2.30% of the existing issued share capital of CCT Tech upon the exercise of the CCT Tech Options in full, have given any undertakings to accept or not to accept the Cash Offer with Securities Exchange Alternative or the Option Offer and none of the major shareholders of CCT Tech have given any undertakings to accept or not to accept the Cash Offer with Securities Exchange Alternative up to the Latest Practicable Date. The CCT Tech Directors, who hold in aggregate 366,000,000 CCT Tech Options, have indicated that they will accept the Option Offer. Apart from the CCT Tech 2005 CN, which is held by New Capital (a company owned by Mr. Mak Shiu Tong, Clement and his family members), and the CCT Tech Options, as at the Latest Practicable Date, none of the CCT Tech Directors held any CCT Tech Shares and other securities of CCT Tech.

XI. OFFEROR'S INTENTION IN RELATION TO THE CCT TECH GROUP

Reasons for the Offers

The manufacture and sale of telecom and electronic products on an OEM and ODM basis has been the core business of the CCT Tech Group and therefore is also a major core business of the CCT Telecom Group which includes the CCT Tech Group. The CCT Telecom Directors are of the view that the prospects of the CCT Tech Group is promising as evidenced by the continuing trend of growth in terms of both turnover and operating profit of the telecom products business. Although CCT Tech is a major subsidiary of the CCT Telecom Group, CCT Telecom only holds an approximately 34.51% interest in CCT Tech which has resulted in a situation that CCT Telecom can only share approximately 34.51% of the consolidated profits of CCT Tech. Therefore, the CCT Telecom Directors have decided to make the Offers with an intention to increase its shareholding in CCT Tech to at least above 50%.

Also, if the Offers are successful, the shareholding structure of CCT Tech will be simplified. CCT Telecom will hold a controlling interest in CCT Tech and will therefore increase its share of the profits of the CCT Tech Group.

The CCT Tech 2005 CN is currently held by New Capital, a corporation wholly owned by Mr. Mak Shiu Tong, Clement and his family members. The full conversion of the CCT Tech 2005 CN would result in the issue of 4,500,000,000 CCT Tech Shares, representing a substantial percentage of approximately 22.02% of the issued share capital of CCT Tech as enlarged thereby. Therefore, the Cash Offer with Securities Exchange Alternative is also made to the holder of the CCT Tech 2005 CN in order for CCT Telecom to gain a controlling shareholding in CCT Tech and simplify the shareholding structure of CCT Tech.

The possible conversion of the CCT Tech 2005 CN in full after the Offers become unconditional will reduce the liability of CCT Tech and increase its capital base. This will benefit CCT Tech and indirectly benefit CCT Telecom.

If CCT Telecom can privatise CCT Tech through the Offers, the CCT Tech Group will become wholly owned subsidiaries of CCT Telecom. Under such situation, CCT Telecom can share the entire net profit of CCT Tech, and the connected transactions between the CCT Telecom Remaining Group and the CCT Tech Group will be eliminated. Furthermore, the administration costs for the CCT Tech Group as an unlisted group will be reduced significantly.

Appointment of Directors

The Offeror does not intend to make any changes to the current board composition of CCT Tech.

Intention of the Offeror regarding CCT Tech

The Offeror and CCT Telecom will not make any changes to the current business operations of CCT Tech. The Offeror and CCT Telecom do not intend to introduce any major changes to the business, including any redeployment of the fixed assets of the CCT Tech Group. The Offeror and CCT Telecom also will not make any major changes to the continued employment of the management and employees of the CCT Tech Group following the Offers.

The Offeror and CCT Telecom intend to effect the compulsory acquisition of CCT Tech in the event that the Offeror is permitted to do so under the Companies Act and the Takeovers Code, and to apply for the delisting of CCT Tech.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatise CCT Tech by means of the Offers and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirements imposed by the Companies Act, acceptance of the Offers and purchases (in each case of the disinterested shares) made by the Offeror and persons acting in concert with it during the period of four months after posting the Composite Offer Document total 90% of the disinterested shares.

The CCT Telecom Directors and the Offeror will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that public float exists in the CCT Tech Shares if listing is to be maintained.

The Stock Exchange has stated that if, upon the close of the Offers, less than 25% of the CCT Tech Shares are held by the public or if the Stock Exchange believes that:

- **a false market exists or may exist in the trading of the CCT Tech Shares; or**
- **there are insufficient CCT Tech Shares in public hands to maintain an orderly market,**

then it will consider exercising its discretion to suspend trading in the CCT Tech Shares until a level of sufficient public float is attained.

So long as CCT Tech remains a listed company, the Stock Exchange will also closely monitor all future acquisitions or disposals of assets of CCT Tech. Any acquisitions or disposals of assets by the CCT Tech Group will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require CCT Tech to issue an announcement and a circular to the CCT Tech Shareholders irrespective of the

size of any proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of CCT Tech. The Stock Exchange also has the power to aggregate a series of acquisitions or disposals of CCT Tech and any such transactions may result in CCT Tech being treated as if it were a new listing applicant and subject to the requirements for new listing applicants as set out in the Listing Rules.

Availability of the Offers

The Composite Offer Document will be sent to the CCT Tech Shareholders, the holder of the CCT Tech 2005 CN and the CCT Tech Optionholders, including those with a registered address outside Hong Kong. However, the availability of the Offers to persons not resident in Hong Kong may be affected by the applicable laws of the relevant jurisdictions. Persons who are not resident in Hong Kong should inform themselves about and observe any applicable requirements in their own jurisdictions.

XII. TAXATION

The CCT Tech Shareholders, the holder of the CCT Tech 2005 CN and/or the CCT Tech Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their accepting the Offers. None of CCT Telecom, the Offeror, DBS Asia nor any of their respective directors nor any persons involved in the Offers accepts responsibility for any taxation effects or liabilities of any person or persons as a result of their acceptance of the Offers.

XIII. MAJOR AND CONNECTED TRANSACTION

As the Offers constitute a major transaction for CCT Telecom under the Listing Rules, the Offers are subject to the approval of the CCT Telecom Shareholders at the EGM. The Offeror and parties acting in concert with it will abstain from voting. The possible issue of the Convertible Bonds under the Cash Offer with Securities Exchange Alternative to connected persons and their associates, constitutes a connected transaction for CCT Telecom. The connected persons in this respect are namely Mr. Mak Shiu Tong, Clement, Mr. Tam Ngai Hung, Terry and Ms. Cheng Yuk Ching, Flora. An Independent Board Committee has been formed to advise the CCT Telecom Independent Shareholders in respect of the Offers and the Connected Transaction and VC Capital has been appointed to advise the Independent Board Committee and the CCT Telecom Independent Shareholders whether the terms of the Offers and the Connected Transaction are fair and reasonable. The connected persons of CCT Telecom who are entitled to receive the Convertible Bonds in the Offers will also abstain from voting.

As New Capital, a company wholly owned by Mr. Mak Shiu Tong, Clement, the Chairman and an executive director of both CCT Telecom and CCT Tech, and his family members, is the registered holder of the CCT Tech 2005 CN, VC Capital has also been appointed to advise the Board pursuant to Rule 2.4 of the Takeovers Code as to whether the making of the Offers is in the interest of CCT Telecom Shareholders.

XIV. GENERAL

The Offers are made on an arm's length basis and the Directors believe that the terms of the Offers are in the interests of CCT Telecom, the CCT Telecom Shareholders and the CCT Tech Shareholders as a whole.

An application will be made to the Stock Exchange for the granting of the listing of, and permission to deal in, the new CCT Telecom Shares to be issued under the Convertible Bonds in respect of the Offers.

All documents and cheques sent to the CCT Tech Shareholders, the holder of the CCT Tech 2005 CN and the CCT Tech Optionholders (other than the Offeror and parties acting in concert with it (other than New Capital)) by post will be sent to them at their own risk. Such documents and remittances will be sent to the CCT Tech Shareholders, the holder of the CCT Tech 2005 CN and the CCT Tech Optionholders at their respective addresses as they appear in the register of members of CCT Tech or the register of the holder(s) of the CCT Tech 2005 CN or the CCT Tech Options (as the case may be) or, in the case of joint shareholder of CCT Tech, to the shareholder whose name appears first in the register of members of CCT Tech, as applicable. None of CCT Telecom, the Offeror, DBS Asia nor any of their respective directors or any other person involved in the Offers will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

XV. EGM

The notice convening the EGM to be held at 32/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong on Monday, 18 April 2005 at 10:00 a.m. is set out on pages 216 to 217 of this circular. A form of proxy for use by the CCT Telecom Independent Shareholders at the EGM is enclosed herein. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Registrar, as soon as practicable but in any event, not less than 48 hours before the time appointed for holding the EGM. Such form of proxy for use at the EGM 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 EGM in person should you so wish.

Pursuant to article 69 of the articles of association of CCT Telecom, 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 or 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 CCT Telecom Shares conferring a right to attend and vote at the general meeting being CCT Telecom 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 CCT Telecom Shares conferring that right.

The votes of the Shareholders at the EGM will be taken by way of a poll.

XVI. RECOMMENDATION

Your attention is drawn to the respective letters from the Independent Board Committee and VC Capital. The letter from the Independent Board Committee is set out on pages 28 and 29 which contains its recommendation to the CCT Telecom Independent Shareholders in respect of the Offers and the Connected Transaction. The letter from VC Capital is set out on pages 30 to 48, which contains its advice to the Board and the Independent Board Committee and the CCT Telecom Independent Shareholders in respect of the Offers and Connected Transaction and the principal factors it has considered in forming its advice. The CCT Telecom Independent Shareholders are recommended to read this circular and information set out in the appendices to this circular.

XVII. FURTHER INFORMATION

Your attention is drawn to the further information as set out in the appendices, which form part of this circular.

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

CCT TELECOM HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

The Independent Board Committee:
Tam King Ching, Kenny
Lau Ho Man, Edward
Samuel Olenick

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

31 March 2005

To the CCT Telecom Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

in respect of
Voluntary Conditional Cash Offer with Securities Exchange Alternative by

DBS

DBS Asia Capital Limited

on behalf of Jade Assets Company Limited, a wholly-owned subsidiary of CCT Telecom Holdings Limited, to acquire all the issued shares and the convertible notes due 2005 of

CCT TECH INTERNATIONAL LIMITED

(other than those already owned by the Offeror and parties acting in concert with it (other than New Capital Industrial Limited)) and
Voluntary Conditional Cash Offer to cancel all outstanding options of

CCT TECH INTERNATIONAL LIMITED

(other than those already owned by the Offeror and parties acting in concert with it)

We refer to the circular issued by CCT Telecom Holdings Limited to its shareholders dated 31 March 2005 (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to form the Independent Board Committee to consider the terms of the Offers and the Connected Transaction and to make recommendations to the CCT Telecom Independent Shareholders in connection with the Offers and the Connected Transaction.

We have considered whether: (i) the Offers are fair and reasonable so far as the CCT Telecom Independent Shareholders are concerned; and (ii) the terms of the Connected Transaction are fair and reasonable so far as the CCT Telecom Independent Shareholders are concerned. VC Capital has been appointed as the independent financial adviser to advise us in respect of the above.

We wish to draw your attention to the letter from the Board and the letter from VC Capital as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of VC Capital as set out in its letter of advice, we consider that the terms of the Offers and the Connected Transaction are fair and reasonable so far as the CCT Telecom Independent Shareholders are concerned. Accordingly, we recommend the CCT Telecom Independent Shareholders to vote in favour of the resolution to approve the making of the Offers and the Connected Transaction to be proposed at the EGM.

Yours faithfully,
The Independent Board Committee of
CCT TELECOM HOLDINGS LIMITED

Tam King Ching, Kenny	**Lau Ho Man, Edward**	**Samuel Olenick**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of the letter from VC Capital dated 31 March 2005 setting out its advice to the Board, the Independent Board Committee and the CCT Telecom Independent Shareholders.



VC CAPITAL LIMITED (A Member of Melco Group)
滙盈融資有限公司 (新濠集團成員)

31 March 2005

The Board, the Independent Board Committee and the CCT Telecom Independent Shareholders
32/F., China Merchants Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Dear Sirs,

Major and connected transaction

Voluntary conditional cash offer with securities exchange alternative by DBS Asia Capital Limited on behalf of Jade Assets Company Limited, a wholly-owned subsidiary of CCT Telecom Holdings Limited, to acquire all the issued shares and the convertible notes due 2005 of CCT Tech International Limited (other than those already owned by the Offeror and parties acting in concert with it (other than New Capital Industrial Limited)) and voluntary conditional cash offer to cancel all outstanding options of CCT Tech International Limited (other than those already owned by the Offeror or parties acting in concert with it)

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Board, the independent board committee of CCT Telecom (the "Independent Board Committee") and the CCT Telecom Independent Shareholders in connection with the Offers, details of which are contained in the circular dated 31 March 2005 to be despatched to the CCT Telecom Shareholders (the "Circular"), which will set out, inter alia, terms of the Offers. Terms used in this letter shall have the same meaning as defined in the Circular unless the context requires otherwise.

As stated in the Circular, New Capital, a company wholly owned by Mr. Mak Shiu Tong, Clement ("Mr. Mak"), the chairman and an executive director of both CCT Telecom and CCT Tech, and his family members, is the registered holder of the CCT Tech 2005 CN, there is a conflict of interest being faced by the Board in making the Offers. In accordance with Rule 2.4 of the Takeovers Code, the Independent Board Committee must obtain advice from an independent financial adviser, being VC Capital in this case, before announcing the Offers to confirm that the Offers are in the interests of the shareholders of CCT Telecom. As such, we have provided our advice to the board of CCT Telecom that the making of the Offers is in the interest of the CCT

Telecom Shareholders and our written advice is set out herein. Rule 2.4 of the Takeovers Code also requires that the Offers be put to a shareholders' vote by the CCT Telecom Shareholders and the Offeror and parties acting concert with him will be required to abstain from voting.

Under the Listing Rules, the Offers constitute a major transaction for CCT Telecom and are subject to the approval of the CCT Telecom Shareholders at the EGM, in which the Offeror and parties acting in concert with it will abstain from voting. The possible issue of the Convertible Bonds under the Cash Offer with Securities Exchange Alternative to connected persons and their associates, as defined under the Listing Rules, constitutes a connected transaction. The connected persons in this respect are Mr. Mak, Mr. Tam Ngai Hung, Terry and Ms. Cheng Yuk Ching, Flora. In this regard, the Independent Board Committee comprising Mr. Tam King Ching, Kenny, Mr. Lau Ho Man, Edward and Mr. Samuel Olenick, has been formed to advise the CCT Telecom Independent Shareholders as to whether the terms of the Offers and the possible issue of the Convertible Bonds under the Cash Offer with Securities Exchange Alternative are fair and reasonable as far as the interests of the CCT Telecom Independent Shareholders are concerned. The connected persons of CCT Telecom who are entitled to receive the Convertible Bonds in the Offers will abstain from voting at the resolution approving the Offers.

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the directors of CCT Telecom (collectively "Documents"). We have assumed that all information and representations contained or referred to in the Documents and all information and representations which have been provided by CCT Telecom and the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were provided and continue to be so at the date hereof. We have also assumed that all statements of belief, opinion, expectations and intention made by the directors of CCT Telecom in the Documents and to us were reasonably made after due enquiry and careful consideration. We have also sought and received confirmation from the directors CCT Telecom that there are no other facts or representations the omission of which would make any statement in the Documents misleading. We have no reason to suspect that any material facts or information have been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Documents, or the reasonableness of the opinions expressed by CCT Telecom, its financial adviser and/or the directors of CCT Telecom, which have been provided to us. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information nor have we conducted any form of in-depth investigation into the business and affairs of CCT Telecom, its subsidiaries or any of their associates.

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion, we have considered the following principal factors and reasons:

Reasons for the Offers

Acquisition of additional equity interest in a profit making subsidiary

The CCT Telecom Group is principally engaged in: (i) the manufacture, sale, design and development of telecom and electronic products through the CCT Tech Group; (ii) the manufacture of power supply components; and (iii) the manufacture and sale of plastic products and baby and health care products. As stated in the Announcement, the manufacture and sale of telecom products and accessories has been significant core business of the CCT Tech Group as well as a major core

business of the CCT Telecom Group. The directors of CCT Telecom are of the view that the prospect of CCT Tech Group is promising as evidenced by the continuing trend of growth in terms of both turnover and operating profits of the telecom products business. Although CCT Tech is a major subsidiary of CCT Telecom, yet CCT Telecom only holds approximately 34.51% interest in CCT Tech. This has resulted in a situation that CCT Telecom can only share approximately 34.51% of the consolidated profit of the CCT Tech Group and as such, CCT Telecom decided to propose the Cash Offer with Securities Exchange Alternative with an intention to increase its shareholding in CCT Tech to at least 50% so as to increase its share of profit and shareholding control of the CCT Tech Group.

We have reviewed the consolidated financial statements of both the CCT Telecom Group and the CCT Tech Group, a summary of which has been stated in the following table:

	CCT Tech Group			**CCT Telecom Group**		
	For the six months ended 30 June 2004	**2003**	**For the 15 months ended 31 December 2002**	**For the six months ended 30 June 2004**	**2003**	**2002**
	(unaudited)	*(audited)*	*(audited)*	*(unaudited)*	*(audited)*	*(audited)*
	HK$ million	*HK$ million (note 3)*	*HK$ million (note 1)*	*HK$ million (note 2)*	*HK$ million (note 2)*	*HK$ million (note 2)*
Turnover	1,782.64	1,926.26	106.39	1,880.00	3,441.00	3,130.00
Gross profit	163.54	216.51	18.22	254.00	478.00	434.00
Profit/(loss) from operating activities	91.59	111.38	(16.69)	104.00	149.00	(201.00)
Net gain attributable to group restructuring	—	—	119.47	—	—	—
Finance costs	(27.98)	(29.02)	(3.09)	(3.00)	(8.00)	(27.00)
Share of profits/(losses) of associates and jointly-controlled entities	—	—	—	—	(200.00)	(28.00)
Tax	(6.75)	(9.67)	(1.00)	(7.00)	(12.00)	(9.00)
Minority interests	—	0.048	(0.53)	(38.00)	(47.00)	6.00
Net profit/(loss) attributable to shareholders	56.86	72.74	98.16	56.00	(118.00)	(259.00)

Notes:

(1) CCT Tech changed its year-end date from 30 September to 31 December.

(2) CCT Telecom became a controlling shareholder of CCT Tech in May 2002 and since then, the results of the CCT Tech Group are accounted for as subsidiaries of CCT Telecom by virtue of CCT Telecom's control over it.

(3) CCT Tech acquired from CCT Telecom the entire interest of telecom products business in 2003. The acquisition was completed on 30 June 2003. As such the consolidated results of CCT Tech Group in 2003 included the results of the telecom products business for the six months ended 31 December 2003.

In May 2002, CCT Tech completed a group restructuring exercise which involved, inter alias, restructuring of debts, transfers and disposals of businesses and injection of new capital and business from CCT Telecom and introduction of CCT Telecom as a controlling shareholder which held the then approximately 41.52% equity interests in CCT Tech. After such group restructuring, the CCT Tech Group was principally engaged in the manufacture of power supply components business. As

shown in the above table, for the 15 months ended 31 December 2002, the CCT Tech Group recorded a turnover of HK$106.39 million and a loss from operating activities of HK$16.69 million. Taking into account the restructuring gain of approximately HK$119.47 million, the CCT Tech Group recorded a profit attributable to shareholders of approximately HK$98.16 million. In June 2003, CCT Telecom further injected the telecom product business into the CCT Tech Group. As a result, the turnover and profitability of the CCT Tech Group improved tremendously. For the year ended 31 December 2003, the CCT Tech Group recorded a turnover and profit from operating activities of approximately HK$1,926.26 million and HK$111.38 million, respectively. For the six months ended 30 June 2004, the CCT Tech Group recorded a turnover and profit from operating activities of approximately HK$1,782.64 million and HK$91.59 million respectively, representing approximately 92.54% and 82.23% of the corresponding figures for the whole financial year ended 31 December 2003.

Since the acquisition of a controlling stake in CCT Tech in May 2002, the results and assets and liabilities of the CCT Tech Group were consolidated as subsidiary in the consolidated accounts of CCT Telecom. As mentioned above, in the course of group restructuring of the CCT Tech Group in May 2002, CCT Telecom injected the manufacture of power supply components business into the CCT Tech Group. In June 2003, CCT Telecom further injected the cordless telecom product business into the CCT Tech Group. Since the CCT Tech Group is a member of the CCT Telecom Group, after such injections, the cordless telecom product business continued to be a core business of the CCT Telecom Group. Due to the sharing of losses of associates of approximately HK$200 million, principally from Haier Electronics Group Co., Ltd. (formerly known as Haier-CCT Holdings Limited), the shares in which are also listed on the main board of the Stock Exchange, the CCT Telecom Group, notwithstanding the profit contribution from the CCT Tech Group, recorded a loss attributable to shareholders of approximately HK$118.00 million for the year ended 31 December 2003.

For the six months ended 30 June 2004, the CCT Telecom Group recorded a turnover of approximately HK$1,880 million, approximately 94.82% of which was contributed from the turnover of the CCT Tech Group. The CCT Tech Group reported a net profit of HK$56.86 million for the six months ended 30 June 2004. However, since CCT Telecom holds approximately 34.51% equity interests in CCT Tech, it could only share 34.51% of the profits of the CCT Tech Group with approximately 65.49% of the profits of the CCT Tech Group being attributable to the minority interest of the CCT Tech Group. Adding the share of profits from the CCT Tech Group to the profit contributions from the CCT Telecom Remaining Group, CCT Telecom recorded a consolidated profit attributable to shareholders of approximately HK$56.00 million for the six months ended 30 June 2004. If CCT Telecom acquires additional interest in CCT Tech, it will share additional profits from the CCT Tech Group.

As disclosed in the interim report of CCT Tech 2004, the CCT Tech Group is a cordless phone manufacturer for a number of internationally renowned brands such as GE and Alcatel on ODM and OEM bases. The directors of CCT Telecom are of the opinion that, being an ODM and OEM manufacturer, the industry in which the CCT Tech Group is operating in is very competitive, in particular, in terms of competition between the customers of the CCT Tech Group and other distributors and between the CCT Tech Group and other ODM/OEM manufacturers. We are also of the view that being an ODM and OEM manufacturer, the business and profitability of the CCT Tech Group is subject to risks and uncertainties such as keen competition which may lead to price pressure from customers; fluctuations of raw material prices as a result of increasing commodities prices; and shortage of electricity and labour in the Guangdong Province in which of CCT Tech's factories are located. These factors may be beyond the control of the management of the CCT Tech Group and are dependent heavily whether the CCT Tech Group is able to cope with such challenges.

Therefore, it is uncertain whether the future profitability of the CCT Tech Group is sustainable. Despite the risks and uncertainties, according to interim report of CCT Tech Group for the six months ended 30 June 2004, the CCT Tech Group has managed to maintain satisfactory operating results for the six-month period ended 30 June 2004 through geographical expansion, product diversification and control of costs. It demonstrates the ability of the management of the CCT Tech Group in coping with the challenges. Given a proven profit track record of the CCT Tech Group, as reflected in the financial performance for the year ended 31 December 2003 and the six months ended 30 June 2004, it proves the success of the CCT Tech Group to survive in the industry and make profits to its shareholders. To this end, we consider that it is commercially sensible for CCT Telecom to acquire additional equity interest in CCT Tech for the purpose of improving its profitability and consolidating its shareholding control over the CCT Tech Group.

The Offers are also made to the holder of the CCT Tech 2005 CN which is currently held by New Capital, a corporation wholly owned by Mr. Mak and his family members. The full conversion of the CCT Tech 2005 CN would result in the issue of 4,500,000,000 CCT Tech Shares, representing a substantial shareholding interest of approximately 22.02% of the issued capital of CCT Tech as enlarged thereby. Therefore, the Cash Offer with Securities Exchange Alternative is also made to the holder of the CCT Tech 2005 CN in order for CCT Telecom to gain a controlling shareholding in and simplify the shareholding structure of CCT Tech. To this end, we consider reasonable for CCT Tech to acquire the CCT Tech 2005 CN pursuant to the Offers to gain a controlling shareholding in and simplify the shareholding structure of CCT Tech. We will further discuss whether the offer price for the CCT Tech Shares is in the interest of the CCT Telecom Shareholders in the section headed "Valuation of the CCT Tech 2005 CN" in this letter.

Principal terms of the Offers

Cash Offer with Securities Exchange Alternative

For every 80,000 CCT Tech Shares . . . . . HK$1,840 in cash, representing HK$0.023 per CCT Tech Share

or

Convertible Bond with the face value of HK$1,840, and in the same proportion for any greater number of the CCT Tech Shares

and

For every CCT Tech 2005 CN with a face value of HK$800. . . . . HK$1,840 in cash, representing HK$0.023 per CCT Tech Share

or

Convertible Bond with the face value of HK$1,840, and in the same proportion for any greater number of the CCT Tech 2005 CN

The CCT Tech Shareholders and the holder of the CCT Tech 2005 CN should be aware that the Cash Offer with Securities Exchange Alternative will be made on the basis of one Convertible Bond with a face value of HK$1,840 for every 80,000 CCT Tech Shares (representing one board lot of CCT Tech Shares being traded on the Stock Exchange) or for every CCT Tech 2005 CN with a face value of HK$800. No fraction of a cent will be payable. The amount of cash payable to the registered CCT Tech Shareholders who accept the Offers and opt for cash alternative will be rounded up to the nearest cent. Since no fraction of the Convertible Bonds will be issued under the Cash Offer with Securities Exchange Alternative, the CCT Tech Shareholders who hold less than 80,000 CCT Tech Shares can only accept the cash alternative under the Cash Offer with Securities Exchange Alternative. The CCT Tech Shareholders whose shareholdings in CCT Tech exceed a board lot of 80,000 CCT Tech Shares but are not a multiple of 80,000 CCT Tech Shares can only opt for the convertible Bonds in respect of that part of their shareholdings equal to 80,000 CCT Tech Share or a multiple of 80,000 CCT Tech Shares.

The Cash Offer with Securities Exchange Alternative of HK$1,840 in cash, or the Convertible Bonds with a face value of HK$1,840 for every 80,000 CCT Tech Shares or every CCT Tech 2005 CN with a face value of HK$800, has been determined by the Offeror with reference to the average closing price of the CCT Tech Share of HK$0.023 as quoted on the Stock Exchange for the last thirty days up to and including the Last Trading Day.

Valuation of the CCT Tech 2005 CN

The CCT Tech 2005 CN was originally issued at a face value of HK$45 million to, Emporium International Limited, a member of the CCT Telecom Group in the course of group restructuring exercise of the CCT Tech Group in 2002 as discussed in the previous paragraphs headed "Reasons of the Offers" in this letter, with a conversion price of HK$0.01 per CCT Tech Share and due on 17 May 2005. In view of the fact that the CCT Tech 2005 CN does not carry any interest and for the purpose of using the sale proceeds to pay special dividends to its then shareholders, in April 2004, CCT Telecom disposed of the CCT Tech 2005 CN to New Capital, a company controlled by Mr. Mak and his family members, at its face value, details of which have been stated in the circular of CCT Telecom dated 26 March 2004. Since the conversion price of the CCT Tech 2005 CN is HK$0.01 per CCT Tech Share, the maximum number of CCT Tech Shares to be converted into is 4,500,000,000 CCT Tech Shares. Pursuant to the terms of the Cash Offer with Securities Exchange Alternative that every 80,000 CCT Tech Shares are offered for HK$1,840 in cash or the Convertible Bonds with a face value of HK$1,840, every CCT Tech 2005 CN with a face value of HK$800, which could be converted into 80,000 CCT Tech Shares, will be offered for HK$1,840 in cash or the Convertible Bonds with a face value of HK$1,840.

Given that the terms of the CCT Tech 2005 CN allows its holder to convert the CCT Tech 2005 CN into CCT Tech Shares any time prior to its maturity date, the CCT Tech 2005 CN should be valued based on the value of its underlying CCT Tech Shares rather than its face value because the CCT Tech Shares are traded at a price higher than the conversion price of HK$0.01. In the section headed "Total consideration of the Offers" in the letter from the Board, the value of the CCT Tech 2005 CN is equal to the amount of HK$103,500,000, calculated by multiplying the 4,500,000,000 underlying CCT Tech Shares at the offer price of HK$0.023. The offer price is in turn determined with reference to the market price of the CCT Tech Shares and is considered to be fair and reasonable as explained in the sub-section headed "Assessment of the offer price" in this letter. As the CCT Tech 2005 CN is valued with reference to the underlying CCT Tech Shares at the offer price and the same terms of the Offers are offered to both the CCT Tech Independent Shareholders and the holder of the CCT Tech 2005 CN, we are of the opinion the value of the CCT Tech 2005 CN amounting to HK$103,500,000 is fairly valued.

New Capital has undertaken to accept the Offers and opt for the Convertible Bonds upon acceptance of the Offers.

Valuation of the Convertible Bonds

Pursuant to the Cash Offer with Securities Exchange Alternative, the accepting CCT Tech Shareholders are entitled to opt for the Convertible Bonds with a face value of HK$1,840, for every 80,000 CCT Tech Shares or every CCT Tech 2005 CN with a face value of HK$800 held. The terms of the Convertible Bonds have been stated in the section headed "Convertible Bonds" in the letter from the Board. Having said that the face value of the Convertible Bonds of HK$1,840 is equivalent to the valuation of 80,000 CCT Tech Shares at the offer price of HK$0.023 each or the valuation of every CCT Tech 2005 CN with a face value of HK$800 as mentioned in the above paragraph headed "Valuation of the CCT Tech 2005 CN", some terms of the Convertible Bonds such as the right of early repayment by CCT Telecom, non-interest bearing nature of the Convertible Bonds and the right of early conversion may make the valuation of the Convertible Bonds differ from its face value.

In this regard, Grant Sherman is engaged to value the Convertible Bonds and its valuation report is contained in Appendix IIC to this circular. Grant Sherman has adopted the Black-Scholes Model to value the Convertible Bonds. **This model is developed to value an option given a number of assumptions such as the volatility of the underlying assets and the risk-free rate are constant and known, and is subject to arguments in the academic world for its applicability in valuating an option. CCT Telecom Shareholders are advised to study the valuation report as contained in Appendix IIC to this circular in details, in particular the assumptions made, for the valuation of the Convertible Bonds.** The valuation report prepared by Grant Sherman is based on certain assumptions including the three key parameters, being (a) interest rates (the "Interest Rate") at 9% per annum which is estimated based on the prime rate plus the credit spread on an unsecured loan, as indicated by one of the principal bankers of CCT Telecom, and taking into account the upward trend of the interest rate; (b) the share price of the CCT Telecom Shares (the "Share Price") at HK$1.27 which is the share price at the time of preparing the valuation report; (c) the time of exercise of the Convertible Bonds (the "Time of Exercise") in the fifth year after issue of the Convertible Bonds. These parameters used in the valuation report are referred to as the "Base Case". The value of a unit of the Convertible Bonds under the Base Case is HK$1,854.99, representing a premium of 0.81% over the unit face value of the Convertible Bonds. We have reviewed the basis and assumptions under the Base Case and found that many of those assumptions are made either in accordance with the terms of the Convertible Bonds, such as the early conversion rights by the holders of the Convertible Bonds; or based on historical and market data, such as amount and timing of dividends and the share price of the CCT Telecom Shares; or supported by a third party verification document, such as the indicative interest rate offered by one of the principal bankers of CCT Telecom for a long term unsecured loan being granted to CCT Telecom which we consider reasonable by virtue of that (i) such indication is offered by one of the principal bankers which has more than 5 years banking relationship with the CCT Telecom Group and should be familiar with the creditability of the CCT Telecom Group and (ii) the increasing trend of the interest rate in Hong Kong; or on a prudent basis, such as the issuer will repay the outstanding Convertible Bonds at maturity. Therefore, we consider that the assumptions made in the calculation of the valuation of the Convertible Bonds are fairly and reasonably made.

Sensitivity analysis has been performed on each parameter while keeping the other parameters unchanged from the Base Case.

Assuming the Interest Rate increased or decreased by 1% per annum from the current assumed level of 9% per annum under the Base Case, the unit value of the Convertible Bonds compared with a unit face value of the Convertible Bonds represented a discount of 2.09% and a premium of 3.88% respectively.

Assuming the Share Price increased or decreased by 10% from the current assumed share price of HK$1.27 under the Base Case, the unit value of the Convertible Bonds compared with a unit face value of the Convertible Bonds represented a premium of 8.21% and a discount of 6.15% respectively.

Assuming the Convertible Bonds were converted into CCT Telecom Shares in the first year and the fifth year from the date of issue of the Convertible Bonds, the unit value of the Convertible Bonds compared with the unit face value of the Convertible Bonds represented a premium of 7.14% and 0.81% respectively.

According to the sensitivity analysis, the unit value of the Convertible Bonds compared with the unit face value of the Convertible Bonds would be in the range of a premium of 8.21% to a discount of 6.15%. Therefore, CCT Telecom Shareholders should note that the valuation of the Convertible Bond will change by virtue of changes in one or more parameter(s) over its life and hence the value of the Offers will be varied. Basically, if the valuation of the Convertible Bond is lower, it will be more beneficial to CCT Telecom as the value of the Offers is lower, and the reverse is true.

As shown in the sub-section headed "Cash Offers with Securities Exchange Alternative" in the letter from the Board, the face value of the Convertible Bonds is determined with reference to the cash offer price and is also equal to the value of the underlying CCT Telecom Shares at the conversion price of HK$1.267. The conversion price of HK$1.267 is in turn determined with reference to the average closing price of the CCT Telecom Shares, as quoted on the Stock Exchange for the last thirty days up to and including the Last Trading Day. Based on the Base Case scenario, the value of the Convertible bonds calculated by Grant Sherman represents only a small premium to the face value of the Convertible Bonds and therefore, there is not much difference between the value of the Convertible Bonds and the cash offer price. As the cash offer price is considered to be fair and reasonable as explained in the sub-section headed "Assessment of the offer price" in this letter, we are therefore of the opinion that the value of the Convertible Bonds is determined on a fair and reasonable basis.

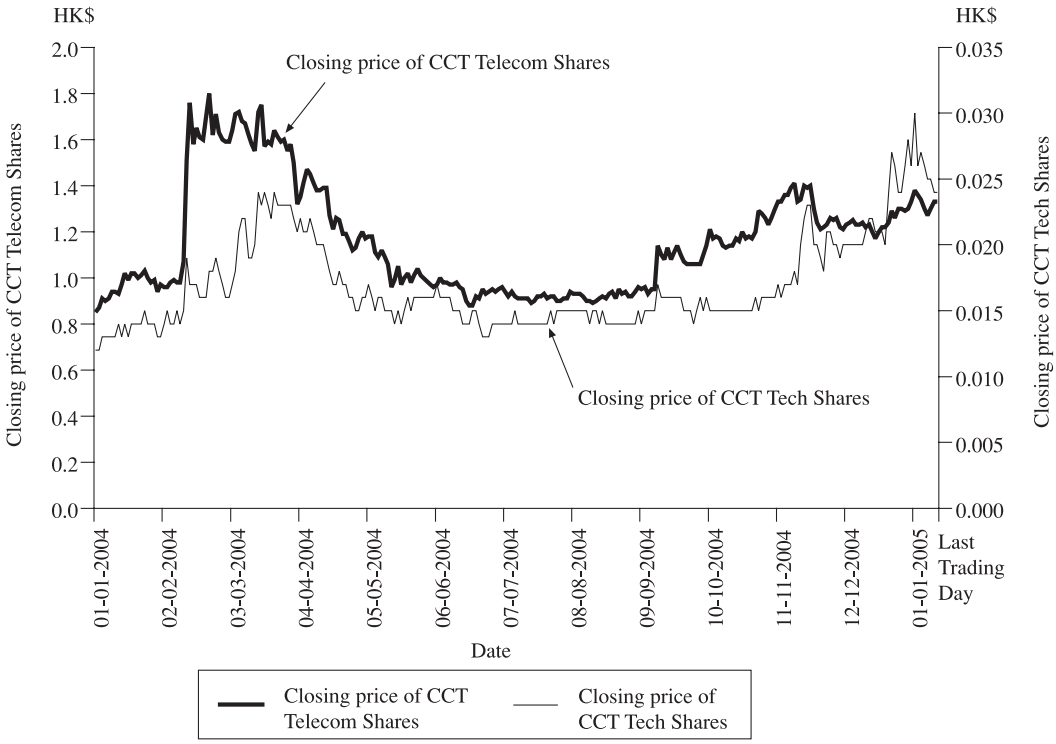
Assessment of the offer price

To assess whether the offer price of HK$0.023 per CCT Tech Share is in the interests of CCT Telecom, we have considered the following factors:

(i) *The historical price performance of both the CCT Tech Shares and CCT Telecom Shares.*

The following table shows the historical price performance of the CCT Tech Shares and CCT Telecom Shares for the period commencing from 2 January 2004 up to and including the Last Trading Day ("One Year Period").

Table I



Source: The Stock Exchange website

As shown in the Table I, during the One Year Period, the lowest and highest closing prices of the CCT Tech Shares were HK$0.012 on 2 and 5 January 2004 and HK$0.03 on 6 January 2005, respectively. The closing price of HK$0.024 per CCT Tech Share on the Last Trading Day represents a discount of approximately 20% to the highest closing price of the CCT Tech Shares during the One Year Period.

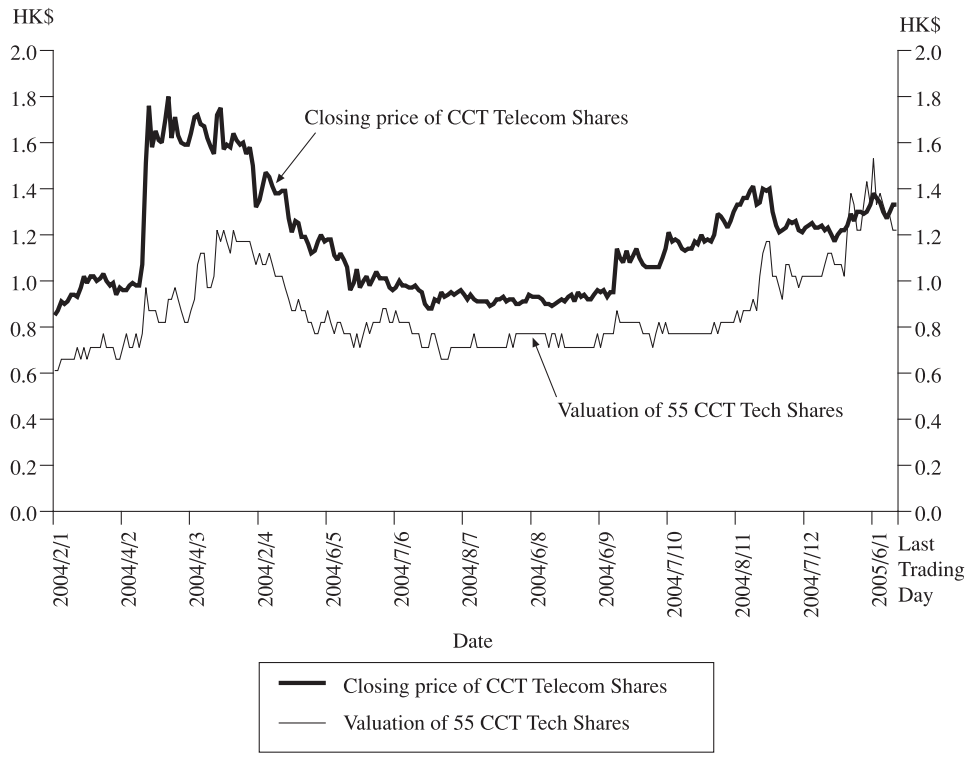
The lowest and the closing prices of CCT Telecom Shares were HK$0.85 on 2 January 2004 and HK$1.8 on 24 January 2004, respectively. The closing price of HK$1.33 per CCT Telecom Shares represents a discount of approximately 26.11% to the highest closing price to the CCT Telecom Shares during the One Year Period. During the One Year Period, the closing price of CCT Tech Shares surged by approximately 200% from HK$0.012 per CCT Tech Share on 2 January 2004 to HK$0.024 per CCT Tech Share on the Last Trading Day while the closing price of CCT Telecom Share only increased by approximately 156%. The price performance of CCT Tech Shares is, in general, better than that of the CCT Telecom Shares during the period under review.

In the light of a better price performance of the CCT Tech Shares through out the One Year Period, we have further examined whether the terms of the Cash Offer with Securities Exchange Alternative are in the interest of the CCT Telecom Shareholders. Pursuant to the terms of the Cash Offer with Securities Exchange Alternative, the accepting CCT Tech Shareholders could opt for the Convertible Bonds with a conversion price of HK$1.267 per CCT Telecom Share. Based on this conversion price and the offer price of HK$0.023 per CCT Tech Share, the effective share exchange ratio is approximately 55 CCT Tech Shares for one

CCT Telecom Share if the accepting CCT Tech Independent Shareholders opt for the Convertible Bonds and convert the Convertible Bonds into the CCT Telecom Shares immediately.

The following table shows the valuation of 55 CCT Tech Shares as compared to the valuation of one CCT Telecom Share as represented by its closing price during the One Year Period.

Table II



Source: The Stock Exchange website.

Basically, if the lower the valuation of the CCT Telecom Share, i.e. closing price of the CCT Telecom Share as compared to the valuation of 55 CCT Tech Shares, the more favourable it is to CCT Telecom in making the Cash Offer with Securities Exchange Alternative. Throughout the One Year Period, the valuation of each CCT Telecom Share is generally higher than that of 55 CCT Tech Shares. However, due to a better price performance of CCT Tech Share during the period under review, the difference between the valuation of each CCT Telecom Share and the valuation of 55 CCT Tech Shares narrowed down commencing from 16 February 2004. In December 2004, the valuation of 55 CCT Tech Shares was equal or slightly higher than the valuation of each CCT Telecom Share. This phenomenon continued to occur in most of the trading days in January 2005 up to and including the Last Trading Day. Therefore, with a better price performance of CCT Tech Shares, it is beneficial for the CCT Telecom Shareholders to make the Cash Offer with Securities Exchange Alternative in order to lock the effective share exchange ratio by way of issuing the Convertible Bonds at a conversion price of HK$1.267 per CCT Telecom Share, such that the valuation of 55 CCT Tech Shares would be higher than that of each CCT Telecom Share.

(ii) *Key market ratios of the comparable firms*

We have identified the three listed companies on the Main Board which are involved in the similar business to that of the CCT Tech Group, i.e. the manufacture of cordless phone telecom products, and compared their relevant market ratios with that of CCT Tech, as represented by the offer price per CCT Tech Share of HK$0.023.

Company Name	Closing price on the Last Trading Day	Latest audited financial year	Historical earnings per share	Price earnings ratio	Net asset value per share ("NAV per share")	Premium over the closing price per share to NAV per share
	HK$		*HK$ (note 1)*	*Times*	*HK$ (note 1)*	*%*
VTECH Holdings Limited	11.3	31 March 2004	1.6	7.06	5.62	101.07
Suncorp Technologies Limited	3.00	31 December 2003	0.18	16.67	0.28	971.43
IDT International Limited	1.61	31 March 2004	0.121	13.4	0.60	168.33
CCT Tech	**0.023** *(note 2)*	**31 December 2003**	**0.006**	**3.83**	**0.015**	**53.33**

Notes:

1. Based on the latest whole-year audited financial statements of the relevant firms; and

2. Based on the offer price per CCT Tech Share of HK$0.023.

As shown in the above table, the price earnings ratio represented by the offer price of HK$0.023 per CCT Tech Share is lower than the price earnings ratios of the comparable firms while the price to book ratio represented by the offer price of HK$0.023 per CCT Tech Share is lower than that of the comparable firms. In this regard, we consider that it is in the interests of CCT Telecom to acquire additional interest in the CCT Tech Group at the offer price of HK$0.023 per CCT Tech Share.

Financial effects of the Offers on CCT Telecom

Earnings

Depending on whether the Cash Offer with Securities Exchange Alternatives become unconditional and the final acceptance level of the Cash Offer with Securities Exchange Alternatives, CCT Telecom will acquire additional equity interest in CCT Tech and share the same additional interest in the profit or loss of the CCT Tech Group in its consolidated accounts.

We are advised by the directors of CCT Telecom that if the Offers are accepted in full, there will be a goodwill of approximately HK$171 million recognised in the consolidated accounts of CCT Telecom.

Pursuant to the new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (new HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which has become effective for accounting periods beginning on or after 1 January 2005, the recognised goodwill is required to be measured at cost less accumulated impairment losses. The goodwill will not be amortised annually but is required to be assessed annually in order to determine whether there is any permanent impairment in value. As the directors of the CCT Telecom anticipate that the telecom products business of the CCT Tech Group will continue to grow, the directors of CCT Telecom currently do not expect there will be any impairment of goodwill.

The following table shows the effect on earnings of CCT Telecom on a per share basis if all eligible CCT Tech Shareholders accepts the Cash Offer with Securities Exchange Alternative and (i) opt for the Convertible Bonds and convert the Convertible Bonds into the CCT Telecom Shares or (ii) opt for cash except New Capital Industrial Limited which has undertaken to opt for the Convertible Bonds.

	Current situation	**Assuming that the Cash Offer with Securities Exchange Alternative was accepted in full and completed on 1 January 2004**	
		If all accepting CCT Tech Shareholders opt for Convertible Bonds and convert into CCT Telecom Shares on 1 January 2004	**If all accepting CCT Tech Shareholders, other than New Capital Industrial Limited, opt for cash alternative**
Number of CCT Telecom Shares in issue	422,525,230	693,704,171	504,214,259
CCT Telecom's shareholding in CCT Tech	34.51%	100%	100%
Share of profits of the CCT Tech Group for the six months ended 30 June 2004	HK$19.62 million	HK$56.86 million	HK$56.86 million
Profit contribution from the CCT Telecom Remaining Group	HK$36.38 million	HK$36.38 million	HK$36.38 million
Profit attributable to CCT Telecom Shareholders for the six months ended 30 June 2004	HK$56.00 million	HK$93.24 million	HK$93.24 million
Earnings per CCT Telecom Share	HK$0.1325	HK$0.1344	HK$0.1849
Percentage increase	—	1.43%	39.55%

Currently, CCT Telecom holds approximately 34.51% equity interest in the CCT Tech Group and shares such percentage of the results of the CCT Tech Group in its consolidated accounts. For illustrative purpose, for the six months ended 30 June 2004, the CCT Tech Group recorded approximately HK$56.86 million of profit attributable to shareholders and CCT Telecom shared approximately 34.51% of such profits, amounting to approximately HK$19.62 million in its consolidated accounts. Together with the profit contributions from the CCT Telecom Remaining Group, the CCT Telecom Group recorded a profit attributable to shareholders of approximately HK$56 million for the six months ended 30 June 2004. Based on 422,525,230 CCT Telecom Shares in issue on the Last Trading Day, the earnings per CCT Telecom Share is approximately HK$0.1325 for the six months ended 30 June 2004.

If the Cash Offer with Securities Exchange Alternative was accepted in full and completed on 1 January 2004 and all the accepting CCT Tech Shareholders opted for the Convertible Bonds and converted them into the CCT Telecom Shares on 1 January 2004, CCT Telecom would have shared additional profits of the CCT Tech Group of approximately HK$37.24 million in its consolidated accounts and thus the profits attributable to CCT Telecom Shareholders would have been approximately HK$93.24 million. The total number of CCT Telecom Shares in issue would have been increased by 271,178,941 CCT Telecom Shares to 693,704,171 CCT Telecom Shares. Accordingly, the earnings per CCT Telecom Share would be HK$0.1344 (being HK$93.24 million divided by 693,704,171 CCT Telecom Shares), which is 1.43% higher than the earnings without the Offers per CCT Telecom Share of HK$0.1325, for the six months ended 30 June 2004.

If the Cash Offer with Securities Exchange Alternative was completed on 1 January 2004 and New Capital converted the Convertible Bonds on 1 January 2004 and all other CCT Tech Shareholders had accepted the Offers and had opted for cash, the total number of CCT Telecom Shares in issue would have increased from 422,525,230 CCT Telecom Shares to 504,214,259 CCT Telecom Shares, representing an increase of 81,689,029 CCT Telecom Shares being issued to New Capital for the Convertible Bonds in exchange for the CCT Tech 2005 CN or the underlying CCT Tech Shares represented by the CCT Tech 2005 CN. Accordingly, the earnings per CCT Telecom would have been increased to approximately HK$0.1849 per CCT Telecom Share (being HK$93.24 million divided by 504,214,259 CCT Telecom Shares). It is assumed that the cash utilised by CCT Telecom in acquiring the CCT Tech Shares would not generate any significant interest income given the current low interest rate situation and that the insignificant loss in interest income to CCT Telecom would have been more than compensated by the savings in the administration costs if CCT Tech had been privatised and become an unlisted group. The earnings with the Offers of approximately HK$0.1849 per CCT Telecom Share represented an increase of approximately 39.55% compared with the earnings without the Offers per CCT Telecom Share of HK$0.1325 for the six months ended 30 June 2004.

To these ends, the Cash Offer with Securities Exchange Alternative would, based on the financial figures of 30 June 2004 and before taking into account the amortisation charge arisen from it, enhance the earnings per CCT Telecom Share and is in the interest of the CCT Telecom Shareholders.

Net asset value

The following table shows the effect on net asset value of CCT Telecom on a per share basis if all eligible CCT Tech Shareholders accepts the Cash Offer with Securities Exchange Alternative and (i) opt for the Convertible Bonds and convert the Convertible Bonds into the CCT Telecom Shares or (ii) opt for cash except New Capital Industrial Limited which has undertaken to opt for the Convertible Bonds.

	Current situation	Assuming that the Cash Offer with Securities Exchange Alternative was accepted in full and completed on 1 January 2004	
		If all accepting CCT Tech Shareholders opt for Convertible Bonds and convert into CCT Telecom Shares on 1 January 2004	**If all accepting CCT Tech Shareholders, other than New Capital Industrial Limited, opt for cash alternative**
Number of CCT Telecom Shares in issue as at the Last Trading Day	422,525,230 *(Note 1)*	693,704,171	504,214,259
Unaudited net asset value as at 30 June 2004	HK$2,303 million	HK$2,646.56 million *(Note 2)*	HK$2,406.50 million *(note 3)*
Net asset value per CCT Telecom Share	HK$5.451	HK$3.815	HK$4.773
Percentage decrease	—	(30.01)%	(12.44)%

Notes:

1. Based on 422,525,230 of CCT Telecom Shares in issue as at the Last Trading Day.

2. Being summation of the net asset value of the CCT Telecom Group of HK$2,303 million as at 30 June 2004 and an increase in share capital and reserves of CCT Telecom of approximately HK$343.56 million by virtue of conversion of all the Convertible Bonds into 271,178,941 new CCT Telecom Shares at HK$1.267 per CCT Telecom Share.

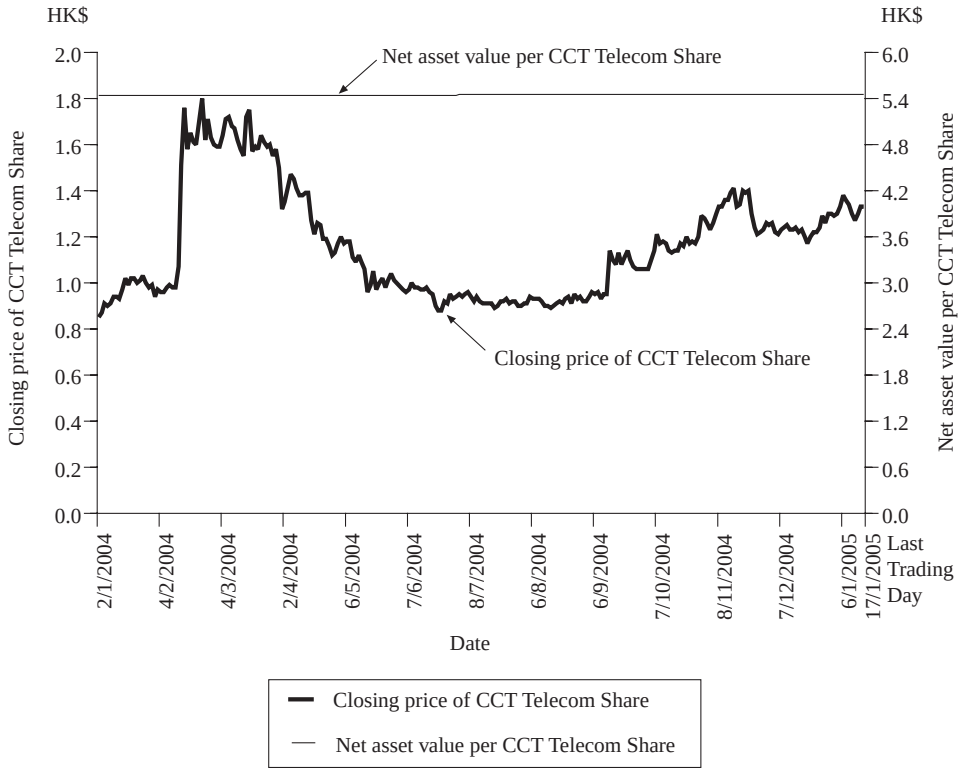
3. Being summation of the net asset value of the CCT Telecom Group of HK$2,303 million as at 30 June 2004 and an increase in share capital and reserves of CCT Telecom of approximately HK$103.5 million by virtue of conversion of the Convertible Bonds undertaken by New Capital Industrial Limited to opt for, pursuant to the Cash Offer with Securities Exchange Alternative, into 81,689,029 new CCT Telecom Shares at HK$1.267 per CCT Telecom Share.

According to the interim report of CCT Telecom for the six months ended 30 June 2004, CCT Telecom recorded a net asset value of approximately HK$2,303 million as at 30 June 2004, of which approximately 64.10% or approximately HK$1,476 million are fixed assets. As confirmed by the directors of CCT Telecom, these fixed assets are mainly leasehold land and buildings of the CCT Telecom Group in the PRC for its manufacturing operation purposes. Based on the net asset value of CCT Telecom of approximately HK$2,303 million and 422,525,230 CCT Telecom Shares in issue as at the Last Trading Day, the net asset value per CCT Telecom Share was HK$5.451.

If the Cash Offer with Securities Exchange Alternatives were accepted in full and all the accepting CCT Tech Shareholders opt for the Convertible Bonds and converted the same into the CCT Telecom Shareholders, there would have been 693,704,171 CCT Telecom Shares in issue. The net asset value per CCT Telecom Share would decrease to HK$3.815. If the Cash Offer with Securities Exchange Alternative were accepted in full and all the accepting CCT Tech Shareholders opt for the cash alternative except New Capital Industrial Limited, which has undertaken to opt for the Convertible Bonds, there would have been 81,689,029 CCT Telecom Shares in issue. The net asset value per CCT Telecom Share would decrease to approximately HK$4.773. To this extent, the dilution in net asset value is not in the interests of the CCT Telecom Shareholders. We have

reviewed the price performance of CCT Telecom relative to the net asset value per CCT Telecom Share during the One Year Period to assess the relationship between the net asset value per CCT Telecom and the share price of the CCT Telecom Shares.

Table III



As shown in the Table III above, whilst the net asset value per CCT Telecom Share was kept at a relative stable level of approximately HK$5.45 during the One Year Period, the market price of the CCT Telecom Shares fluctuated in a wide range from HK$0.85 to HK$1.8 during the same period. The substantial discount of the market price to the net asset value of the CCT Telecom Group is probably because of the substantial losses incurred by the CCT Telecom Group during the two years ended 31 December 2003 and also most of its assets are used for manufacturing purpose on a going concern basis. Therefore, we consider that the net asset value of CCT Telecom may not be an important consideration for the investors to invest in the CCT Telecom Shares. As such, we consider that the net asset value of CCT Telecom may not warrant an appropriate basis for the valuation of the CCT Telecom Shares, as evident by the price performance of the CCT Telecom Shares during the One Year Period.

In addition, since the CCT Telecom Group is principally engaged in the manufacture of telecom product manufacturing businesses on a going concern basis, we consider that the net asset value of CCT Telecom may not warrant an important basis for the valuation of the CCT Telecom Group. Therefore, the dilution effect on net asset value per CCT Telecom Share, which ranges from approximately 12.44% to approximately 30.01%, will not substantially affect the interests of the CCT Telecom Shareholders.

Cash position

The following table shows the effects of the Offers on cash balance of the CCT Telecom Group:

	The CCT Telecom Group	The CCT Tech Group	The CCT Telecom Remaining Group
Cash balance as at 31 January 2005	HK$965 million	HK$429 million	HK$536 million
Possible cash outlay for the Offers			(HK$250 million)
Sub-total			HK$286 million
Outstanding bank borrowings as at 31 January 2005	(HK$280 million)	(HK$88 million)	(HK$192 million)
Remaining balance after deduction of outstanding bank borrowings	HK$685 million	HK$341 million	HK$94 million
Net cash inflow for the six months ended 30 June 2004	HK$34 million	HK$1.65 million	HK$32.35 million *(Note)*

Note: It includes the interest of approximately HK$27 million received on the CCT Tech 2008 CN.

As shown in the above table, after deducting the maximum possible cash outlay for the Offers, the CCT Telecom Remaining Group still preserved approximately HK$94 million for its operations. For the six months ended 30 June 2004, the CCT Telecom Group recorded a consolidated cash inflow of approximately HK$34 million while the CCT Tech Group recorded approximately HK$1.65 million (after deducting the interest of approximately HK$27 million paid to CCT Telecom on the CCT Tech 2008 CN). Therefore, the CCT Telecom Remaining Group, had a positive cash inflow of approximately HK$32.35 million, including the interest of approximately HK$27 million received on the CCT Tech 2008 CN, for the six months ended 30 June 2004.

New Capital Industrial Limited has undertaken to accept the Cash Offer with Securities Exchange Alternative and opt for the Convertible Bonds. If all the other eligible CCT Tech Shareholders accept the Cash Offer with Securities Exchange Alternative and opt for the cash, and the Option Offer is accepted in full, CCT Telecom will need to pay approximately HK$250 million in cash for the Offers, before taken into account the cost of implementation of the Offers. In the light of the fact that potential cash outlay of approximately HK$250 million accounted for approximately 46.64% of free cash held by the CCT Telecom Remaining Group of approximately HK$536 million as at January 2005, we have discussed with the directors of CCT Telecom who confirm to us that it would not affect the operations of the CCT Telecom Group by virtue of (i) besides the Offers, the CCT Telecom Remaining Group does not have any major acquisition in contemplation; (ii) the CCT Telecom Group has positive cash inflow for the six months ended 30 June 2004 as discussed in the previous paragraph; and (iii) after the potential outlay of approximately HK$250 million in cash for the Offers, the CCT Telecom Remaining Group has a cash balance of approximately HK$286 million to cover all its outstanding bank borrowings of approximately HK$192 million as at 31 January 2005; and (iv) the CCT Tech Group has a cash

balance of approximately HK$429 million to cover all its outstanding bank borrowings of approximately HK$88 million as at 31 January 2005. Based on the above, we concur with the view of the directors of CCT Telecom that the possible reduction in the cash balance for the Offers would not materially affect the liquidity position of the CCT Telecom Group for its operation.

If all eligible CCT Tech Shareholders accept the Cash Offer with Securities Exchange Alternative and opt for the Convertible Bonds, CCT Telecom will not incur an immediate cash outlay of approximately HK$240 million and keep them for further business development.

Gearing

As at 30 June 2004, the gearing ratio of the CCT Telecom Group was approximately 13.55% (being HK$312 million of total borrowings divided by its net assets of approximately HK$2,303 million). If all eligible CCT Tech Independent Shareholders and New Capital accept the Cash Offer with Securities Exchange Alternative and opt for the Convertible Bonds, the total borrowings of the CCT Telecom Group would be increased by approximately HK$299 million upon the issue of the Convertible Bonds and the cancellation of the CCT Tech 2005 CN to approximately HK$611 million and accordingly, the gearing ratio of the CCT Telecom Group would increase to approximately 26.53%. We consider that the increased gearing ratio remains low. In addition, as discussed in the above paragraph headed "Cash position" that (i) the remaining free cash balance after deduction from the possible outlay for the Offers is enough to cover all the outstanding bank borrowings of the CCT Telecom Remaining Group and (ii) the free cash balance of the CCT Tech Group is able to cover all the outstanding bank borrowings of the CCT Tech Group, it would not materially affect the financial position of the CCT Telecom Group.

Furthermore, the Convertible Bonds will have a term of five years and is interest free. CCT Telecom will not have any immediate pressure on repayment and will not have any finance cost. These terms are considered favorable to CCT Telecom.

Dilution effect on shareholding

If all the eligible CCT Telecom Shareholders accept the Cash Offer with Securities Exchange Alternative and opt for the Convertible Bonds and convert the same into the CCT Telecom Shares, the total issued shares of CCT Telecom will increase from 422,525,230 to 693,704,171 and the shareholding interests of existing CCT Telecom Shareholders in CCT Telecom will be diluted by approximately 39.09%, based on enlarged share capital of CCT Telecom as a result of full conversion of the Convertible Bonds. Despite the dilution, CCT Telecom will have a much broader shareholder base, which should enhance the liquidity of the CCT Telecom Shares. The broad shareholder base will also provide a larger platform for future equity fund raising for growth and development.

Listing status of CCT Tech Shares

It is the intention of the CCT Telecom Directors to privatise CCT Tech on the Main Board if the Cash Offer with Securities Exchange Alternative is accepted in full. The CCT Telecom Directors are of the view that, if this is the case, the connected transactions between the CCT Telecom Remaining Group and the CCT Tech Group will be eliminated and the administration costs for the CCT Tech Group as an unlisted group will be reduced significantly. In addition, the CCT Telecom Group's structure will be simplified. To these ends, we concur with the view of the directors of CCT Telecom and consider that the terms of the Offers are in the interest of CCT Telecom and the CCT Telecom Shareholders as a whole.

Consideration regarding the securities exchange alternative

Pursuant to the terms of the Offers, every 80,000 CCT Tech Shares or every CCT Tech 2005 CN with a face value of HK$800 is offered for HK$1,840 in cash or the Convertible Bonds with a face value of HK$1,840. The principal terms of the Convertible Bonds is stated in the section headed "Convertible Bonds" in the letter from the Board in this circular.

Despite the exercise of the Convertible Bonds will impose a dilution effect on shareholding as discussed in the above paragraph headed "Dilution effect on shareholding" in this letter, we consider the offering of this securities exchange alternative is fair and reasonable and in the interests of the CCT Telecom Shareholders as a whole for the following reasons:

(i) the CCT Telecom Group could minimise the immediate impact on cash outlay for the Offers as discussed in the above paragraph headed "Cash Position" in this letter, if the accepting CCT Tech Shareholders opt for the securities exchange alternative;

(ii) the conversion of the Convertible Bonds will provide additional funding and enlarge the capital base of the CCT Telecom Group for future business development;

(iii) the Convertible Bonds do not pay any interest to its holders and thus do not pose any financial burden on the CCT Telecom Group;

(iv) the conversion of the Convertible Bonds would have a positive effect on the earnings of CCT Telecom on a per share basis as discussed in the above paragraph headed "Earnings" in this letter; and

(v) the value of the Convertible Bonds only represent a small premium of approximately 0.81% to its face value.

Option Offer

The Option Offer will be made on the following basis:

For cancellation of each outstanding CCT Tech Option . . . . . HK$0.009 in cash.

The exercise price for the outstanding CCT Tech Options is HK$0.014 per CCT Tech Option. The option offer price of HK$0.009 in cash per CCT Tech Share, represents the difference between the offer price of HK$0.023 per CCT Tech Share and the exercise price of HK$0.014 per CCT Tech Option. As the offer price of HK$0.023 per CCT Tech Share is in the interests of CCT Telecom, the offer price of the CCT Tech Option of HK$0.009 is in the interests of CCT Telecom.

RECOMMENDATION

We note that the Offers are subject to fulfillment or waiver (as applicable) of a number of conditions, including approval by the CCT Telecom Independent Shareholders at the EGM.

Having considered the above principal factors and reasons, and in particular:

(i) the commercial rationale of acquiring additional interest in a profit making subsidiary;

(ii) the historical price performance of the CCT Tech Shares and the CCT Telecom Shares;

(iii) the price earnings ratio as represented by the offer price of HK$0.023 per CCT Tech Share is lower than the price earnings ratios of the comparable firms as recorded on the Last Trading Day;

(iv) the financial effects on CCT Telecom as a whole; and

(v) the rationale of privatising CCT Tech,

we consider that the Offers and the Connected Transaction, taken as a whole, are in the interests of the CCT Telecom Shareholders and fair and reasonable as far as the interests of the CCT Telecom Independent Shareholders are concerned. Accordingly, we have advised the Independent Board Committee and the CCT Telecom Independent Shareholders and would recommend the CCT Telecom Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the EGM to approve the Offers and the Connected Transaction.

Yours faithfully,
For and on behalf of
VC Capital Limited
Keith Lou *Director* **Philip Chau** *Managing Director*

(A) FINANCIAL SUMMARY

The following is a summary of the published audited consolidated profit and loss accounts of CCT Telecom Holdings Limited for the three years ended 31 December 2003, as extracted from the respective annual reports of CCT Telecom Holdings Limited:

	2003 *HK$'million* **(Audited)**	2002 *HK$'million* **(Audited)**	2001 *HK$'million* **(Audited)**
TURNOVER	3,441	3,130	3,106
LOSS BEFORE TAX	(59)	(256)	(666)
Tax	(12)	(9)	(11)
LOSS BEFORE MINORITY INTERESTS	(71)	(265)	(677)
Minority interests	(47)	6	(13)
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	(118)	(259)	(690)
DIVIDENDS	12	12	—
LOSS PER SHARE	HK$0.28	HK$0.61	HK$1.67
DIVIDENDS PER SHARE	HK$0.03	HK$0.03	—

There were neither extraordinary nor exceptional items recorded for the three years ended 31 December 2003.

(B) FINANCIAL INFORMATION OF THE CCT TELECOM GROUP FOR THE YEAR ENDED 31 DECEMBER 2003:

Set out below is the audited financial statements of the CCT Telecom Group for the year ended 31 December 2003 as extracted from the CCT Telecom Group's 2003 annual report.

Consolidated Profit and Loss Account
Year ended 31 December 2003

	Notes	2003 HK$'million (Audited)	2002 HK$'million (Audited) (Restated)
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.

There were neither extraordinary nor exceptional items recorded for the year ended 31 December 2003.

Consolidated Balance Sheet
31 December 2003

	Notes	2003 HK$'million (Audited)	2002 HK$'million (Audited) (Restated)
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$'million (Audited)	Share premium account HK$'million (Audited)	Capital reserve (Note 34(a)) HK$'million (Audited)	Retained profits/ (accumulated losses) HK$'million (Audited)	Proposed final dividend HK$'million (Audited)	Total HK$'million (Audited)
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$'million (Audited)	2002 HK$'million (Audited)
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$'million* **(Audited)**	2002 *HK$'million* **(Audited)**
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 *HK$'million* **(Audited)**	2002 *HK$'million* **(Audited)**
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

	Telecom products		Baby and health care products		Corporate and others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
HK$'million	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited) (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 (Audited)	2002 (Audited)	2003 (Audited)	2002 (Audited)	2003 (Audited)	2002 (Audited)	2003 (Audited)	2002 (Audited)	2003 (Audited)	2002 (Audited) (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.

HK$'million	United States of America		PRC, including HK		European Union		Others		Consolidated	
	2003 (Audited)	2002 (Audited)	2003 (Audited)	2002 (Audited)	2003 (Audited)	2002 (Audited)	2003 (Audited)	2002 (Audited)	2003 (Audited)	2002 (Audited)
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 *HK$'million* (Audited)	2002 *HK$'million* (Audited)
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	
		2003	**2002**
	Notes	*HK$'million*	*HK$'million*
		(Audited)	**(Audited)**
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*
	(Audited)	**(Audited)**
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*
	(Audited)	**(Audited)**
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**
	(Audited)	**(Audited)**
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*
	(Audited)	**(Audited)**
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**
	(Audited)	**(Audited)**
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**
	HK$'million	*HK$'million*
	(Audited)	**(Audited)**
		(Restated)
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*	*%*
	(Audited)		**(Audited)**		**(Audited)**	
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$'million (Audited)	*%*	*HK$'million* (Audited)	*%*	*HK$'million* (Audited)	*%*
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 *HK$'million* (Audited)	2002 *HK$'million* (Audited)
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 *HK$'million* (Audited)	Leasehold land and buildings *HK$'million* (Audited)	Plant and machinery *HK$'million* (Audited)	Tools, moulds and equipment *HK$'million* (Audited)	Furniture and office equipment *HK$'million* (Audited)	Motor vehicles *HK$'million* (Audited)	Construction in progress *HK$'million* (Audited)	Total *HK$'million* (Audited)
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* (Audited)
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 *HK$'million* (Audited)	Elsewhere *HK$'million* (Audited)	Total *HK$'million* (Audited)
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 *HK$'million* (Audited)	Publishing rights *HK$'million* (Audited)	Total *HK$'million* (Audited)
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 **(Audited)**
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$'million **(Audited)**	*HK$'million* **(Audited)**
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 Direct	Indirect	Principal activities
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*
	(Audited)	**(Audited)**
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**
	HK$'million	*HK$'million*
	(Audited)	**(Audited) (Restated)**
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 *HK$'million* (Audited)	Year ended 31 December 2002 *HK$'million* (Audited) (Restated)
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 *HK$'million* (Audited)	2002 *HK$'million* (Audited)
Club memberships, at cost	14	14
Provision for impairment	(2)	(2)
	12	12

20. INVESTMENTS

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

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Group 2003 HK$'million (Audited)	2002 HK$'million (Audited)
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 HK$'million (Audited)	2002 HK$'million (Audited)
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 *HK$'million* (Audited)	Minimum lease payments 2002 *HK$'million* (Audited)	Present value of minimum lease payments 2003 *HK$'million* (Audited)	Present value of minimum lease payments 2002 *HK$'million* (Audited)
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 *HK$'million* (Audited)	2002 *HK$'million* (Audited)
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* **(Audited)**
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* **(Audited)**
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* **(Audited)**
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* **(Audited)**
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*
	(Audited)	**(Audited)**
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:

Name or category of participant	Number of share options					Date of grant of share options *(Note 1)*	Exercise period of share options	Exercise price per share *(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	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:

	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**	**Exercise period of share options**	**Exercise price per share** *(Note 1)* *HK$*	**Price of the shares of the Company at grant date of share options** *(Note 2)* *HK$*
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** *HK$'million* **(Audited)**	**Capital reserve** *HK$'million* **(Audited)**	**Retained profits/ (accumulated losses)** *HK$'million* **(Audited)**	**Total** *HK$'million* **(Audited)**
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 *HK$'million* **(Audited)**	2002 *HK$'million* **(Audited)**
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 *HK$'million* **(Audited)**	2002 *HK$'million* **(Audited)**
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 *HK$'million* **(Audited)**	2002 *HK$'million* **(Audited)**
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 *HK$'million* **(Audited)**	2002 *HK$'million* **(Audited)**
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*
	(Audited)	(Audited)	(Audited)	(Audited)
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*
	(Audited)	(Audited)
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*
	(Audited)	**(Audited)**
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*
	(Audited)	**(Audited)**
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*
	(Audited)	**(Audited)**
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.

(C) FINANCIAL INFORMATION OF THE CCT TELECOM GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2004:

Set out below is the unaudited financial statements of the CCT Telecom Group for the six months ended 30 June 2004 as extracted from the CCT Telecom Group's 2004 interim report.

Condensed Consolidated Profit and Loss Account
For the six months ended 30 June 2004

	Notes	Six months ended 30 June 2004 HK$'million (Unaudited)	2003 HK$'million (Unaudited)
TURNOVER		1,880	1,424
Cost of sales		(1,626)	(1,225)
Gross profit		254	199
Other revenue		12	14
Selling and distribution costs		(24)	(21)
Administrative expenses		(129)	(126)
Other operating expenses		(9)	(29)
PROFIT FROM OPERATING ACTIVITIES	2	104	37
Finance costs		(3)	(5)
Share of profits and losses of associates#		—	(25)
PROFIT BEFORE TAX		101	7
Tax	4	(7)	2
PROFIT BEFORE MINORITY INTERESTS		94	9
Minority interests		(38)	(1)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		56	8
INTERIM DIVIDEND	5		
— Paid special interim		42	—
— Proposed interim		4	6
		46	6
EARNINGS PER SHARE	6		
— Basic		HK$0.133	HK$0.019
— Diluted		HK$0.128	HK$0.019
INTERIM DIVIDEND PER SHARE	5		
— Paid special interim		HK$0.100	—
— Proposed interim		HK$0.010	HK$0.015
		HK$0.110	HK$0.015

Including a realisation of the relevant portion of the unrealised profits of approximately HK$7 million (last period: HK$12 million) arising from the deemded disposal of subsidiaries to an associate in 2002.

There were neither extraordinary nor exceptional items recorded for the six months ended 30 June 2004.

Condensed Consolidated Balance Sheet
30 June 2004

	Notes	30 June 2004 HK$'million (Unaudited)	31 December 2003 HK$'million (Audited)
NON-CURRENT ASSETS			
Fixed assets	7	1,476	1,497
Intangible assets		26	23
Goodwill		14	26
Interests in associates		297	297
Other assets		12	12
Long term investments		4	4
Deferred tax assets		7	9
		1,836	1,868
CURRENT ASSETS			
Short term investments		3	3
Inventories		267	178
Trade and bills receivables	8	696	655
Prepayment, deposits and other receivables		69	63
Pledged time deposits		100	100
Cash and cash equivalents		907	873
		2,042	1,872
CURRENT LIABILITIES			
Trade and bills payables	9	910	841
Tax payable		27	25
Other payables and accruals		182	198
Interest-bearing bank loans and other borrowings		148	130
Convertible notes		57	8
		1,324	1,202
NET CURRENT ASSETS		718	670
TOTAL ASSETS LESS CURRENT LIABILITIES		2,554	2,538
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		103	124
Finance lease payables		4	1
Convertible notes		—	10
Deferred tax liabilities		6	7
		113	142
MINORITY INTERESTS		138	101
		2,303	2,295
CAPITAL AND RESERVES			
Issued capital	10	42	42
Reserves		2,257	2,247
Proposed interim/final dividend		4	6
		2,303	2,295

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2004

	Issued capital *HK$'million* **(Unaudited)**	Share premium account *HK$'million* **(Unaudited)**	Capital reserve *HK$'million* **(Unaudited)**	Retained profits/ accumulated losses *HK$'million* **(Unaudited)**	Proposed interim/final dividend *HK$'million* **(Unaudited)**	Total *HK$'million* **(Unaudited)**
At 1 January 2004:	42	1,250	1,114	(117)	6	2,295
Net profit for the period	—	—	—	56	—	56
2003 final dividend	—	—	—	—	(6)	(6)
Special interim dividend paid during the period	—	—	(42)	—	—	(42)
Proposed interim dividend	—	—	(4)	—	4	—
At 30 June 2004	42	1,250	1,068	(61)	4	2,303
At 1 January 2003	42	1,250	1,126	1	8	2,427
Net profit for the period	—	—	—	8	—	8
Dividend paid during the period	—	—	—	—	(8)	(8)
Proposed interim dividend	—	—	(6)	—	6	—
At 30 June 2003	42	1,250	1,120	9	6	2,427

Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2004

	Six months ended 30 June	
	2004	**2003**
	HK$'million	*HK$'million*
	(Unaudited)	**(Unaudited) (Restated)**
NET CASH INFLOW FROM OPERATING ACTIVITIES	90	21
INVESTING ACTIVITIES	(61)	(148)
FINANCING ACTIVITIES	5	2
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	34	(125)
Cash and cash equivalents at beginning of period	873	781
CASH AND CASH EQUIVALENTS AT END OF PERIOD	907	656
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	482	261
Non-pledged time deposits with original maturity of less than three months when acquired	425	397
	907	658
Bank overdrafts	—	(2)
	907	656

Notes:

1. BASIS OF PREPARATION

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

2. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services that they each 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 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 and accessories and components;

(b) the baby and health care product segment manufactures and sells baby and health care products;

(c) the corporate and others segment comprises of corporate income and administrative and corporate expenses items and the publishing of magazines (which was disposed in 2003).

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

(a) Business segments

The following tables present revenue and profit information regarding the Group's business segments for the period ended 30 June 2004 and 2003.

	2004			
	Telecom products *HK$'million* **(Unaudited)**	**Baby and health care products** *HK$'million* **(Unaudited)**	**Corporate and others** *HK$'million* **(Unaudited)**	**Consolidated** *HK$'million* **(Unaudited)**
Segment revenue:				
Sales to external customers	1,806	71	—	1,877
Other revenue	10	—	2	12
Total revenue	1,816	71	2	1,889
Segment results	127	9	(35)	101
Interest income				3
Finance costs				(3)
Share of profits and losses of associates	—	—	—	—
Profit before tax				101
Tax				(7)
Profit before minority Interests				94
Minority interests				(38)
Net profit from ordinary activities attributable to shareholders				56

	2003			
	Telecom products *HK$'million* **(Unaudited)**	**Baby and health care products** *HK$'million* **(Unaudited)**	**Corporate and others** *HK$'million* **(Unaudited)**	**Consolidated** *HK$'million* **(Unaudited)**
Segment revenue:				
Sales to external customers	1,318	71	31	1,420
Other revenue	12	—	2	14
Total revenue	1,330	71	33	1,434
Segment results	83	7	(57)	33
Interest income				4
Finance costs				(5)
Share of profits and losses of associates	—	—	(25)	(25)
Profit before tax				7
Tax				2
Profit before minority Interests				9
Minority interests				(1)
Net profit from ordinary activities attributable to shareholders				8

(b) Geographical segments

The following table presents revenue and results regarding the Group's geographical segments for the period ended 30 June 2004 and 2003.

	2004				
	United States of America *HK$'million* **(Unaudited)**	**PRC, including HK** *HK$'million* **(Unaudited)**	**Europe** *HK$'million* **(Unaudited)**	**Others** *HK$'million* **(Unaudited)**	**Consolidated** *HK$'million* **(Unaudited)**
Segment revenue:					
Sales to external customers	1,097	376	88	316	1,877
Other revenue	—	—	—	12	12
Total revenue	1,097	376	88	328	1,889

	2003				
	United States of America *HK$'million* **(Unaudited)**	**PRC, including HK** *HK$'million* **(Unaudited)**	**Europe** *HK$'million* **(Unaudited)**	**Others** *HK$'million* **(Unaudited)**	**Consolidated** *HK$'million* **(Unaudited)**
Segment revenue:					
Sales to external customers	932	274	64	150	1,420
Other revenue	—	—	—	14	14
Total revenue	932	274	64	164	1,434

3. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK$61 million (six months ended 30 June 2003: HK$58 million) and amortisation of HK$14 million (six months ended 30 June 2003: HK$10 million) were charged in respect of the Group's fixed assets and intangible assets, respectively. Amortisation of goodwill of HK$1 million (six months ended 30 June 2003: HK$1 million) was charged during the period.

4. TAX

	For the six months ended 30 June	
	2004	**2003**
	HK$'million	*HK$'million*
	(Unaudited)	**(Unaudited)**
Current — Hong Kong:		
Charge for the period	7	6
Overprovision in prior years	(2)	—
Current — Elsewhere	1	—
Deferred	1	(7)
	7	(1)
Share of tax attributable to associates	—	(1)
Tax (credit)/charge for the period	7	(2)

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% (six months ended 30 June 2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, 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.

5. DIVIDEND

For the period ended 30 June 2004, a special interim dividend of HK$0.10 each, amounting to approximately HK$42 million, was declared and funded by the net sale proceeds of the disposal of convertible note. For details of the disposal of convertible note, please refer to the announcement dated 4 March 2004. The special interim dividend was approved in the board meeting of the Company held on 28 April 2004. The special interim dividend was paid on 18 June 2004.

The board of directors has further declared an interim dividend for 2004 of HK$0.01 per share (30 June 2003: HK$0.015 per share) to be payable from the Company's capital reserve. The interim dividend will be payable on 19 October 2004 to shareholders whose names appear on the register of members of the Company on 8 October 2004. The register of members of the Company will be closed from 6 October 2004 to 8 October 2004 (both days inclusive).

6. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2004	2003
	HK$'million	*HK$'million*
	(Unaudited)	(Unaudited)
Profit for the purposes of basic and diluted earnings per share	56	8
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	422,105,230	422,105,230
Effect of dilutive share options	16,299,836	1,573,539
Weighted average number of ordinary shares for the purpose of diluted earnings per share	438,405,066	423,678,769

7. FIXED ASSETS

During the six months ended 30 June 2004, the Group acquired fixed assets of HK$128 million (six months ended 30 June 2003: HK$158 million), disposed fixed assets of HK$84 million (six months ended 30 June 2003: HK$1 million) and impairment loss on fixed assets of nil (six months ended 30 June 2003: 4 million).

8. TRADE AND BILLS RECEIVABLES

The aged analysis of trade and bills receivables is as follows:

	30 June 2004		31 December 2003	
	HK$'million		*HK$'million*	
	(Unaudited)		(Audited)	
	Balance	*Percentage*	*Balance*	*Percentage*
Current to 30 days	321	46	274	42
31 to 60 days	234	34	199	30
61 to 90 days	123	18	164	25
Over 90 days	18	2	18	3
	696	100	655	100

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

9. TRADE AND BILLS PAYABLES

The aged analysis of trade and bills payable is as follows:

	30 June 2004		31 December 2003	
	HK$'million		*HK$'million*	
	(Unaudited)		(Audited)	
	Balance	*Percentage*	*Balance*	*Percentage*
Current to 30 days	323	36	212	25
31 to 60 days	221	24	227	27
61 to 90 days	172	19	164	20
Over 90 days	194	21	238	28
	910	100	841	100

10. SHARE CAPITAL

	30 June 2004 *HK$'million* (Unaudited)	31 December 2003 *HK$'million* (Audited)
Authorised:		
2,000,000,000 (31 December 2003: 2,000,000,000) ordinary shares of HK$0.10 (31 December 2003: HK$0.10) each	200	200
Issued and fully paid:		
422,105,230 (31 December 2003: 422,105,230) ordinary shares of HK$0.10 (31 December 2003: HK$0.10) each	42	42

There were no changes to the carrying amount or the number of ordinary shares in issue during the six months ended 30 June 2004.

11. CONTINGENT LIABILITIES

As at 30 June 2004, the Group has given guarantee to an independent third party in respect of a rental agreement amounting to approximately HK$45 million (31 December 2003: HK$45 million).

The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$9 million as at 30 June 2004 (31 December 2003: HK$8 million). 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.

12. PLEDGE OF ASSETS

At 30 June 2004, the Group's bank borrowings were secured by:

(i) pledge of the Group's fixed deposits amounting to approximately HK$100 million (31 December 2003: HK$100 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$165 million (31 December 2003: HK$255 million).

13. OPERATING LEASE ARRANGEMENT

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

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

	30 June 2004 *HK$'million* (Unaudited)	31 December 2003 *HK$'million* (Audited)
Within one year	3	2
In the second to fifth years, inclusive	1	2
	4	4

At the balance sheet date, 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:

	30 June 2004 *HK$'million* **(Unaudited)**	31 December 2003 *HK$'million* **(Audited)**
Within one year	1	1
In the second to fifth years, inclusive	9	8
After five years	115	117
	125	126

14. COMMITMENTS

In addition to the operating lease commitments detailed in note 13, the Group had the following commitments at the balance sheet date:

	30 June 2004 *HK$'million* **(Unaudited)**	31 December 2003 *HK$'million* **(Audited)**
Contracted, but not provided for:		
Construction in progress	26	60
Plant and machinery and equipment	13	2
Leasehold improvement	3	—
	42	62

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

	30 June 2004 *HK$'million* **(Unaudited)**	31 December 2003 *HK$'million* **(Audited)**
Contracted, but not provided for	5	8
Authorised, but not contracted for	—	—
	5	8

15. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with the current period's presentation.

STATEMENT OF INDEBTEDNESS

As at the close of business on 31 January 2005 (being the latest practicable date for ascertaining information regarding this indebtedness statement), the CCT Telecom Group had outstanding borrowings of approximately HK$280 million. The borrowings comprised secured bank loans of approximately HK$206 million, secured trust receipt loans of approximately HK$59 million and obligations under finance lease contracts of approximately HK$15 million. The CCT Telecom Group's borrowings were secured by (i) the fixed charges over certain leasehold land and buildings and investment properties held by the CCT Telecom Group; and (ii) certain fixed deposits of the CCT Telecom Group. In addition, as at the same date, the CCT Telecom Group had outstanding convertible notes with a principal sum of HK$45 million.

As at 31 January 2005, the CCT Telecom Group had contingent liabilities in respect of a guarantee in lieu of property rental of approximately HK$47 million and possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of approximately HK$10 million.

Save as aforesaid, and apart from intra-group liabilities, the CCT Telecom 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 31 January 2005.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the rates of the exchange prevailing at the close of business on 31 January 2005.

WORKING CAPITAL

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

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

FINANCIAL EFFECT OF THE OFFERS

Depending on the final acceptance level of the Offers, CCT Telecom will acquire additional equity interest in CCT Tech and share the same additional interest in the profit and loss of the CCT Tech Group in its consolidated accounts. If the Offers are accepted in full, CCT Telecom will eliminate the respective minority interests in CCT Tech and consolidate the entire profit and loss of the CCT Tech Group in its consolidated accounts.

The effects shown below assume that the Offers were completed and accepted by all the CCT Tech Independent Shareholders and New Capital and the Convertible Bonds were issued and converted into CCT Telecom Shares as at 30 June 2004.

(a) Net assets and net asset value per CCT Telecom shares

The effect of the Offers on the net assets of the CCT Telecom Group based on the unaudited consolidated balance sheet of the CCT Telecom Group as at 30 June 2004 is set out as follows:

	HK$'million	*Per share HK$*
Before Offers:		
Unaudited consolidated net assets of the CCT Telecom Group as at 30 June 2004	2,303	5.451 *(Note 1)*

(i) Assuming all CCT Tech Independent Shareholders accepted the Offers and opted for cash and New Capital accepted the Offers and opted for the Convertible Bonds:

	HK$'million	*Per share HK$*
Unaudited consolidated net assets of the CCT Telecom Group as at 30 June 2004	2,303	5.451 *(Note 1)*
Add:		
Goodwill arising from the Offers	171	
Elimination of minority interests	138	
Cancellation of CCT Tech 2005 CN	45	
Less:		
Payment of cash consideration	(250)	
Issue of Convertible Bonds to New Capital	(104)	
Add:		
Issue and allotment of new CCT Telecom Shares upon full conversion of the Convertible Bonds held by New Capital	104	
Adjusted unaudited consolidated net assets of the CCT Telecom Group as at 30 June 2004	2,407	4.773 *(Note 2)*

(ii) Assuming all CCT Tech Independent Shareholders and New Capital accepted the Offers and opted for the Convertible Bonds

	HK$'million	*Per share HK$*
Unaudited consolidated net assets of the CCT Telecom Group as at 30 June 2004	2,303	5.451 *(Note 1)*
Add:		
Goodwill arising from the Offers	171	
Elimination of minority interests	138	
Cancellation of CCT Tech 2005 CN	45	
Less:		
Payment of cash consideration	(10)	
Issue of Convertible Bonds	(344)	
Add:		
Issue and allotment of new CCT Telecom Shares upon full conversion of the Convertible Bonds	344	
Adjusted unaudited consolidated net assets of the CCT Telecom Group as at 30 June 2004	2,647	3.815 *(Note 3)*

Notes:

1. Value per share was calculated based on 422,525,230 CCT Telecom Shares in issue as at the Latest Practicable Date.

2. Value per share was calculated based on 504,214,259 CCT Telecom Shares in issue upon full conversion of the Convertible Bonds assuming the Offers were accepted in full and all the CCT Tech Independent Shareholders opted for cash and New Capital opted for the Convertible Bonds and converted into the CCT Telecom Shares.

3. Value per share was calculated based on 693,704,171 CCT Telecom Shares in issue upon full conversion of the Convertible Bonds assuming the Offers were accepted in full and all the CCT Tech Independent Shareholders and New Capital opted for the Convertible Bonds and converted the same into the CCT Telecom Shares.

In both cases, the net asset value of the CCT Telecom Group would have increased as a result of the Offers but the net asset value per CCT Telecom Share would have decreased as a result of the issue of CCT Telecom Shares upon conversion of the Convertible Bonds. As the CCT Telecom Group including the CCT Tech Group is engaged mainly in the manufacturing of telecom products, the reduction in the net asset value per CCT Telecom Share would not have any adverse effect on its business or to the CCT Telecom Shareholders as the valuation of a manufacturing company is not normally judged by its net asset value per share.

(b) Liabilities and Gearing

The effect of the Offers on the liabilities and gearing ratio of the CCT Telecom Group based on the unaudited amounts of the total borrowings of the CCT Telecom Group as at 30 June 2004 is summarised as follows:

	Unaudited total borrowings of the CCT Telecom Group *HK$'million (Note 1)* *(A)*	**Adjusted unaudited consolidated net assets of CCT Telecom Group** *HK$'million* *(B)*	**Unaudited total borrowing plus adjusted unaudited consolidated net assets of CCT Telecom Group** *HK$'million* *(C)=(A)+(B)*	**Gearing Ratio** *(%)* *(Note 2)* *(A)/(C)*
As at 30 June 2004	312	2,303	2,615	11.9%
Cash Alternative *(Note 3)*	371	2,303	2,674	13.9%
Convertible Bond Alternative *(Note 4)*	611	2,303	2,914	21.0%

Notes:

1. Total borrowings represent the aggregate of bank borrowings, finance leases and convertible notes.

2. Gearing ratio represents (i) total borrowings divided by (ii) the sum of total borrowings and consolidated net assets.

3. Assuming the Offers were accepted in full and all the CCT Tech Independent Shareholders opted for cash but New Capital opted for Convertible Bonds, the borrowings of the CCT Telecom Group would have been increased by HK$59 million upon the issue of the Convertible Bonds and the cancellation of the CCT Tech 2005 CN.

4. Assuming the Offers were accepted in full and all the CCT Tech Independent Shareholders and New Capital opted for the Convertible Bonds, the borrowings of CCT Telecom Group would have been increased by HK$299 million upon the issue of the Convertible Bonds and the cancellation of the CCT Tech 2005 CN.

The borrowings and the gearing ratios of the CCT Telecom Group would have increased because of the issue of the Convertible Bonds as a result of the Offers. These Convertible Bonds have a long maturity date of five years and are interest free. Therefore, CCT Telecom would not incur any additional financial costs and would not have any immediate pressure on repayment of principal of the Convertible Bonds. Although the gearing ratio of the CCT Telecom Group would have increased after the Offers, the ratio would have remained at a low level and this would not have caused any material adverse effect to the financial position of the CCT Telecom Group. Furthermore, the holders of the Convertible Bonds may convert the Convertible Bonds into CCT Telecom Shares after the Offers. Therefore, the gearing ratio of the CCT Telecom Group would improve upon conversion of the Convertible Bonds.

(c) Earnings

The effect of the Offers on the earnings of the CCT Telecom Group based on the unaudited consolidated profit and loss account of the CCT Telecom Group for the six months ended 30 June 2004 is set out as follows:

	HK$'million	*Per share HK$*
Unaudited consolidated net profit of the CCT Telecom Group for the six months ended 30 June 2004	56	0.1325 *(Note 1)*
Add:		
Minority Interests *(Note 2)*	38	
Adjusted consolidated net profit of the CCT Telecom Group for the six months ended 30 June 2004	94	
CCT Tech Independent Shareholders opted for Cash and New Capital opted for the Convertible Bonds basis *(Note 3)*		0.1849 *(Note 3)*
CCT Tech Independent Shareholders and New Capital opted for the Convertible Bonds basis *(Note 4)*		0.1344 *(Note 4)*

Notes:

1. The earnings per share was calculated based on 422,525,230 CCT Telecom Shares in issue as at the Latest Practicable Date.

2. Minority interests represent the share of results of the CCT Tech Group by minority interests for the six months ended 30 June 2004. Assuming the Offers were accepted in full, the CCT Tech Group would have become a wholly-owned subsidiary of CCT Telecom and the respective minority interests would have been consolidated into the consolidated profit and loss of the CCT Telecom Group.

3. The earnings per share was calculated based on 504,214,259 CCT Telecom Shares in issue upon full conversion of the Convertible Bonds assuming that the Offers were accepted in full and all the CCT Tech Independent Shareholders opted for cash and New Capital opted for the Convertible Bonds and converted into the CCT Telecom Shares.

4. The earnings per share was calculated based on 693,704,171 CCT Telecom Shares in issue upon the conversion of the Convertible Bonds assuming that the Offers were accepted in full and all the CCT Tech Independent Shareholders and New Capital opted for the Convertible Bonds and converted the same into the CCT Telecom Shares.

In both cases, the consolidated net profit and/or the earnings per share of CCT Telecom Group for the six months ended 30 June 2004 would have been increased substantially. It is because CCT Telecom would have consolidated 100% rather than 34.51% of the CCT Tech Group's profits if CCT Tech was privatised as a result of the Offers. The dilution effect due to the issue of new CCT Telecom Shares as a result of the conversion of the Convertible Bonds is more than offset by the increase in sharing of the profits of the CCT Tech Group as a result of the Offers. The improvement in earnings per share of the CCT Telecom Group is particularly apparent in the case where all the

CCT Tech Independent Shareholders accepted the Offers and opted for cash and only New Capital opted for the Convertible Bonds. The increase in earning per CCT Telecom Share is approximately 40% in that case.

(d) Business

The Combined Group will carry on the same business before and after the Offers. No material changes will be made to the existing business operations and the continuing employment of management and employees after the Offers. If the CCT Tech Group was privatised, the existing intra-group continuing connected transactions would have been eliminated and the administration costs in maintaining the CCT Tech Group as a listed group would have been reduced significantly. This is beneficial to the CCT Telecom Group as a whole.

(A) FINANCIAL SUMMARY

The following is a summary of the published audited consolidated profit and loss accounts of CCT Tech International Limited for the three years/periods ended 31 December 2003, as extracted from the respective annual reports of CCT Tech International Limited:

	Year ended 31 December 2003 *HK$'000* **(Audited)**	Fifteen months ended 31 December 2002 *HK$'000* **(Audited)**	Year ended 30 September 2001 *HK$'000* **(Audited)**
TURNOVER	1,926,258	106,385	84,183
PROFIT/(LOSS) BEFORE TAX	82,360	99,693	(44,953)
Tax	(9,666)	(1,000)	—
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	72,694	98,693	(44,953)
Minority interests	48	(535)	—
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	72,742	98,158	(44,953)
DIVIDENDS	—	—	—
EARNINGS/(LOSS) PER SHARE	0.60 cents	1.75 cents	(7.13) cents

There were neither extraordinary nor exceptional items recorded for the three years/periods ended 31 December 2003.

(B) FINANCIAL INFORMATION OF THE CCT TECH GROUP FOR THE YEAR ENDED 31 DECEMBER 2003:

Set out below is the audited financial statements of the CCT Tech Group for the year ended 31 December 2003 as extracted from the CCT Tech Group's 2003 annual report.

Consolidated Profit and Loss Account
Year ended 31 December 2003

	Notes	Year ended 31 December 2003 HK$'000 (Audited)	Period from 1 October 2001 to 31 December 2002 HK$'000 (Audited)
TURNOVER	5	1,926,258	106,385
Cost of sales		(1,709,749)	(88,164)
Gross profit		216,509	18,221
Other revenue		12,161	2,760
Selling and distribution costs		(26,058)	(723)
Administrative expenses		(63,410)	(24,356)
Other operating expenses		(27,822)	(2,603)
Impairment of fixed assets		—	(9,985)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	6	111,380	(16,686)
Net gain attributable to the Group Restructuring	7	—	119,472
Finance costs	8	(29,020)	(3,093)
PROFIT BEFORE TAX		82,360	99,693
Tax	11	(9,666)	(1,000)
PROFIT BEFORE MINORITY INTERESTS		72,694	98,693
Minority interests		48	(535)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12	72,742	98,158
DIVIDEND	13	—	—
EARNINGS PER SHARE	14		
Basic		0.60 cents	1.75 cents
Diluted		0.22 cents	1.15 cents

There were neither extraordinary nor exceptional items recorded for the year ended 31 December 2003.

Consolidated Balance Sheet
31 December 2003

	Notes	2003 HK$'000 (Audited)	2002 HK$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets	15	681,128	16,134
Intangible assets	16	22,925	496
Goodwill	17	55,066	32,297
Other assets	19	350	—
Deferred tax assets	29	8,811	—
		768,280	48,927
CURRENT ASSETS			
Inventories	20	155,128	1,849
Trade and bills receivables	21	593,923	29,867
Prepayments, deposits and other receivables	22	7,502	1,790
Pledged time deposits	23	100,161	5,043
Cash and cash equivalents	23	449,655	62,933
		1,306,369	101,482
CURRENT LIABILITIES			
Trade and bills payables	24	859,256	25,682
Tax payable		13,326	2,214
Other payables and accruals	25	113,051	7,014
Interest-bearing bank and other borrowings	26	111,680	2,578
Convertible notes	28	8,000	—
		1,105,313	37,488
NET CURRENT ASSETS		201,056	63,994
TOTAL ASSETS LESS CURRENT LIABILITIES		969,336	112,921
NON-CURRENT LIABILITIES			
Finance lease payables	27	775	—
Convertible notes	28	823,000	65,000
Deferred tax liabilities	29	2,931	985
		826,706	65,985
MINORITY INTERESTS		487	535
		142,143	46,401
CAPITAL AND RESERVES			
Issued capital	30	131,384	108,384
Reserves	32(a)	10,759	(61,983)
		142,143	46,401

Consolidated Statement of Changes in Equity

Year ended 31 December 2003

	Issued share capital *HK$'000* (Audited)	Share premium account *HK$'000* (Audited)	Contributed surplus *HK$'000* (Audited)	Capital reserve *HK$'000* (Audited)	Conversion option reserve *HK$'000* (Audited)	Accumulated losses *HK$'000* (Audited)	Total *HK$'000* (Audited)
At 1 October 2001	127,681	733,730	34,600	47,926	20,487	(1,014,788)	(50,364)
Capital reduction against accumulated losses *(note a)*	(121,297)	—	—	—	—	121,297	—
Issue of new shares of CCT Technology	84,200	—	—	—	—	—	84,200
Placement of new shares of CCT Technology	17,800	—	—	—	—	—	17,800
Reversal of conversion option reserve upon the Group Restructuring *(note b)*	—	—	—	—	(20,487)	—	(20,487)
Reversal of reserves upon the Group Restructuring *(note c)*	—	—	(34,600)	(47,926)	—	—	(82,526)
Share issue expenses	—	(380)	—	—	—	—	(380)
Profit for the period	—	—	—	—	—	98,158	98,158
At 31 December 2002 and 1 January 2003	108,384	733,350	—	—	—	(795,333)	46,401
Issue of new shares	23,000	—	—	—	—	—	23,000
Profit for the year	—	—	—	—	—	72,742	72,742
At 31 December 2003	131,384	733,350	—	—	—	(722,591)	142,143

Notes:

(a) The entire credit balance, arising from the capital reduction of CCT Technology in the amount of HK$121,297,000, was applied to write off part of the accumulated losses of CCT Technology.

(b) The entire conversion option reserve was reversed upon settlement of the convertible notes on 17 May 2002.

(c) The contributed surplus and capital reserves were reversed upon the disposal of certain subsidiaries and disposal of properties, respectively.

The events as explained in notes (a) to (c) above have arisen from the Group Restructuring which was completed on 17 May 2002. Details of the Group Restructuring are set out in note 1 to the financial statements.

Consolidated Cash Flow Statement
Year ended 31 December 2003

	Notes	Year ended 31 December 2003 HK$'000 (Audited)	Period from 1 October 2001 to 31 December 2002 HK$'000 (Audited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		82,360	99,693
Adjustments for:			
Interest income	5	(1,270)	(365)
Gain on disposal of fixed assets, net	6	(8)	—
Finance costs	8	29,020	3,093
Net gain attributable to the Group Restructuring	7	—	(119,472)
Depreciation	6	42,749	3,808
Amortisation of goodwill	6	2,290	1,100
Amortisation of deferred development costs	6	20,103	99
Bad and doubtful debt provisions on trade receivables	6	369	380
Provision for slow-moving and obsolete stocks	6	7,684	—
Loss on disposal of fixed assets, net	6	—	116
Write off of fixed assets	6	17,893	1,007
Impairment of fixed assets		—	9,985
Write off of deferred development costs	6	7,270	—
Operating profit/(loss) before working capital changes		208,460	(556)
Decrease in inventories		28,198	1,445
Decrease/(increase) in trade and bills receivables, prepayments, deposits and other receivables		(43,987)	630
Increase in trade and bills payables, other payables and accruals		245,948	5,700
Cash generated from operations		438,619	7,219
Interest received		1,270	365
Interest paid		(28,966)	—
Interest element on finance lease rental payments		(54)	(31)
Hong Kong profits tax paid		(6,424)	(754)
Net cash inflow from operating activities		404,445	6,799

	Notes	Year ended 31 December 2003 HK$'000 (Audited)	Period from 1 October 2001 to 31 December 2002 HK$'000 (Audited)
Net cash inflow from operating activities		404,445	6,799
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(31,594)	(2,563)
Proceeds from disposal of fixed assets		5,706	61
Additions to deferred development costs		(18,750)	(172)
Acquisition of subsidiaries	33(b)	134,932	15,026
Disposal of subsidiaries and discharge of secured and unsecured financial obligations upon the Group Restructuring	33(c)	—	(12,870)
Increase in pledged time deposits		(36,482)	(5,043)
Net cash inflow/(outflow) from investing activities		53,812	(5,561)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new shares		—	40,000
Proceeds from placement of shares		—	17,800
Share issue expenses		—	(380)
Issue of convertible notes		21,000	20,000
Repayment of convertible notes		—	(23,000)
New bank loans		93,000	—
Repayment of bank loans		(115,183)	—
Net repayment of trust receipts		(69,238)	—
Capital element of finance lease rental payments		(1,114)	—
Net cash inflow/(outflow) from financing activities		(71,535)	54,420
INCREASE IN CASH AND CASH EQUIVALENTS		386,722	55,658
Cash and cash equivalents at beginning of year/period		62,933	7,275
CASH AND CASH EQUIVALENTS AT END OF YEAR/ PERIOD		449,655	62,933
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	316,620	27,718
Non-pledged time deposits with original maturity of less than three months when acquired	23	133,035	35,215
		449,655	62,933

Balance Sheet
31 December 2003

	Notes	2003 HK$'000 (Audited)	2002 HK$'000 (Audited)
NON-CURRENT ASSETS			
Interests in subsidiaries	18	886,522	71,092
CURRENT ASSETS			
Prepayments, deposits and other receivables	22	130	740
Cash and cash equivalents	23	11,137	35,722
		11,267	36,462
CURRENT LIABILITIES			
Other payables and accruals	25	1,380	1,012
Convertible notes	28	8,000	—
		9,380	1,012
NET CURRENT ASSETS		1,887	35,450
TOTAL ASSETS LESS CURRENT LIABILITIES		888,409	106,542
NON-CURRENT LIABILITIES			
Convertible notes	28	823,000	65,000
		65,409	41,542
CAPITAL AND RESERVES			
Issued capital	30	131,384	108,384
Reserves	32(b)	(65,975)	(66,842)
		65,409	41,542

Notes to Financial Statements

31 December 2003

1. CORPORATE INFORMATION

During the year, the Group was engaged in the business of manufacture and sale of telecom products and accessories.

In June 2003, the Group acquired the entire 100% interest in Empire Success Holdings Limited ("ESH") and its subsidiaries (collectively referred to as the "ESH Group") from CCT Telecom Holdings Limited ("CCT Telecom"), details of which are set out in notes 33(b) and 38 to the financial statements. The principal activities of ESH Group are the manufacture and sale of telecom products and accessories.

In the opinion of the directors, the ultimate holding company of the Company is CCT Telecom, which is incorporated in the Cayman Islands with limited liability and is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to the restructuring agreements entered into between Wireless InterNetworks Limited ("WIN"), WIN's then receivers, Standard Chartered Bank, CCT Telecom and Dongguan Defa Investment Limited, an independent third party, on 10 August 2001 (the "Group Restructuring"), a substantial portion of the defaulted indebtedness owed by WIN and its then subsidiaries as of that date was fully discharged. In addition, all material loss-making WIN group subsidiaries were carved out from WIN. The Group Restructuring was completed on 17 May 2002. The name of WIN was subsequently changed to CCT Technology Holdings Limited ("CCT Technology") on 22 May 2002. On 5 July 2002, CCT Technology announced its proposal for a group reorganisation (the "Group Reorganisation"), which involved the introduction of the Company. As a result of the Group Reorganisation, CCT Technology became a wholly-owned subsidiary of the Company and the then shareholders of CCT Technology then became the shareholders of the Company with the shares exchanged on a one-to-one basis, each with the same respective interest as they were previously interested in CCT Technology (further details of the share exchange are set out in note 30 to the financial statements).

The listing of the shares of CCT Technology on the Stock Exchange was withdrawn on 6 November 2002. The shares of the Company were listed on the Stock Exchange by way of introduction and the dealing of which commenced on 7 November 2002.

Further details of the Group Restructuring and the Group Reorganisation are set out in WIN's circular and CCT Technology's circular dated 31 March 2002 and 20 September 2002, respectively.

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

The following revised SSAP is effective for the first time for the current year's financial statements and has had a significant impact thereon:

- SSAP 12 (Revised): "Income taxes

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 carryforward 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 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 11 and 29 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes arising from them are included in the accounting policy for deferred tax in note 3 and in note 29 to the financial statements.

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.

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.

The Group Reorganisation, which was completed on 4 November 2002, involved companies under common control. The consolidated financial statements of the Group for the period ended 31 December 2002 have been prepared using the merger basis of accounting in accordance with SSAP 27 "Accounting for group reconstructions". On this basis, the consolidated financial statements of the Group have been prepared as if the Company had been the holding company of its subsidiaries acquired since their respective dates of incorporation/registration, rather than from the completion date of the Group Reorganisation. Accordingly, the consolidated results and cash flows of the Group for the period ended 31 December 2002 included the results and cash flows of the Company and its subsidiaries with effect from 1 October 2001 or since their respective dates of incorporation/registration, where this is a shorter period. In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results, cashflows and state of affairs of the Group as a whole.

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.

Goodwill

Goodwill arising on the acquisition of subsidiaries 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.

On disposal of subsidiaries, 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.

The carrying amount of goodwill 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 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	5%–6%
Plant and machinery	10%–20%
Tools, moulds and equipment	10%–20%
Furniture and office equipment	10%–20%
Motor vehicles	15%–30%

Freehold land is not depreciated.

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.

Intangible assets

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.

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, 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, 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 a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of the share options granted under the share option scheme is 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 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. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding shares.

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 its employees. Contributions are made based on a percentage of the employees' relevant income 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 accumulated in the previous retirement scheme before 1 December 2000, 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 were eligible to participate in this scheme. This scheme operates in a similar way to the MPF Scheme, except that the contributions are made based on a percentage of the employees' basic salary and when an employee leaves this scheme before his/her interest in the Group's employer contributions has vested 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 are translated to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries 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) 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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings 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 they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

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

(b) the corporate segment includes corporate income and expense items.

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 table presents revenue and profit/(loss) for the Group's business segments.

Group

	Telecom products		Corporate		Total	
	Year ended 31 December 2003	Period from 1 October 2001 to 31 December 2002	Year ended 31 December 2003	Period from 1 October 2001 to 31 December 2002	Year ended 31 December 2003	Period from 1 October 2001 to 31 December 2002
	HK$'000 (Audited)	*HK$'000* (Audited)	*HK$'000* (Audited)	*HK$'000* (Audited)	*HK$'000* (Audited)	*HK$'000* (Audited)
Segment revenue:						
Sales to external customers	1,924,988	106,020	—	—	1,924,988	106,020
Other revenue	12,161	—	—	2,760	12,161	2,760
Total revenue	1,937,149	106,020	—	2,760	1,937,149	108,780
Segment results	119,073	6,991	(8,963)	(24,042)	110,110	(17,051)
Interest income					1,270	365
Net gain attributable to the Group Restructuring					—	119,472
Finance costs					(29,020)	(3,093)
Profit before tax					82,360	99,693
Tax					(9,666)	(1,000)
Profit before minority interests					72,694	98,693
Minority interests					48	(535)
Net profit from ordinary activities attributable to shareholders					72,742	98,158

No analysis of the assets, liabilities and other segment information regarding the Group's business segments for the year ended 31 December 2003 and the period ended 31 December 2002 has been presented as over 90% of the Group's revenue is derived from the telecom products segment.

(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 ("PRC") including Hong Kong. Accordingly, no analysis of the assets and capital expenditures by geographical segments is presented.

Group	**United States of America**		**PRC, including Hong Kong**		**European Union**		**Others**		**Consolidated**	
	Year ended 31 December 2003	**Period from 1 October 2001 to 31 December 2002**	**Year ended 31 December 2003**	**Period from 1 October 2001 to 31 December 2002**	**Year ended 31 December 2003**	**Period from 1 October 2001 to 31 December 2002**	**Year ended 31 December 2003**	**Period from 1 October 2001 to 31 December 2002**	**Year ended 31 December 2003**	**Period from 1 October 2001 to 31 December 2002**
	HK$'000 **(Audited)**	*HK$'000* **(Audited)**	*HK$'000* **(Audited)**	*HK$'000* **(Audited)**	*HK$'000* **(Audited)**	*HK$'000* **(Audited)**	*HK$'000* **(Audited)**	*HK$'000* **(Audited)**	*HK$'000* **(Audited)**	*HK$'000* **(Audited)**
Segment revenue:										
Sales to external customers	1,244,344	—	342,617	106,020	64,996	—	273,031	—	1,924,988	106,020
Other revenue	—	—	12,161	2,760	—	—	—	—	12,161	2,760
Total revenue	1,244,344	—	354,778	108,780	64,996	—	273,031	—	1,937,149	108,780

5. TURNOVER

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

Revenue from the following activities has been included in turnover:

	Year ended 31 December 2003	**Period from 1 October 2001 to 31 December 2002**
	HK$'000 **(Audited)**	*HK$'000* **(Audited)**
Manufacture and sale of telecom products and accessories	1,924,988	106,020
Interest income	1,270	365
	1,926,258	106,385

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Notes	Year ended 31 December 2003 HK$'000 (Audited)	Period from 1 October 2001 to 31 December 2002 HK$'000 (Audited)
Depreciation	15	42,749	3,808
Less: Amount capitalised in deferred development costs		(1,728)	—
		41,021	3,808
Minimum lease payments under operating leases in respect of land and buildings		6,124	1,465
Research and development costs			
Deferred expenditure amortised*	16	20,103	99
Current year/period expenditure	16	18,750	172
Amortisation of goodwill**	17	2,290	1,100
Staff costs (excluding directors' remuneration — *note 9*)***		128,976	11,310
Pension scheme contributions		1,866	218
Less: Amount capitalised in deferred development costs		(11,053)	—
		119,789	11,528
Auditors' remuneration		2,500	650
Bad and doubtful debt provisions on trade receivables		369	380
Loss on disposal of fixed assets, net		—	116
Write off of fixed assets		17,893	1,007
Write off of deferred development costs**	16	7,270	—
Provision for slow-moving and obsolete stocks*		7,684	—
and after crediting:			
Net rental income		3,000	—
Gain on disposal of fixed assets, net		8	—

* The amortisation of deferred development costs and 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/period 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/period, and the amounts of forfeited contributions available to reduce contributions in future years, were not material.

7. NET GAIN ATTRIBUTABLE TO THE GROUP RESTRUCTURING

	Group	
	Year ended 31 December 2003	Period from 1 October 2001 to 31 December 2002
	HK$'000	*HK$'000*
	(Audited)	(Audited)
Waiver of secured and unsecured financial obligations by banks, noteholders and creditors	—	46,842
Reversal of reserves upon the Group Restructuring	—	82,526
	—	129,368
Less: Expenses incurred in connection with the Group Restructuring	—	(9,896)
	—	119,472

8. FINANCE COSTS

	Group	
	Year ended 31 December 2003	Period from 1 October 2001 to 31 December 2002
	HK$'000	*HK$'000*
	(Audited)	(Audited)
Interest on bank loans and overdrafts wholly repayable within five years	1,059	401
Interest on convertible notes	27,907	482
Interest on finance leases	54	31
Amortisation of premium payable upon the final redemption of the convertible notes	—	2,179
	29,020	3,093

9. DIRECTORS' REMUNERATION

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

	Group	
	Year ended 31 December 2003	Period from 1 October 2001 to 31 December 2002
	HK$'000	*HK$'000*
	(Audited)	(Audited)
Fees:		
Executive directors	—	—
Independent non-executive directors	300	150
	300	150
Executive directors' other emoluments:		
Salaries, allowances and benefits in kind	5,629	—
Pension scheme contributions	309	—
	5,938	—
	6,238	150

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

	Number of directors	
	Year ended 31 December 2003 (Audited)	Period from 1 October 2001 to 31 December 2002 (Audited)
Nil–HK$1,000,000	4	6
HK$1,000,001–HK$1,500,000	1	—
HK$1,500,001–HK$2,000,000	1	—
HK$2,000,001–HK$2,500,000	1	—

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

During the year, 366,000,000 share options were granted to the directors in respect of their services to the Group, for the details of which are set out in note 31 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.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (period ended 31 December 2002: Nil) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2002: five) non-director, highest paid employees for the year are as follows:

	Group	
	Year ended 31 December 2003 *HK$'000* (Audited)	Period from 1 October 2001 to 31 December 2002 *HK$'000* (Audited)
Salaries, allowances and benefits in kind	1,223	1,336
Performance related bonuses	216	—
Pension scheme contributions	79	92
	1,518	1,428

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

	Number of employees	
	Year ended 31 December 2003 (Audited)	Period from 1 October 2001 to 31 December 2002 (Audited)
Nil–HK$1,000,000	2	5

During the year, 78,000,000 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 31 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.

11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (period ended 31 December 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 a wholly foreign-owned enterprises, are entitled to preferential tax treatments including full exemption from the PRC income tax for two years starting from the first profit-making year, followed by a 50% reduction for the next consecutive three years.

	Year ended 31 December 2003	Period from 1 October 2001 to 31 December 2002
	HK$'000	*HK$'000*
	(Audited)	**(Audited)**
Group:		
Current — Hong Kong		
Charge for the year	8,207	1,000
Overprovision in prior years	(860)	—
Current — Elsewhere	2,130	—
Deferred — *note 29*	189	—
	9,666	1,000
Total tax charge for the year/period	9,666	1,000

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company 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:

Group — 2003

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
	(Audited)		**(Audited)**		**(Audited)**	
Profit before tax	8,526		73,834		82,360	
Tax at the statutory or applicable tax rate	1,492	17.5	17,720	24.0	19,212	23.3
Lower tax rate for specific provinces or local authority	—	—	463	0.6	463	0.6
Effect on opening deferred tax of increase in rates	92	1.1	—	—	92	0.1
Tax exemption	—	—	(2,104)	(2.8)	(2,104)	(2.6)
Income not subject to tax	(154)	(1.8)	(16,845)	(22.8)	(16,999)	(20.6)
Expenses not deductible for tax	6,107	71.6	2,895	3.9	9,002	10.9
Tax charge at the Group's effective rate	7,537	88.4	2,129	2.9	9,666	11.7

Group — 2002

	Hong Kong		Mainland China		Total	
	HK$'000 (Audited)	%	*HK$'000* (Audited)	%	*HK$'000* (Audited)	%
Profit before tax	91,973		7,720		99,693	
Tax at the statutory or applicable tax rate	14,716	16.0	1,853	24.0	16,569	16.6
Income not subject to tax	(19,557)	(21.3)	(1,853)	(24.0)	(21,410)	(21.5)
Expenses not deductible for tax	5,841	6.4	—	—	5,841	5.9
Tax charge at the Group's effective rate	1,000	1.1	—	—	1,000	1.0

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit 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$867,000 (period ended 31 December 2002: net loss of HK$11,093,000) (note 32(b)).

13. DIVIDEND

No dividends have been paid or declared by the Company for the year ended 31 December 2003 (period ended 31 December 2002: Nil).

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year ended 31 December 2003 of HK$72,742,000 (period ended 31 December 2002: HK$98,158,000), and the weighted average number of 12,066,769,981 ordinary shares (period ended 31 December 2002: 5,617,923,213) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK$100,676,000 (period ended 31 December 2002: HK$98,564,000), after adjustment for interest saved upon deemed exercise of all convertible notes during the year. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is 46,453,485,820 (period ended 31 December 2002: 8,592,814,043) which includes the weighted average number of 12,066,769,981 (period ended 31 December 2002: 5,617,923,213) shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 34,263,463,796 (period ended 31 December 2002: 2,974,890,830) ordinary shares assumed to have been issued on the deemed exercise of all convertible notes during the year; and the weighted average of 123,252,043 (period ended 31 December 2002: Nil) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

15. FIXED ASSETS

Group

	Freehold land and buildings outside Hong Kong *HK$'000* **(Audited)**	Leasehold land and buildings *HK$'000* **(Audited)**	Plant and machinery *HK$'000* **(Audited)**	Tools, moulds and equipment *HK$'000* **(Audited)**	Furniture and office equipment *HK$'000* **(Audited)**	Motor vehicles *HK$'000* **(Audited)**	Total *HK$'000* **(Audited)**
Cost:							
At 1 January 2003	14,754	—	16,356	4,861	5,339	2,750	44,060
Additions	—	2,153	9,683	14,572	3,229	1,957	31,594
Acquisition of subsidiaries	—	547,768	187,013	84,056	62,912	12,049	893,798
Disposals	(14,754)	—	—	(71)	(110)	(1,696)	(16,631)
Write off	—	(18,835)	—	—	—	—	(18,835)
At 31 December 2003	—	531,086	213,052	103,418	71,370	15,060	933,986
Accumulated depreciation and impairment:							
At 1 January 2003	9,985	—	11,128	2,773	2,404	1,636	27,926
Depreciation provided during the year	—	14,440	14,034	8,243	4,681	1,351	42,749
Acquisition of subsidiaries	—	36,660	77,973	39,527	32,703	7,195	194,058
Disposals	(9,985)	—	—	(66)	(69)	(813)	(10,933)
Write off	—	(942)	—	—	—	—	(942)
At 31 December 2003	—	50,158	103,135	50,477	39,719	9,369	252,858
Net book value:							
At 31 December 2003	—	480,928	109,917	52,941	31,651	5,691	681,128
At 31 December 2002	4,769	—	5,228	2,088	2,935	1,114	16,134

The net book value of the fixed assets of the Group held under finance leases included in the total amounts of furniture and office equipment and motor vehicles as at 31 December 2003, amounted to HK$132,000 (2002: Nil) and HK$1,503,000 (2002: Nil), respectively.

The Group's leasehold land and buildings included above are situated in the PRC and are held under medium term leases.

16. INTANGIBLE ASSETS

Group

	Deferred development costs *HK$'000* **(Audited)**
Cost:	
At 1 January 2003	762
Acquisition of subsidiaries	90,330
Additions	18,750
Write off	(25,157)
At 31 December 2003	84,685
Accumulated amortisation:	
At 1 January 2003	266
Acquisition of subsidiaries	59,278
Amortisation provided during the year	20,103
Write back	(17,887)
At 31 December 2003	61,760
Net book value:	
At 31 December 2003	22,925
At 31 December 2002	496

17. GOODWILL

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

Group

	HK$'000 **(Audited)**
Cost:	
At 1 January 2003	33,397
Acquisition of subsidiaries *(note 33(b))*	25,059
At 31 December 2003	58,456
Accumulated amortisation:	
At 1 January 2003	1,100
Amortisation provided during the year	2,290
At 31 December 2003	3,390
Net book value:	
At 31 December 2003	55,066
At 31 December 2002	32,297

18. INTERESTS IN SUBSIDIARIES

	Company	
	2003	**2002**
	HK$'000	*HK$'000*
	(Audited)	**(Audited)**
Unlisted shares, at cost	308,294	52,635
Due from subsidiaries	594,721	28,900
Due to subsidiaries	(6,493)	(443)
	896,522	81,092
Provision for impairment	(10,000)	(10,000)
	886,522	71,092

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

Particulars of the principal subsidiaries are as follows:

Name	**Place of incorporation/ registration and operations**	**Nominal value of issued ordinary share/ registered share capital**	**Percentage of equity attributable to the Company**		**Principal activities**
			Direct	**Indirect**	
Empire Success Holdings Limited	British Virgin Islands	US$1 Ordinary	—	100	Investment holding
CCT Marketing Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	100	Trading of telecom products
CCT Telecom (HK) Limited	Hong Kong	HK$2,600,000 Ordinary	—	100	Sourcing of telecom products
Electronic Sales Limited	Hong Kong	HK$5,948,000 Ordinary	—	100	Sale of telecom products
東莞易訊電子製品有限公司	People's Republic of China	HK$60,000,000 Registered*	—	100	Manufacture of telecom products
Huiyang CCT Telecommunications Products Co., Ltd.	People's Republic of China	HK$80,000,000 Registered*	—	100	Manufacture of telecom products

* Registered as a wholly foreign-owned enterprises under the PRC laws.

During the year, the Group acquired ESH Group, including Huiyang CCT Telecommunications Products Co., Ltd., CCT Marketing Limited and CCT Telecom (HK) Limited. Further details of the acquisition are included in note 33(b) to the financial statements.

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

S. Meggatel Sdn. Bhd., a 70%-owned subsidiary of the Group in Malaysia, had incomplete books and records. However, the net assets and results of S. Meggatel Sdn. Bhd. as at 31 December 2003 and for the year then ended are not material to the current year's financial statements of the Group.

19. OTHER ASSETS

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
	(Audited)	**(Audited)**
Club memberships, at cost	350	—

20. INVENTORIES

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
	(Audited)	**(Audited)**
Raw materials	33,121	193
Work in progress	43,846	98
Finished goods	78,161	1,558
	155,128	1,849

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.

21. TRADE AND BILLS RECEIVABLES

An aged analysis of the trade and bills receivables as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	Group			
	2003		**2002**	
	HK$'000	*Percentage*	*HK$'000*	*Percentage*
	(Audited)	**(Audited)**	**(Audited)**	**(Audited)**
Current to 30 days	251,586	42	28,259	95
31 to 60 days	184,463	31	1,464	5
61 to 90 days	154,085	26	99	—
Over 90 days	3,789	1	45	—
	593,923	100	29,867	100

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

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	**(Audited)**	**(Audited)**	**(Audited)**
Prepayments	498	804	130	740
Deposits and other receivables	7,004	986	—	—
	7,502	1,790	130	740

23. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Cash and bank balances	316,620	27,718	1,498	507
Time deposits	233,196	40,258	9,639	35,215
	549,816	67,976	11,137	35,722
Less: Time deposits pledged for bank borrowings	(100,161)	(5,043)	—	—
	449,655	62,933	11,137	35,722

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$11,561,000 (2002: HK$159,000). 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.

24. 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	
	HK$'000	*Percentage*	*HK$'000*	*Percentage*
	(Audited)	(Audited)	(Audited)	(Audited)
Current to 30 days	209,485	24	18,995	74
31 to 60 days	230,149	27	4,118	16
61 to 90 days	174,772	20	2,386	9
Over 90 days	244,850	29	183	1
	859,256	100	25,682	100

Included in the above balance is a trade payable of approximately HK$95,487,000 (2002: HK$5,794,000) to Neptune Holding Limited ("Neptune"), a wholly-owned subsidiary of the Company, which is repayable within 120 days.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Other payables	30,218	326	—	—
Accruals	82,833	6,688	1,380	1,012
	113,051	7,014	1,380	1,012

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

		Group	
		2003	2002
	Note	*HK$'000*	*HK$'000*
		(Audited)	**(Audited)**
Current portion of bank loans, secured		111,181	2,578
Current portion of finance lease payables	27	499	—
		111,680	2,578

27. FINANCE LEASE PAYABLES

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

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

Group

	Minimum lease payments 2003 *HK$'000* **(Audited)**	Minimum lease payments 2002 *HK$'000* **(Audited)**	Present value of minimum lease payments 2003 *HK$'000* **(Audited)**	Present value of minimum lease payments 2002 *HK$'000* **(Audited)**
Amounts payable:				
Within one year	548	—	499	—
In the second year	378	—	336	—
In the third to fifth years, inclusive	495	—	439	—
Total minimum finance lease payments	1,421	—	1,274	—
Future finance charges	(147)	—		
Total net finance lease payables	1,274	—		
Portion classified as current liabilities — *note 26*	(499)	—		
Non-current portion	775	—		

28. CONVERTIBLE NOTES

	Group		Company	
	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	**(Audited)**	**(Audited)**	**(Audited)**
2004 Convertible notes — *note (a)*	8,000	20,000	8,000	20,000
2005 Convertible notes — *note (b)*	45,000	45,000	45,000	45,000
2005 Convertible notes — *note (c)*	10,000	—	10,000	—
2008 Convertible notes — *note (d)*	768,000	—	768,000	—
	831,000	65,000	831,000	65,000
Portion classified as current liabilities	(8,000)	—	(8,000)	—
Non-current portion	823,000	65,000	823,000	65,000

Notes:

(a) On 19 July 2002, CCT Technology issued convertible notes with aggregate principal amounts of HK$20 million through a placing agent to an independent third party and which were subsequently replaced by the convertible notes issued by the Company on 4 November 2002 pursuant to the Group Reorganisation. The convertible notes provide the holder option right to convert the principal amount into ordinary shares of HK$0.01 each of the Company 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.

On 24 June 2003, the principal amounts of HK$12 million were converted into 1,200,000,000 shares of the Company of HK$0.01 each at conversion price of HK$0.01 per share.

(b) On 17 May 2002, CCT Technology issued convertible notes with aggregate principal amounts of HK$45 million to CCT Emporium International Limited, an indirect wholly-owned subsidiary of CCT Telecom which were subsequently replaced by the convertible notes issued by the Company on 4 November 2002 pursuant to the Group Reorganisation. The convertible notes were issued as part of the consideration for the acquisition of a 100% interest in ESL from an indirect wholly-owned subsidiary of CCT Telecom, details of which are set out in note 33(b) to the financial statements. The convertible notes provide the holder option right to convert the principal amount into ordinary shares of HK$0.01 each of the Company 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 are interest-free and will mature on the third anniversary of the date of their issue.

(c) On 14 May 2003, the Company issued convertible notes with aggregate principal amounts of HK$21 million through a placing agent to several independent parties. The convertible notes provide the holders option right to convert the principal amount into the Company's ordinary shares of HK$0.01 each on any business day being five business days prior to the maturity of the convertible notes at a conversion price of HK$0.01 per share.

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

In June 2003, the principal amounts of HK$11 million have been converted into 1,100,000,000 shares of the Company of HK$0.01 each at a conversion price of HK$0.01 per share.

(d) On 30 June 2003, the Company issued convertible notes with aggregate principal amounts of HK$768 million to an indirect wholly-owned subsidiary of CCT Telecom as the consideration for the acquisition of the entire interest in ESH from an indirect wholly-owned subsidiary of CCT Telecom, details of which are set out in note 33(b) to the financial statements. The convertible notes provide the holder option right to convert the principal amount into the Company's ordinary shares of HK$0.01 each on any business day being five business days prior to the maturity of the convertible notes at a conversion price of HK$0.014 per share. The convertible notes bear interest at prime or best lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollar loans plus 2% per annum and will mature on the fifth anniversary of the date of their issue.

29. 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$'000* **(Audited)**
At 1 January 2003	
As previously reported	985
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	—
As restated	985
Deferred tax credited to the profit and loss account during the year	(1,161)
Acquisition of subsidiaries — *note 33(b)*	3,107
Gross deferred tax liabilities at 31 December 2003	2,931

Deferred tax assets

Group

	2003 Losses available for offset against future taxable profit *HK$'000* **(Audited)**
At 1 January 2003	
As previously reported	—
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	—
As restated	—
Deferred tax charged to the profit and loss account during the year	(1,350)
Acquisition of subsidiaries — *note 33(b)*	10,161
Gross deferred tax assets at 31 December 2003	8,811
Net deferred tax assets at 31 December 2003	5,880

Deferred tax liabilities

Group

	2002 Accelerated tax depreciation *HK$'000* (Audited)
At 1 October 2001	
As previously reported	—
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	—
As restated	—
Deferred tax charged to the profit and loss account	—
Acquisition of subsidiaries — *note 33(b)*	985
Gross deferred tax liabilities at 31 December 2002	985

Group

	2002 Losses available for offset against future taxable profit *HK$'000* (Audited)
At 1 October 2001	
As previously reported	—
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	—
As restated	—
Deferred tax credited to the profit and loss account	—
Gross deferred tax assets at 31 December 2002	—
Net deferred tax liabilities at 31 December 2002	985

The Group has tax losses arising in Hong Kong of HK$23,966,000 (2002: Nil) 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 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 a decrease in the Group's deferred tax liabilities as at 31 December 2003 and 2002 by HK$1,161,000 and Nil, respectively, and a decrease in the Group's deferred tax assets as at 31 December

2003 and 2002 by HK$1,350,000 and Nil, respectively. As a consequence, the consolidated net profit attributable to shareholders for the year ended 31 December 2003 and period ended 31 December 2002 have been decreased by HK$189,000 and Nil, respectively.

30. SHARE CAPITAL

Shares	**2003** *HK$'000* **(Audited)**	**2002** *HK$'000* **(Audited)**
Authorised:		
120,000,000,000 (2002: 30,000,000,000) ordinary shares of HK$0.01 each	1,200,000	300,000
Issued and fully paid:		
13,138,422,562 (2002: 10,838,403,562) ordinary shares of HK$0.01 each	131,384	108,384

Pursuant to an ordinary resolution passed on 27 June 2003, the authorised shared capital of the Company was increased from HK$300,000,000 to HK$1,200,000,000 by the creation of 90,000,000,000 additional shares of HK$0.01 each, ranking pari passu in all respects with the existing issued shares of the Company.

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

		Number of ordinary shares of		**Issued capital**
	Notes	*HK$0.02 each*	*HK$0.01 each*	*HK$'000*
At 1 October 2001		6,384,035,621	—	127,681
Capital reduction and share consolidation	(a)(i) & (ii)	(6,384,035,621)	638,403,562	(121,297)
Issue of shares to settle unsecuredindebtedness	(a)(iii)	—	100,000,000	1,000
Issue of shares	(a)(iv)	—	4,000,000,000	40,000
Issue of shares in respect of acquisition of ESL	(a)(v)	—	2,500,000,000	25,000
Issue of shares to noteholders	(a)(vi)	—	1,820,000,000	18,200
Placement of shares	(b)	—	1,780,000,000	17,800
Cancellation of shares	(c)	—	(10,838,403,562)	(108,384)
Issue of shares in exchange for shares in CCT Technology	(c)	—	10,838,403,562	108,384
At 31 December 2002 and 1 January 2003		—	10,838,403,562	108,384
Exercise of share options	(d)	—	19,000	—
Conversion on convertible notes	(e)	—	2,300,000,000	23,000
At 31 December 2003		—	13,138,422,562	131,384

Notes:

(a) The Group Restructuring, which was completed on 17 May 2002, involved the following steps and had effects on CCT Technology's and the Company's share capital account:

(i) the nominal value of each of the then issued share of CCT Technology were reduced from HK$0.02 to HK$0.001 and the credit balance of HK$121,297,000 arising from the capital reduction was applied to write off part of the brought forward accumulated losses of CCT Technology. Each of the then unissued shares of the CCT Technology share capital was sub-divided into 20 shares of HK$0.001 each;

(ii) every 10 shares of HK$0.001 each, following the capital reduction mentioned in (i), were consolidated into one share of HK$0.01 each;

(iii) pursuant to an asset transfer agreement dated 21 September 2001 entered into between CCT Technology and S. Megga Telecom, 100,000,000 new shares were issued to S. Megga Telecom as part of the consideration for the hive-down of certain assets of S. Megga Telecom to another subsidiary of CCT Technology;

(iv) pursuant to the terms of the Restructuring Agreements, CCT Telecom and Dongguan Defa each subscribed for 2,000,000,000 new shares of HK$0.01 each for an aggregate consideration of HK$40 million in cash;

(v) CCT Technology issued 2,500,000,000 new shares to CCT Telecom at HK$0.01 each as part of the consideration for the transfer of the entire share capital of ESL and its subsidiaries from an indirect wholly-owned subsidiary of CCT Telecom to the Group; and

(vi) CCT Technology issued 1,820,000,000 new shares at HK$0.01 each to the noteholders of the convertible notes due 2003 and due 2007 issued in prior years pursuant to the terms of the Restructuring Agreements.

(b) In June 2002, CCT Technology allotted and issued 1,780,000,000 new shares at HK$0.01 each to an indirect wholly-owned subsidiary of CCT Telecom pursuant to the subscription agreement dated 5 June 2002.

(c) On 4 November 2002, pursuant to the Group Reorganisation, the entire 10,838,403,562 shares of CCT Technology were cancelled and the Company (i) repurchased 10,000,000 shares and (ii) allotted and issued 10,838,403,562 new shares of HK$0.01 each credited as fully paid to the then existing qualifying shareholders of CCT Technology in the proportion of one share for every one existing share then held. All shares issued pari passu with the existing issued shares of the Company in all respects.

(d) The subscription rights attaching to 19,000 share options were exercised at the subscription price of HK$0.014 per share (note 31), resulting in the issue of 19,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$266.

(e) During the year, HK$23 million worth of convertible notes were converted into 2,300,000,000 shares of the Company of HK$0.01 each. Further details relating to these convertible notes are set out in note 28 to these financial statements.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 31 to the financial statements.

31. SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was conditionally adopted by the then shareholder of the Company and the shareholders of CCT Technology Holdings Limited, the then holding company of the Company, on 17 September 2002 and 15 October 2002 respectively to comply with the new amendments to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Share Option Scheme became effective on 7 November 2002. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from that date. As at 31 December 2003, there were 1,082,781,000 share options outstanding under the Share Option Scheme. Based on these outstanding share options, the total number of shares available for issue is 1,082,781,000, which represents approximately 8.06% of the existing issued share capital of the Company as at the date of this report.

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

Pursuant to the Share Option Scheme, the maximum number of shares in respect of which share options may be granted under the Share Option Scheme is such number of shares, when aggregated with shares subject to any other share option scheme(s) of the Company, must not exceed 10% of the issued share capital of the Company upon the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The maximum number of shares issuable upon exercise of the share options granted under the Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding share options) to each eligible participant in any 12-month period is limited to 1% of the shares of the Company in issue as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company (and if required, the holding company) and the shareholders' approval of the Company (and if required, the approval of the shareholders of the holding 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 (and if required, the approval of the independent non-executive directors of the holding company), excluding the independent non-executive director(s) of the Company and the holding 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 shares of the Company 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 if required, the holding company) and the shareholders' approval of the Company (and if required, the approval of the shareholders of the holding company) in advance at a general meeting.

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

The exercise price of the share options is determinable by the Board, but may not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the shares of the Company as stated in the 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 share options under the 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	Exercised price per share *(Note 1)* HK$	Price of the shares of the Company	
	Outstanding as at 1 January 2003	Granted during the year	Exercise during the year	Lapsed/ Cancelled during the year	Outstanding as at 31 December 2003				At grant date of share options *(Note 2)* HK$	At exercise date of share options *(Note 3)* HK$
Executive directors										
Mak Shiu Tong, Clement	—	100,000,000	—	—	100,000,000	30/4/2003	30/4/2003 – 29/4/2008	0.014	0.014	—
Cheng Yuk Ching, Flora	—	100,000,000	—	—	100,000,000	30/4/2003	30/4/2003 – 29/4/2008	0.014	0.014	—
Tam Ngai Hung, Terry	—	100,000,000	—	—	100,000,000	30/4/2003	30/4/2003 – 29/4/2008	0.014	0.014	—
Tong Chi Hoi	—	50,000,000	—	—	50,000,000	30/4/2003	30/4/2003 – 29/4/2008	0.014	0.014	—
	—	350,000,000	—	—	350,000,000					
Independent non-executive directors										
Chow Siu Ngor	—	8,000,000	—	—	8,000,000	30/4/2003	30/4/2003 – 29/4/2008	0.014	0.014	—
Lau Ho Kit, Ivan	—	8,000,000	—	—	8,000,000	30/4/2003	30/4/2003 – 29/4/2008	0.014	0.014	—
	—	16,000,000	—	—	16,000,000					
Other employees										
In aggregate	—	716,800,000	(19,000)	—	716,781,000	30/4/2003	30/4/2003 – 29/4/2008	0.014	0.014	0.022
	—	716,800,000	(19,000)	—	716,781,000					
	—	1,082,800,000	(19,000)	—	1,082,781,000					

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.

3. The price of the shares of the Company as at the date of exercise of the share options is the weighted average of the closing prices of the shares of the Company as listed on the Stock Exchange on the trading day immediately before the dates on which the share options were exercised.

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

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.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current year and prior period are presented in the consolidated statement of changes in equity on page 37 of the financial statements.

(b) Company

	Special reserve *HK$'000* (Audited)	Accumulated losses *HK$'000* (Audited)	Total *HK$'000* (Audited)
On date of incorporation	—	—	—
Special reserve arising from the Group Reorganisation	(55,749)	—	(55,749)
Loss for the period	—	(11,093)	(11,093)
At 31 December 2002 and beginning of year	(55,749)	(11,093)	(66,842)
Profit for the year	—	867	867
At 31 December 2003	(55,749)	(10,226)	(65,975)

The special reserve of the Company represents the difference between the fair values of the shares of the subsidiaries acquired pursuant to the Group Reorganisation and the nominal value of the Company's shares issued in exchange therefor.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

During the year, the Company issued a convertible note with a principal amount of HK$768 million to an indirect wholly-owned subsidiary of CCT Telecom as consideration for the acquisition of the entire interest in ESH.

(b) Acquisition of subsidiaries

	2003 *HK$'000* **(Audited)**	2002 *HK$'000* **(Audited)**
Net assets acquired:		
Fixed assets	699,740	11,819
Intangible assets	31,052	423
Other assets	350	—
Deferred tax assets	10,161	—
Cash and bank balances	137,480	15,058
Pledged time deposits	58,636	—
Inventories	189,161	3,295
Trade and bills receivables	499,707	32,024
Prepayments, deposits and other receivables	26,443	643
Trade and bills payables	(618,523)	(23,003)
Tax payable	(8,059)	(1,968)
Other payables and accruals	(75,140)	(671)
Interest bearing bank borrowings	(200,024)	—
Bank overdrafts	—	(32)
Finance lease payables	(2,388)	—
Deferred tax liabilities	(3,107)	(985)
	745,489	36,603
Goodwill on acquisition — *note 17*	25,059	33,397
	770,548	70,000
Satisfied by:		
Issue of consideration shares	—	25,000
Issue of convertible notes — *note 28*	768,000	45,000
Cash paid for incidental acquisition costs	2,548	—
	770,548	70,000

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

	2003 *HK$'000* **(Audited)**	2002 *HK$'000* **(Audited)**
Cash paid	(2,548)	—
Cash and bank balances acquired	137,480	15,058
Less: Bank overdrafts	—	(32)
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	134,932	15,026

The subsidiaries acquired during the year contributed approximately HK$1,865,553,000 to the Group's consolidated turnover and HK$96,768,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2003.

The subsidiary acquired in the prior year contributed approximately HK$106,020,000 to the Group's consolidated turnover and approximately HK$6,053,000 to the consolidated profits after tax before minority interests for the period ended 31 December 2002.

(c) Disposal of subsidiaries and discharge of secured and unsecured financial obligations upon the Group Restructuring

	2003 *HK$'000* **(Audited)**	2002 *HK$'000* **(Audited)**
Net assets disposed of:		
Fixed assets	—	62,027
Other investments	—	368
Inventories	—	23,439
Cash and bank balances	—	2,974
Trade payables	—	(63,880)
Other payables and accruals	—	(28,622)
Finance lease payables	—	(314)
Bank loans and other borrowings	—	(12,480)
Convertible notes	—	(9,867)
Conversion option	—	(20,487)
	—	(46,842)
Reversal of reserves upon the Group Restructuring:		
Contributed surplus	—	(34,600)
Capital reserve	—	(47,926)
	—	(82,526)
	—	(129,368)
Expenses incurred in connection with the Group Restructuring	—	9,896
	—	(119,472)
Net gain attributable to the Group Restructuring	—	119,472
	—	—

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries and discharge of secured and unsecured financial obligations is as follows:

	2003 *HK$'000* **(Audited)**	2002 *HK$'000* **(Audited)**
Cash consideration	—	—
Cash and bank balances disposed of	—	2,974
Expenses incurred in connection with the Group Restructuring	—	9,896
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries and discharge of secured and unsecured financial obligations	—	12,870

34. CONTINGENT LIABILITIES

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

	Group		Company	
	2003 *HK$'000* **(Audited)**	2002 *HK$'000* **(Audited)**	2003 *HK$'000* **(Audited)**	2002 *HK$'000* **(Audited)**
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	—	—	346,000	—

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$183 million (2002: Nil).

(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 approximately HK$4,708,000 as at 31 December 2003 (2002: HK$215,000), 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, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

35. PLEDGE OF ASSETS

At the balance sheet date, the Group's bank borrowings were secured by pledge of the Group's fixed deposits amounting to approximately HK$100 million (2002: HK$5 million).

The bank loans as at 31 December 2002 were secured by the fixed charges over the Group's freehold land and buildings with a net book value amounting to approximately HK$4,769,000. The bank loans were fully repaid during the year and the related fixed charges over the Group's freehold land and buildings were released.

36. OPERATING LEASE ARRANGEMENTS

The Group leases certain of 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, the Group had total future minimum lease payments under non-cancellable operating leases in respect of office premises falling due as follows:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
	(Audited)	**(Audited)**
Within one year	4,443	600
In the second to fifth years, inclusive	1,440	—
	5,883	600

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
	(Audited)	**(Audited)**
Contracted, but not provided for		
Purchases of plant, machinery and equipment	2,255	—
Leasehold improvements	94	—
	2,349	—

38. RELATED PARTY TRANSACTIONS

(1) On 15 May 2003, the Company and CCT Telecom entered into a conditional agreement pursuant to which CCT Telecom has agreed (i) to dispose of the entire interest in ESH to the Company; and (ii) to assign its interest-free shareholder's loan due from ESH Group to the Company as at the completion date of this transaction, at a total consideration of HK$768 million. The consideration was satisfied by the issue of a convertible note with a principal amount of HK$768 million by the Company to an indirect wholly-owned subsidiary of CCT Telecom.

ESH Group is principally engaged in the design, manufacture and sale on ODM and OEM basis of home-use telecom products including cordless phones and family radio systems.

The transaction was completed on 30 June 2003 and further details of the acquisition are set out in the Company's circular dated 11 June 2003.

(2) For the period from 1 July 2003 to 31 December 2003, certain indirect wholly-owned subsidiaries of the Company had the following material transactions with CCT Telecom and its certain subsidiaries subsequent to the acquisition of ESH Group by the Company on 30 June 2003:

	Notes	**2003** *HK$'000* **(Audited)**
Purchases of plastic casings and components	(a)	132,353
Factory rental income	(b)	3,000
Factory rental expense	(c)	900
Office rental expenses	(d)	1,492
Management information system service fee	(e)	1,200

Notes:

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

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

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

(c) The factory rental expense was charged to CCT Investment Limited ("CCT Inv"), an indirect wholly-owned subsidiary of the Company, by CCT Properties (Dongguan) Limited ("CCT Prop"), an indirect wholly-owned subsidiary of CCT Telecom, for the provision of factory space in Dongguan, the PRC, at a rate determined in accordance with the terms and conditions set out in a tenancy agreement entered into between CCT Inv and CCT Prop on 15 May 2003.

(d) The office rental expenses were charged to CCT HK and CCT Telecom R&D Limited ("CCT R&D"), indirect wholly-owned subsidiaries of the Company, by Goldbay Investments Limited ("Goldbay"), an indirect wholly-owned subsidiary of CCT Telecom, for the provision of office spaces in Hong Kong, at rates determined in accordance with the terms and conditions set out in three tenancy agreements entered into between CCT HK and Goldbay on 21 November 2001 and 23 October 2002, and between CCT R&D and Goldbay on 20 January 2003, respectively.

(e) The management information system service fee was charged to CCT Telecom by CCT HK for the provision of general management information system support, network and software consultation and hardware maintenance services. The rate was determined in accordance with the terms and conditions set out in an agreement entered into between CCT Telecom and CCT HK on 15 May 2003.

(3) During the year, Electronic Sales Limited ("ESL"), a wholly-owned subsidiary of the Company, had the following material transactions with certain subsidiaries of CCT Telecom:

	Notes	Year ended 31 December 2003 HK$'000 (Audited)	Period from 17 May 2002 to 31 December 2002 HK$'000 (Audited)
Rental expense	(a)	1,800	1,200
Purchase of materials	(b)	24,427	17,256

Notes:

(a) The rental expense was charged to ESL by CCT Prop for the provision of factory space in Dongguan, the PRC, at a rate determined in accordance with the terms and conditions set out in a rental agreement entered into between ESL and CCT Prop on 15 April 2003.

(b) The purchase of materials from Neptune, included plastic moulds and materials, and the prices of which were determined based on the direct costs of the materials plus a mark-up of up to 50% of such direct costs.

In addition to the above, ESL had the following material transactions with CCT HK up to 30 June 2003, the date on which CCT HK became a wholly-owned subsidiary of the Group:

	Notes	Period from 1 January 2003 to 30 June 2003 HK$'000 (Audited)	Period from 17 May 2002 to 31 December 2002 HK$'000 (Audited)
Management fee expense	(c)	1,200	1,600
Sale of products	(d)	45,750	73,750

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

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

39. COMPARATIVE AMOUNTS

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

40. APPROVAL OF THE FINANCIAL STATEMENTS

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

(C) FINANCIAL INFORMATION OF THE CCT TECH GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2004:

Set out below is the unaudited financial statements of the CCT Tech Group for the six months ended 30 June 2004 as extracted from the CCT Tech Group's 2004 interim report.

Condensed Consolidated Profit and Loss Account
For the six months ended 30 June 2004

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

There were neither extraordinary nor exceptional items recorded for the six months ended 30 June 2004.

Condensed Consolidated Balance Sheet
At 30 June 2004

	Notes	30 June 2004 HK$'000 (Unaudited)	31 December 2003 HK$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets	7	703,313	681,128
Intangible assets		25,934	22,925
Goodwill		53,606	55,066
Other assets		350	350
Deferred tax assets		7,047	8,811
		790,250	768,280
CURRENT ASSETS			
Inventories		233,251	155,128
Trade and bills receivables	8	645,845	593,923
Prepayments, deposits and other receivables		15,436	7,502
Pledged deposits		100,192	100,161
Cash and cash equivalents		451,308	449,655
		1,446,032	1,306,369
CURRENT LIABILITIES			
Trade and bills payables	9	943,368	859,256
Other payables and accruals		112,822	113,051
Tax payable		15,070	13,326
Interest-bearing bank and other borrowings		131,093	111,680
Convertible notes	10	57,000	8,000
		1,259,353	1,105,313
NET CURRENT ASSETS		186,679	201,056
TOTAL ASSETS LESS CURRENT LIABILITIES		976,929	969,336
NON-CURRENT LIABILITIES			
Deferred tax liabilities		2,836	2,931
Finance lease payables		607	775
Convertible notes	10	762,400	823,000
		765,843	826,706
MINORITY INTERESTS		487	487
		210,599	142,143
CAPITAL AND RESERVES			
Issued capital	11	141,384	131,384
Reserves		69,215	10,759
		210,599	142,143

Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2004

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

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

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

Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2004

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

Notes to Financial Statements

30 June 2004

1. BASIS OF PREPARATION

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

2. SEGMENT INFORMATION

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

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

(a) the telecom products segment manufactures and sells telecom products and power supply components for telecom products; and

(b) the corporate segment includes general corporate income and administrative expense items.

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

(a) Business segments

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

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

(b) Geographical segments

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

2004	**United States of America** *HK$'000* **(Unaudited)**	**PRC, including HK** *HK$'000* **(Unaudited)**	**Korea** *HK$'000* **(Unaudited)**	**Others** *HK$'000* **(Unaudited)**	**Consolidated** *HK$'000* **(Unaudited)**
Segment revenue:					
Sales to external customers	1,030,558	351,866	171,983	227,884	1,782,291
Other revenue	—	13,136	—	—	13,136
Total revenue	1,030,558	365,002	171,983	227,884	1,795,427

2003	**United States of America** *HK$'000* **(Unaudited)**	**PRC, including HK** *HK$'000* **(Unaudited)**	**Korea** *HK$'000* **(Unaudited)**	**Others** *HK$'000* **(Unaudited)**	**Consolidated** *HK$'000* **(Unaudited)**
Segment revenue:					
Sales to external customers	488	53,352	—	343	54,183
Other revenue	—	685	—	—	685
Total revenue	488	54,037	—	343	54,868

3. DEPRECIATION AND AMORTISATION

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

4. TAX

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

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

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

5. DIVIDEND

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

6. EARNINGS PER SHARE

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

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

7. FIXED ASSETS

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

8. TRADE AND BILLS RECEIVABLES

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

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

9. TRADE AND BILLS PAYABLES

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

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

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

10. CONVERTIBLE NOTES

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

Notes:

(a) On 19 July 2002, CCT Technology Holdings Limited ("CCT Technology") issued convertible notes with aggregate principal amounts of HK$20.0 million through a placing agent to an independent placee and which were subsequently replaced by the convertible notes issued by the Company on 4 November 2002 as part of the group reorganisation. The convertible notes provide the holder an option to convert the principal amount into the Company's ordinary shares of HK$0.01 each on any business day being five business days prior to the maturity of the convertible notes at a conversion price of HK$0.01 per share. The principal amounts of the convertible notes bear interest at 5% per annum and will mature on the second anniversary of the date of their issue.

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

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

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

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

(c) On 14 May 2003, the Company issued convertible notes with aggregate principal amounts of HK$21.0 million through a placing agent to a number of independent parties. The convertible notes provide the holder option right to convert the principal amount into the Company's ordinary shares of HK$0.01 each on any business day being five business days prior to the maturity of the convertible notes at a conversion price of HK$0.01 per share. The principal amounts of the convertible notes bear interest at 2% per annum and will mature on the second anniversary of the date of their issue.

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

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

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

11. SHARE CAPITAL

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

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

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

12. PLEDGE OF ASSETS

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

13. CONTINGENT LIABILITIES

The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of approximately HK$5,458,000 as at 30 June 2004 (31 December 2003: approximately HK$4,708,000). The contingent liability arose as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

14. OPERATING LEASE ARRANGEMENT

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

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

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

15. CAPITAL COMMITMENTS

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

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

16. RELATED PARTY TRANSACTIONS

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

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

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

Notes:

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

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

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

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

(iv) The factory rental expenses were charged to CCT Investment Limited ("CCT I") and ESL, both wholly-owned subsidiaries of the Company, by CCT Properties (Dongguan) Limited ("CCT Prop"), an indirect wholly-owned subsidiary of CCT Telecom, for the provision of factory spaces in Dongguan, the PRC, at rates determined in accordance with the terms and conditions set out in two tenancy agreements entered into on 14 January 2004 between CCT I and CCT Prop, and between ESL and CCT Prop, respectively.

(v) The office rental expenses were charged to CCT HK and CCT Telecom R&D Limited ("CCT R&D"), indirect wholly-owned subsidiaries of the Company, by Goldbay Investments Limited ("Goldbay"), an indirect wholly-owned subsidiary of CCT Telecom, for the provision of office spaces in Hong Kong, at rates determined in accordance with the terms and conditions set out in two tenancy agreements entered into between CCT HK and Goldbay on 15 September 2003, and between CCT R&D and Goldbay on 23 December 2003, respectively.

(vi) The management information system service fee was charged to CCT Telecom by CCT HK for the provision of general management information system support, network and software consultation and hardware maintenance services. The rate was determined in accordance with the terms and conditions set out in an agreement entered into between CCT Telecom and CCT HK on 15 May 2003.

(c) Before CCT HK, (previously an indirect wholly-owned subsidiary of CCT Telecom), has become an indirect wholly-owned subsidiary of the Company on 30 June 2003, ESL had the following transactions with CCT HK during the previous period in 2003:

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

Notes:

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

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

STATEMENT OF INDEBTEDNESS

As at the close of business on 31 January 2005 (being the latest practicable date for ascertaining information regarding this indebtedness statement), the CCT Tech Group had outstanding borrowings of approximately HK$88 million. The borrowings comprised secured bank loans of approximately HK$25 million, secured trust receipt loans of approximately HK$59 million and obligations under finance lease contracts of approximately HK$4 million. The CCT Tech Group's borrowings were secured by (i) the fixed charges over certain leasehold land and buildings held by the CCT Tech Group; and (ii) certain fixed deposits of the CCT Tech Group. In addition, as at the same date, the CCT Tech Group had outstanding convertible notes with a principal sum of HK$660 million.

As at 31 January 2005, the CCT Tech Group 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$6 million.

Save as aforesaid, and apart from intra-group liabilities, the CCT Tech 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 31 January 2005.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 31 January 2005.

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

31 March 2005

The Directors
CCT Telecom Holdings Limited

Dear Sirs

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

We report on the unaudited pro forma financial information (the "Pro Forma Financial Information") set out on pages 165 to 166 in Appendix IC to the circular of CCT Telecom dated 31 March 2005 in connection with the major and connected transaction of CCT Telecom (the "Circular"), which has been prepared by the directors of CCT Telecom and the purpose of which is to provide information to the shareholders of CCT Telecom about how the Offers (as defined in the Circular) might have affected the financial information presented in respect of the CCT Telecom Group.

Responsibilities

It is the responsibility solely of the directors of CCT Telecom 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 Telecom.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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 CCT Telecom Group as at 30 June 2004 or at any future date. In particular, the Pro Forma Financial Information has not taken into account the annual results of the CCT Telecom Group for the year ended 31 December 2004.

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 the CCT Telecom Group in respect of the six months ended 30 June 2004; 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 unaudited pro forma statement of assets and liabilities of the Combined Group has been prepared to demonstrate the effect of the Offers on the assets and liabilities of the CCT Telecom Group on the assumption that CCT Tech would have become a wholly-owned subsidiary of CCT Telecom as if the Offers had been accepted in full and completed on 30 June 2004 and that all the CCT Tech Independent Shareholders had accepted the Offers for cash and the holder of the CCT Tech 2005 CN had opted for the Convertible Bonds. It is based on the historical unaudited consolidated assets and liabilities of the CCT Telecom Group as at 30 June 2004 with further adjustments as explained in the notes below.

The unaudited 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 as at 30 June 2004 or at any future date.

The historical unaudited consolidated assets and liabilities of the CCT Telecom Group and the CCT Tech Group have been extracted from the respective unaudited interim financial statements in respect of the six months ended 30 June 2004 as set out in Appendix IA and IB respectively.

	CCT Telecom Group as at 30 June 2004 *HK$'million*	**Pro forma adjustments** *HK$'million*	*Notes*	**Combined Group** *HK$'million*
Non-current assets				
Fixed assets	1,476			1,476
Intangible assets	26			26
Goodwill	14	171	(d)	185
Interests in associates	297			297
Other assets	12			12
Long term investments	4			4
Deferred tax assets	7			7
	1,836			2,007
Current assets				
Short term investments	3			3
Inventories	267			267
Trade and bills receivables	696			696
Prepayments, deposits and other receivables	69			69
Pledged time deposits	100			100
Cash and cash equivalents	907	(250)	(a), (b)	657
	2,042			1,792

	CCT Telecom Group as at 30 June 2004 *HK$'million*	Pro forma adjustments *HK$'million*	*Notes*	Combined Group *HK$'million*
Current liabilities				
Trade and bills payables	910			910
Tax payable	27			27
Other payables and accruals	182			182
Interest-bearing bank loans and other borrowings	148			148
Convertible Bonds	57	(45)	(b)	12
	1,324			1,279
Net current assets	718			513
Total assets less current liabilities	2,554			2,520
Non-current liabilities				
Interest-bearing bank loans	103			103
Finance lease payables	4			4
Convertible notes	—	104	(b)	104
Deferred tax liabilities	6			6
	113			217
Minority interests	138	(138)	(c)	—
Net assets	2,303			2,303

Notes:

(a) The adjustment represents the cash consideration to acquire all the issued CCT Tech Shares (other than those already owned by the CCT Telecom Group) and cancel all the outstanding CCT Tech Options on the assumption that all the CCT Tech Independent Shareholders accepted the Offers and opted for cash and all the CCT Tech Optionholders accepted the Option Offer.

(b) The adjustment reflects the issuance of the Convertible Bonds by CCT Telecom to the holder of the CCT Tech 2005 CN for the acquisition of the entire CCT Tech 2005 CN, excluding any expense in connection with the issue of Convertible Bonds.

(c) As at 30 June 2004, CCT Tech was a subsidiary of CCT Telecom which held 34.66% shareholding interest in CCT Tech. As such, the assets and liabilities of the CCT Tech Group had already been consolidated in the CCT Telecom Group's consolidated balance sheet. The adjustment reflects the elimination of the minority interests amounting to HK$138 million representing 65.34% of the consolidated net asset value of the CCT Tech Group as at 30 June 2004 as set out in the interim report of CCT Tech for the period then ended on the assumption that CCT Tech had become a wholly-owned subsidiary of CCT Telecom following the full acceptance and completion of the Offers as at 30 June 2004.

(d) The goodwill represents the difference between the total consideration of the Offers (excluding any expense in connection with the Offers) amounting to approximately HK$354 million and the aggregate total of the minority interests of CCT Tech Group amounting to approximately HK$138 million and the principal amount of CCT Tech 2005 CN before completion of the Offers.

The following is the text of a letter and valuation certificate received from Grant Sherman, an independent property valuer, in connection with their valuation as at 31 December 2004 of the property interests of the CCT Tech Group for the purpose of inclusion in this document:



GRANT SHERMAN APPRAISAL LIMITED

31 March 2005

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

Dear Sir,

In accordance with your instructions to value the property interests held by CCT Tech International Limited ("CCT Tech") or its subsidiaries (together referred as "CCT Tech Group") in the People's Republic of China ("the PRC"), we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of such property interests as at 31 December 2004.

Due to the nature of buildings and structures of the property, there are no market sales comparables, the property have been valued on the basis of depreciated replacement cost ("DRC"). DRC is based on an estimate of the market value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation.

In valuing the property, which is held by a wholly-owned subsidiary of CCT Tech under a long term State-owned Land Use Rights Certificate and Real Property Ownership Certificates, we have assumed that the owner has free and uninterrupted rights to use the property for the whole of the unexpired term as granted and is entitled to transfer the property with the residual term without payment of any further premium to the government authorities or any third parties.

We have assumed that all consents, approvals and licenses from relevant government authorities for the property have been granted without any onerous conditions or undue time delay which might affect its value. Also, we have assumed that the owner has been permitted to use all buildings and structures erected on the site.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in the appraisal report. Moreover, it is assumed that the utilisation of the land and improvements is within the boundaries of the property described and that no encroachment or trespass exists, unless noted in the report.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licenses, consents, or other

legislative or administrative authority from any local, provincial, or national government or private entity or organisation either have been or can be obtained or renewed for any use which the report covers.

We have been provided with copies of relevant legal documents of the property by CCT Tech. However, we have not caused search on the title of the property, or scrutinised the original documents.

According to a State-owned Land Use Rights Certificate No. 惠陽府國用(2002)字第13212200005 (Huiyang Fu Guo Yong (2002) Zi No. 13212200005) dated 4 February 2002 issued by the Land Bureau of Huiyang City, the land use rights for the land having an area of approximately 255,629 sq.m. have been granted to 惠陽中建電訊制品有限公司 (Huiyang CCT Telecommunications Products Co., Ltd.), a wholly owned subsidiary of CCT Tech, for industrial uses for a term expiring on 17 February 2050.

According to 24 Real Property Ownership Certificates issued by the People's Government of Huiyang City dated 6 February 2002, the title to the various buildings and structures in the factory complex having a total construction floor area of 179,684 sq.m. is held by 惠陽中建電訊制品有限公司 (Huiyang CCT Telecommunications Products Co., Ltd.).

Further information in the documents has been stated in the footnotes of the valuation certificate.

In the course of our valuation, we have relied on a considerable extent on information provided by CCT Tech on such matters as statutory notices, easements, tenure, occupation, floor area, identification of the property and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by CCT Tech. We were also advised by CCT Tech that no material facts have been omitted from the information supplied. All documents have been used as reference only. All dimensions, measurements and areas are approximations.

We have been shown copies of various title documents and official site plans relating to the properties that are owned by the Company in the PRC. However, we have not searched the original documents to verify ownership or to verify any lease amendments which may not appear on the copies handed to us. Due to the nature of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the properties or any material encumbrances that might be attached to the properties. In the preparation of our valuation report regarding the properties in the PRC, we have relied to a considerable extent on the legal opinion provided by the Company's legal adviser, 廣東鑄銘律師事務所 (Zhu Ming Lawyer Office of Guangdong), on the PRC laws regarding the titles of the properties in the PRC.

In the course of our valuations of the property interests, we have neither verified nor taken into account any tax liability in the PRC. As advised by CCT Tech, types of potential tax liability include business tax, stamp duty, income tax and capital gain tax. We have, however, been further advised by CCT Tech that all properties are held for production or staff quarters purposes and that CCT Tech does not have the intention to sell any or all properties. Hence, until the completion of the disposal of such property, the amount of tax liability would not be quantifiable nor crystallised.

No allowance has been made in our valuation for any charge, mortgage or amount owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its values.

We have inspected the exterior and, where possible, the interior of the property in respect of which we have been provided with such information as we have required for the purpose of our valuations. However, we must point out that we have not carried out site investigation to determine the suitability of the ground conditions or the services for any property development thereon. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expense or delay will be incurred during the construction period. No structural survey has been carried out and it was not possible to inspect the wood work and other parts of the structures which were covered, unexposed or inaccessible. We are therefore, unable to report that the property is free of rot, infestation or any structural defects. No tests have been carried out on any of the building services.

The valuation contained in this report specifically excludes the impact of structural damage or environmental contamination resulting from earthquakes or other causes. No soil analysis or geological study was ordered or made in conjunction with this report, nor were any water, oil, gas, or other subsurface mineral use rights or conditions investigated.

Substances such as asbestos, urea-formaldehyde foam insulation, other chemicals, toxic wastes, or other potentially hazardous materials could, if present, adversely affect the value of the property. Unless otherwise stated in this report, its existence on or in the property was not considered by the appraiser in concluding the valuation. The stated value estimate is predicated on the assumption that there is no material on or in the buildings that would cause such a loss in value. No responsibility is assumed for any such conditions, and the client has been advised that the appraiser is not qualified to detect such substances, quantify the impact on values, or develop the remedial cost.

No responsibility is assumed for legal matters in nature and no investigation has been made to the title of or any liabilities against the property appraised. In this appraisal, it is presumed that, unless otherwise noted, CCT Tech's claim is valid, the property rights are good and marketable, and there are no encumbrances on the property which cannot be cleared through normal processes. For the purpose of title establishment, it is advised to seek opinion from competence legal consultants.

We have not investigated in any industrial safety, environmental and health-related regulations in association with any particular manufacturing process of the occupier. It is assumed that all necessary licenses, procedures, and measures were implemented in accordance with government legislation and guidance.

REMARKS

The property has been valued in Hong Kong Dollar at the exchange rate of RMB1.00 to HK$0.94.

We enclose herewith the valuation certificate.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED
Peggy Y.Y. Lai *MRICS MHKIS RPS*
Associate Director
Real Estate Group

Note: Ms. Peggy Y.Y. Lai is a member of the Royal Institution of Surveyors, a member of the Hong Kong Institute of Surveyors and Register Professional Surveyors in the General Practice Section, who has over 5 years experience in the valuation of properties in Hong Kong, the PRC and the Asian Region.

VALUATION CERTIFICATE

Property	Description and tenure	Capital value in existing state as at 31 December 2004
Land, various buildings and structures located at The Upper Land Lot (Lot No. 0302002), Sanhan Development District (also known as Shiwei Administrative District) Danshui Town Huiyang City Guangdong Province The People's Republic of China	The property comprises a main factory block, a plastic factory, nine blocks of staff quarters, a canteen/recreational building, various plant rooms and service rooms, built together with ancillary structures and facilities upon a parcel of land having an area of about 255,629 sq.m. The total construction floor area of the erected buildings is about 179,684.09 sq.m and are summarised as below:	HK$474,200,000 (HONG KONG DOLLARS FOUR HUNDRED SEVENTY FOUR MILLION AND TWO HUNDRED THOUSAND.)

Building and structures	No of Block	Construction Floor Area *(sq.m.)*
Main factories	2	87,198
Staff dormitories and quarters	9	80,252
Canteen and recreation building	1	7,289
Plant/service houses and store rooms	9	4,600
Ancillary rooms	3	345
	Total:	179,684

The buildings, structures and ancillary facilities were completed in 1999.

The property is currently occupied by the CCT Telecom Group as a factory complex manufacturing telecom products, plastic products and baby products.

Notes:

(i) According to a State-owned Land Use Rights Certificate No. 惠陽府國用(2002)字第13212200005 (Huiyang Fu Guo Yong (2002) Zi No. 13212200005) dated 4 February 2002 issued by the Land Bureau of Huiyang City, the land use rights for the land having an area of approximately 255,629 sq.m. have been granted to 惠陽中建電訊制品有限公司 (Huiyang CCT Telecommunications Products Co., Ltd.) for industrial uses for a term expiring on 17 February 2050. As informed by CCT Tech, 惠陽中建電訊制品有限公司 (Huiyang CCT Telecommunications Products Co., Ltd.) is a wholly-owned subsidiary of CCT Tech International Limited.

(ii) According to 24 Real Property Ownership Certificates issued by the People's Government of Huiyang City dated 6 February 2002, the title to the various buildings and structures in the factory complex having a total construction floor area of 179,684 sq. m. is held by 惠陽中建電訊制品有限公司 (Huiyang CCT Telecommunications Products Co., Ltd.). The details are summarised below:

Real Property Ownership Certificate No.	**Use Designated by CCT Tech**	**No. of Storey**	**Construction Floor Area** *(sq. m.)*
208902	Air-conditioning Centre	1	1,461.35
208903	Transformer House No. 6	1	339.90
208904	Staff Quarters B	5	2,381.11
208905	Transformer Centre	1	702.52
208906	Staff Quarters A	5	3,211.37
208907	Workers' Dormitory B	6	11,927.94
208908	Canteen	2	7,288.90
208909	Workers' Dormitory A	6	11,885.89
208910	Staff Quarters B1	5	3,179.72
208911	Fuel Station	1	72.02
208912	Workers' Dormitory C	7	13,279.57
208913	Transformer House No. 2	1	384.49
208914	Transformer House No. 7	1	339.90
208915	Transformer House No. 4	1	384.49
208916	Compressor House No. 5	1	339.90
208917	Garbage Room	1	63.09
208918	Dangerous Good Store	1	308.04
208919	Main Factory	3	51,869.80
208920	Industrial Waste Room	1	209.67
208921	Plastic Factory	2	35,327.89
208922	Transformer House No. 8	1	339.90
208923	Workers Dormitory D	7	13,279.57
208924	Workers Dormitory E	8	15,431.33
208925	Staff Quarter C	5	5,675.73
		Total	**179,684.09**

(iii) We have been provided with a PRC legal opinion on the title to the property issued by 廣東鑄銘律師事務所 (Zhu Ming Lawyer Office of Guangdong), the PRC legal adviser, which contains, inter alias, the following information:

1. 惠陽中建電訊制品有限公司 (Huiyang CCT Telecommunications Products Co., Ltd.) has obtained the land use rights and building ownerships under the aforesaid State-owned Land Use Right Certificate and Building Ownership Certificates mention in Note i and Note ii.

2. 惠陽中建電訊制品有限公司 (Huiyang CCT Telecommunications Products Co., Ltd.) is entitled to transfer, let or mortgage the land use rights and building ownerships of the property.

3. the property is subject to a mortgage in favour of Nanyang Commercial Bank Limited (Shenzhen Branch) commencing from 11 January, 2005 at a consideration of approximately RMB100,000,000.

The following is the text of a letter and valuation certificate received from Grant Sherman, an independent property valuer, in connection with their valuation as at 31 December 2004 of the property interests of the CCT Telecom Group for the purpose of inclusion in this document:



GRANT SHERMAN APPRAISAL LIMITED

31 March 2005

The Directors
CCT Telecom Holdings Limited
32nd Floor, China Merchants Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Dear Sir,

In accordance with your instructions to value the property interests held by CCT Telecom Holdings Limited ("CCT Telecom") or its subsidiaries (together referred as "CCT Telecom Group") in Hong Kong and the People's Republic of China ("the PRC"), we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of such property interests as at 31 December 2004.

For Properties 1, 2, 3, 4, 5, and 6, basis of market value have been adopted. Market value is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion," assuming:

— a willing, neither over-eager nor forced, seller and buyer;

— that, prior to the date of valuation, there had been a reasonable period and manner for exposing the property to the market;

— 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;

— that no account is taken of the value or other advantage, benefit, additional to market value."

For Properties 7, 8, 9 and 10, there are no market sales comparables due to the nature of buildings and structures, the Properties have been valued on the basis of depreciated replacement cost ("DRC"). DRC is based on an estimate of the market value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation.

In valuing Properties 6, 7 and 9, which are held by wholly-owned subsidiaries of CCT Telecom under a long term State-owned Land Use Rights Certificate and/or Real Property Ownership Certificates, we have assumed that the owners have free and uninterrupted rights to use the property

for the whole of the unexpired term as granted and are entitled to transfer the properties with the residual term without payment of any further premium to the government authorities or any third parties.

In valuing Property 8, which is held under a land use rights lease agreements with buildings and structures erected upon them by CCT Telecom Group, we have assumed CCT Telecom Group possesses the legal title to the buildings and structures for a year term identical to that of the land leases and will obtain the relevant title certificates without significant legal impediment or onerous payment made to government authorities or any third parties.

We have also assumed that CCT Telecom Group has uninterrupted rights to use the properties for the whole of the unexpired term of the leases and is entitled to transfer the property interests with the residual term of the lease without payment of any further premium to the government authorities or any third parties other than those stipulated in the mentioned documents.

We have not caused an independent search on the title of the properties, or scrutinised the original documents to verify ownership or amendments which may not appear on the copies of document handed to us. We have relied on the information provided to us and the verification made by CCT Telecom. All legal documents disclosed in this report are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this report.

We have assumed that all consents, approvals and licenses from relevant government authorities for the properties have been granted without any onerous conditions or undue time delay which might affect their values. Also, we have assumed that the lessee has been permitted to build and to use all buildings and structures erected on the sites, and the construction costs have been fully settled.

It is assumed that all applicable zoning, building and land use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in the appraisal report. Moreover, it is assumed that the utilisation of the land and improvements is within the boundaries of the properties described and that no encroachment or trespass exists, unless noted in the report.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licenses, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organisation either have been or can be obtained or renewed for any use which the report covers.

Other special assumptions, if any, have been stated in the footnotes of the valuation certificates enclosed herewith.

In the course of our valuation, we have relied on a considerable extent on information provided by CCT Telecom on such matters as statutory notices, easements, tenure, occupation, floor areas, identification of the properties and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by CCT Telecom. We were also advised by CCT Telecom that no material facts have been omitted from the information supplied. All documents have been used as reference only. All dimensions, measurements and areas are approximations.

In the course of our valuations of the property interests, we have neither verified nor taken into account any tax liability in Hong Kong and the PRC. As advised by CCT Telecom, types of potential tax liability include stamp duty and profits tax (for properties in Hong Kong); business tax, stamp duty, income tax and capital gain tax (for properties in the PRC). we have, however, been further advised by CCT Telecom that all properties are held for production or staff quarters purposes and that CCT Telecom does not have the intention to sell any or all properties. Hence, until the completion of the disposal of such property, the amount of tax liability would not be quantifiable nor crystallised.

No allowance has been made in our valuations for any charge, mortgage or amount owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have inspected the exterior and, where possible, the interiors of the properties in respect of which we have been provided with such information as we have required for the purpose of our valuations. However, we must point out that we have not carried out site investigation to determine the suitability of the ground conditions or the services for any property development thereon. Our valuations are on the basis that these aspects are satisfactory and that no extraordinary expense or delay will be incurred during the construction period. No structural survey has been carried out and it was not possible to inspect the wood work and other parts of the structures which were covered, unexposed or inaccessible. We are therefore, unable to report that the properties are free of rot, infestation or any structural defects. No tests have been carried out on any of the building services.

The valuations contained in this report specifically exclude the impact of structural damage or environmental contamination resulting from earthquakes or other causes. No soil analysis or geological study was ordered or made in conjunction with this report, nor were any water, oil, gas, or other subsurface mineral use rights or conditions investigated.

Substances such as asbestos, urea-formaldehyde foam insulation, other chemicals, toxic wastes, or other potentially hazardous materials could, if present, adversely affect the value of the properties. Unless otherwise stated in this report, its existence on or in the properties was not considered by the appraiser in concluding the valuation. The stated value estimates are predicated on the assumption that there is no material on or in the buildings that would cause such a loss in value. No responsibility is assumed for any such conditions, and the client has been advised that the appraiser is not qualified to detect such substances, quantify the impact on values, or develop the remedial cost.

We have been shown copies of various title documents and official site plans relating to the properties that are owned by the Company in the PRC. However, we have not searched the original documents to verify ownership or to verify any lease amendments which may not appear on the copies handed to us. Due to the nature of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the properties or any material encumbrances that might be attached to the properties. In the preparation of our valuation report regarding the properties in the PRC, we have relied to a considerable extent on the legal opinion provided by the Company's legal adviser, 廣東鑄銘律師事務所 (Zhu Ming Lawyer Office of Guangdong), on the PRC laws regarding the titles of the properties in the PRC.

We have not investigated in any industrial safety, environmental and health-related regulations in association with any particular manufacturing process of the occupier. It is assumed that all necessary licenses, procedures, and measures were implemented in accordance with government legislation and guidance.

The property has been valued in Hong Kong Dollar at the exchange rate as on 31 December 2004 of RMB1.00 to HK$0.94.

We enclose herewith the summary of valuations and valuation certificates.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED
Peggy Y.Y. Lai *MRICS MHKIS RPS*
Associate Director
Real Estate Group

Note: Ms. Peggy Y.Y. Lai is a member of the Royal Institution of Surveyors, a member of the Hong Kong Institute of Surveyors and Register Professional Surveyors in the General Practice Section, who has over 5 years experience in the valuation of properties in Hong Kong, the PRC and the Asian Region.

SUMMARY OF VALUATION

Group I — Property interests held by the CCT Telecom Group excluding the CCT Tech Group ("CCT Telecom Remaining Group") in Hong Kong

	Property	Capital value in existing state as at 31 December 2004
1.	Workshop Nos. 21, 22, 23 & 25, 13/F., Block 1, Golden Industrial Building, Nos. 16–26 Kwai Tak Street, Kwai Chung, N.T. Hong Kong	HK$2,000,000
2.	House No. 36 and Car Parking Nos. P3 & P4 in the garage, No. 56 Repulse Bay Road, Hong Kong	HK$95,000,000
3.	32/F., China Merchants Tower, Shun Tak Centre, Nos. 168–200 Connaught Road Central, Hong Kong	HK$102,700,000
4.	15/F, 17/F & 18/F., CCT Telecom Building, No. 11 Wo Shing Street, Shatin, N.T. Hong Kong	HK$60,000,000
5.	Car Park Nos. 64, 66, 67, 74, 76, 77, 78 & 86 at The Basement of Site No. 1 and Car Park Nos. 25, 26, 27, 232, 234, 235, 236 & 237 at the Basement of Site No. 3, Whampoa Garden, Hunghom, Kowloon, Hong Kong	HK$5,760,000
	Sub-total	HK$265,460,000

Group II — Property interests held by CCT Telecom Remaining Group in the PRC

6.	A piece of industrial land located at Shang Pai Lot Ban Pai Shi Wei Ai Ling Danshui Town Huiyang City Guangdong Province The People's Republic of China	HK$173,500,000
7.	Land, various buildings and structures located at No. 3 Hong Yie Dong San Road Hongyie Economic Development Zone Tangxia Town Dongguan City The People's Republic of China	HK$33,900,000

	Property	Capital value in existing state as at 31 December 2004
8.	Land, various buildings and structures ESL Technology Park Zhukan Industrial District Gaobu Town Dongguan City Guangdong Province The People's Republic of China	No Commercial Value
9.	Unit Nos. 2 & 3, 10/F., Office Tower 1, Henderson Centre, No. 18 Jianguomennei Avenue, Dongcheng District, Beijing, The People's Republic of China	HK$5,570,000
	Group III — Property interests held by CCT Tech International Limited and its subsidiaries ("CCT Tech Group"), an indirectly non wholly-owned subsidiary of CCT Telecom, in the PRC	
10.	Land, various buildings and structures located at The Upper Land Lot (Lot No. 0302002), Sanhan Development District (also known as Shiwei Administrative District) Danshui Town Huiyang City Guangdong Province The People's Republic of China	HK$474,200,000
	Sub-total	HK$687,170,000
	Grand Total	HK$952,630,000

VALUATION CERTIFICATE

Group I — Property held by CCT Telecom Remaining Group in Hong Kong

	Property	Description and tenure	Capital value in existing state as at 31 December 2004
1.	Workshop Nos 21, 22, 23 & 25, 13/F., Block 1, Golden Industrial Building, Nos. 16–26 Kwai Tak Street, Kwai Chung, N.T. Hong Kong 82/10016th parts or shares of and in Kwai Chung Town Lot No. 334 and the Extension Thereto.	The property comprises 4 workshop units on the 13th Floor of an industrial building completed in about 1984. The area schedule of the property is as follows: **Unit** — **Gross Floor Area** *(sq.m.)* 21 — 120.49 22 — 120.49 23 — 116.03 25 — 116.03 Total — 473.04 The property is held for a term of 99 years from 1 July 1898 and statutorily extended to 30 June 2047.	HK$2,000,000 (HONG KONG DOLLARS TWO MILLION ONLY)

Note:

(i) The registered owner of the property is Wiltec Industries Limited, a wholly-owned subsidiary of CCT Telecom, vide Memorial Nos. 806249 and 795509 dated 31 December 1991 and 30 October 1991 respectively.

(ii) According to the land search result from the Land Registry, the property is not subject to any charge, legal charge, mortgage or any other similar encumbrances.

	Property	Description and tenure	Capital value in existing state as at 31 December 2004
2.	House No. 36 and Car Parking Nos. P3 & P4 in the garage, No. 56 Repulse Bay Road, Hong Kong 374/16363th parts or shares of and in the Remaining Portion of Rural Building Lot No. 172 and the Extension Thereto	The property comprises a 2-storey town house and 2 car park spaces of a residential development completed in about 1994. The property has a total gross floor area of about 384.89 sq.m. The property is held for a term of 75 years and renewable for further 75 years commencing from 30 June 1921. House No. 36 is leased to General Electric International Inc. for a term of 2 years commencing from 1 January 2003 at a monthly rental of HK$160,700 inclusive of Government rent, rates, service charges and air-conditioning maintenance fee and building management fee.	HK$95,000,000 (HONG KONG DOLLARS NINETY FIVE MILLION)

Note:

(i) The registered owner of the property is Bridge World Associates Limited, vide Memorial No. 8601891 dated 6 August 2001.

(ii) According to the land search from the Land Registry, the following documents are pending for registration:

(a) The property is assigned by Bridge World Associates Limited, the vendor which is not related to the CCT Telecom Group or any of the CCT Telecom Directors or CCT Tech Directors, to Canford Holding Limited, a wholly-owned subsidiary of CCT Telecom, vide Memorial No. 9456897 dated 31 December 2004.

(b) The property is subject to a mortgage in favour of Nanyang Commercial Bank Limited vide Memorial No. 9456898 dated 31 December 2004.

	Property	Description and tenure	Capital value in existing state as at 31 December 2004
3.	32/F., China Merchants Tower, Shun Tak Centre, Nos. 168–200 Connaught Road Central, Hong Kong 377/33888th parts or shares of Inland Lot No. 8517.	The property comprises a floor of a commercial building completed in about 1986. The property has a total gross floor area of about 2,400.13 sq.m. The property is held for a term of 75 years and renewable for further 75 years commencing from 31 December 1980. The property to be leased by CCT Telecom Holdings Limited for a term of 1 year commencing from 1 January 2005 at a monthly rental of HK$900,000 exclusive of Government rent, rates and management charges.	HK$102,700,000 (HONG KONG DOLLARS ONE HUNDRED AND TWO MILLION AND SEVEN HUNDRED THOUSAND)

Note:

(i) The registered owner of the property is Huge Partner Limited, a wholly-owned subsidiary of CCT Telecom, vide Memorial No. 7654117 dated 12 March 1997.

(ii) The property is subject to a mortgage in favour of Nanyang Commercial Bank, Limited vide Memorial No. 7657560 dated 30 December 1998.

	Property	Description and tenure	Capital value in existing state as at 31 December 2004
4.	15/F, 17/F & 18/F., CCT Telecom Building, No. 11 Wo Shing Street, Shatin, N.T. Hong Kong 43,281/289,200th parts or shares of and in the Remaining Portion of Sha Tin Town Lot No. 17	The property comprises 15th, 17th and 18th Floor of a 23 storeys industrial/office building completed in about 1996. The area schedule of the property is as follows:	HK$60,000,000 (HONG KONG DOLLARS SIXTY MILLION)

Floor	Gross Floor Area *(sq.m.)*
15	1,340
17	1,340
18	1,340
Total	4,020

The property is held for a term of 99 years from 1 July 1898 and statutorily extended to 30 June 2047.

Units 1701, 1702, 1703 and 1705 to be leased by CCT Telecom R & D Limited for a term of 1 year commencing from 1 January 2005 at a monthly rental of HK$61,209 exclusive of Government rent, rates and management charges.

Units 1706, 1707, 1708, 1709 and 1710 is leased by CCT Telecom (HK) Limited for a term of 1 year commencing from 6 October 2004 at a monthly rental of HK$64,821 exclusive of Government rent, rates and management charges.

All units on the 18th Floor is leased by CCT Telecom (HK) Limited for a term of 1 year commencing from 7 October 2004 at a monthly rental of HK$122,629.5 exclusive of Government rent, rates and management charges.

Note:

(i) The registered owner of the property is Goldbay Investment Limited, a wholly-owned subsidiary of CCT Telecom, vide Memorial No. 1042935 dated 20 June 1998.

(ii) The property is subject to a mortgage and a second mortgage both in favour of Nanyang Commercial Bank Limited vide Memorial Nos. 106272 and 106273 dated 23 November 1998.

	Property	Description and tenure	Capital value in existing state as at 31 December 2004
5.	Car Park Nos. 64, 66, 67, 74, 76, 77, 78 & 86 at The Basement of Site No. 1 and Car Park Nos. 25, 26, 27, 232, 234, 235, 236 & 237 at the Basement of Site No. 3, Whampoa Garden, Hunghom, Kowloon, Hong Kong. Site No. 1. 16/11562th parts or shares of and in Section A of Kowloon Inland Lot No. 10750 Site No. 3. 12/18850th parts or shares of and in Section C of Kowloon Inland Lot No. 10750.	The property comprises 8 car park spaces at the basement of Site No. 1 and 8 car park spaces at the basement of Site No. 3 of a residential development completed between 1986 and 1988. The property is held for a term of 75 years and renewable for further 75 years commencing from 14 December 1984. Majority of the car park spaces were leased out as at 31 December 2004.	HK$5,760,000 (HONG KONG DOLLARS FIVE MILLION SEVEN HUNDRED AND SIXTY THOUSAND)

Note:

(i) The registered owner of the property is CCT Strategies Holdings Limited, a wholly-owned subsidiary of CCT Telecom, vide Memorial No. 7595312 dated 15 September 1998.

(ii) According to the land search result from the Land Registry, the property is not subject to any charge, legal charge, mortgage or any other similar encumbrances.

Group II — Property held by CCT Telecom Remaining Group in the PRC

	Property	Description and tenure	Capital value in existing state as at 31 December 2004
6.	A piece of industrial land (Lot No. 01-09-3) located at Shang Pai Lot Ban Pai, Shi Wei Ai Ling Danshui Town, Huiyang City Guangdong Province The People's Republic of China	The subject property comprises a parcel of irregularly-shaped industrial land fronting onto Shanhan Road and having a total site area of approximately 450,000 sq.m. As at the date of our inspection, the property is left vacant.	HK$173,500,000 (HONG KONG DOLLAR ONE HUNDRED SEVENTY THREE MILLION AND FIVE HUNDRED THOUSAND)

Notes:

(i) Pursuant to a Land Use Rights Certificate No. 惠陽國用(2003)字第200313212200017號 (Huiyang Guo Yong (2003) Zi No. 200313212200017) dated 14 April 2003 issued by Huiyang City Land Bureau, the site (Lot No. 0302001) with a site area of approximately 450,000 sq.m. was granted to 惠陽中建塑膠產品有限公司 (Huiyang CCT Plastic Products Co., Ltd.), a wholly-owned subsidiary of CCT Telecom. The permitted use of the site is for industrial and the land use right term is 50 years upto 23 January 2050.

(ii) We have been provided with a PRC legal opinion on the title to the property issued by 廣東鑄銘律師事務所 (Zhu Ming Lawyer Office of Guangdong, the PRC legal adviser, which contains, inter alias, the following information:

(1) 惠陽中建塑膠產品有限公司 (Huiyang CCT Plastic Products Co., Ltd.) has obtained the land use rights under the aforesaid State-owned Land Use Right Certificate mention in Note i.

(2) 惠陽中建塑膠產品有限公司 (Huiyang CCT Plastic Products Co., Ltd.) is entitled to transfer, let or mortgage the land use rights of the property.

(3) the property is not subject to any charge, legal charge, mortgage or any other similar encumbrances.

	Property	Description and tenure	Capital value in existing state as at 31 December 2004
7.	Land, various buildings and structures located at No. 3 Hong Yie Dong San Road Hongyie Economic Development Zone Tangxia Town Dongguan City Guangdong Province The People's Republic of China	The property comprises a main factory block, four separate dormitory blocks together with ancillary structures and facilities built upon a parcel of land having an area of approximately 21,611 sq.m. The total construction floor area of the erected buildings is about 31,755 sq.m. (see Note (ii) below). As at the date of our inspection, the property was under renovation.	HK$33,900,000 (HONG KONG DOLLAR THIRTY THREE MILLION AND NINE HUNDRED THOUSAND)

Notes:

(i) According to the information provided by the Company, a State-owned Land Use Rights Certificate No. 東府國用(1993)字第特159號 (Dong Fu Guo Yong (1993) Zi No. 159) dated April 1993 issued by the People's Government of Dongguan City for the land use rights of a site having an area of approximately 21,611 sq.m. have been granted to 香港泰富投資有限公司 (CCT Investment Limited) for industrial uses for a term of 50 years expiring in April 2043. As informed by CCT Telecom, 香港泰富投資有限公司 (CCT Investment Limited) is a wholly-owned subsidiary of CCT Telecom.

(ii) According to seven Real Property Ownership Certificates issued by the People's Government of Dongguan City dated 12 March 2003, the title to the various buildings in the factory complex having a total construction floor area of approximately 31,755 sq.m. is held by 香港泰富投資有限公司 (CCT Investment Limited). Their details are summarised as below:

Real Property Ownership Certificate No.	Use Designated by the Company	No. of Storey	Construction Floor Area *(sq.m.)*
1578126	Block 2 — Dormitory	5	1,940
1578125	Block 3 — Dormitory	5	1,940
1578127	Block 7 — Dormitory Block 7	5	1,167
1578128	Block 6 — Dormitory	5	1,167
1578131	Block 1 — Main factory	3	25,541
		Total	31,755

(iii) We have been provided with a PRC legal opinion on the title to the property issued by 廣東鑄銘律師事務所 (Zhu Ming Lawyer Office of Guangdong), the PRC legal adviser, which contains, inter alias, the following information:

(1) 香港泰富投資有限公司 (CCT Investment Limited) has obtained the land use rights and building ownerships under the aforesaid State-owned Land Use Right Certificate and Building Ownership Certificates mention in Note i and Note ii.

(2) 香港泰富投資有限公司 (CCT Investment Limited) is entitled to transfer, let or mortgage the land use rights and building ownership of the property.

(3) the property is not subject to any charge, legal charge, mortgage or any other similar encumbrances.

	Property	Description and tenure	Capital value in existing state as at 31 December 2004
8.	Land, various buildings and structures ESL Technology Park Zhukan Industrial District Gaobu Town Dongguan City Guangdong Province The People's Republic of China	The property consists of Phase I and Phase II. **Phase I** The property comprises a main factory block, four dormitory blocks, a canteen/ recreation building, various plant rooms and storage, together with ancillary buildings and structures built upon a parcel of land having an area of about 60,010 sq.m. The total construction floor area of the erected buildings is about 66,822 sq.m. and are summarised as below:	No Commercial Value

Building and structures	**No of Block**	**Construction Floor Area** *(sq.m.)*
Main factories	1	30,220
Staff dormitories and quarters	4	27,394
Canteen and recreation building	1	7,983
Plant/service houses and store rooms	4	435
Ancillary rooms	4	790
	Total:	66,822

The ancillary structures include delivery loading bay, fencing wall and landscaping.

The buildings, structures and ancillary facilities were completed in late 2001.

Phase II
The property is located immediately to the west of ESL Technology Park Phase I. It comprises a 3-storey factory block having a construction floor area of about 30,750 sq.m., four 7-storey dormitory blocks having a total construction floor area of about 35,240 sq.m. The total construction floor area of the erected buildings is about 65,990 sq.m.

The completed buildings were built in between 2003 and 2004.

The property is currently occupied by the CCT Telecom Group as a factory complex for the manufacturing of telecom products and electronic components and plastic products.

Notes:

(i) According to a Land Use Rights Lease Agreement No. 高商合字 (2001)01 (Gao Shang He Zi (2001)01) dated 1 January 2001 entered into between 東莞市高埗鎮對外經濟發展公司 (Dongguan City Gaobu Town Foreign Economic Development Company) (Party A), an independent third party of CCT Telecom and CCT Properties (Dongguan) Limited (中建電訊物業(東莞)有限公司) (Party B), a wholly-owned subsidiary of CCT Telecom, Party A agreed to lease the land use rights of the land having an area of approximately 60,000 sq.m. to Party B for its production and business operation uses for a term of 50 years from 1 January 2001 to 31 December 2051 at an initial monthly rental rate of RMB2 per sq.m., to be increased by 5% at every 5-year intervals. There was a rent-free period for the term from 1 January 2001 to 30 June 2003.

(ii) According to a Land Use Rights Lease Agreement No. 高商合字 (2002) (Gao Shang He Zi (2002)) 10 dated 1 January 2003 entered into between 東莞市高埗鎮對外經濟發展公司 (Party A), an independent third party of CCT Telecom and 東莞中建塑膠產品有限公司 (Dongguan CCT Plastic Products Co., Ltd.) (Party B), a wholly-owned subsidiary of CCT Telecom, Party A agreed to lease the land use rights of the land having an area of approximately 33,614.1 sq.m. to Party B for its production and business operation uses for a term of 50 years from 1 January 2003 to 31 December 2052 at an initial monthly rental rate of RMB2 per sq.m., to be increased by 5% at every five-year intervals plus a rate at 0.1% on the export. There was a rent-free period for the term from 1 January 2003 to 30 June 2005.

(iii) We have been informed by CCT Telecom that application on the issuance of the relevant title documents of the buildings and structures is underway. We attribute "no commercial value" for these buildings due to the reason that CCT Telecom cannot transfer these properties.

(iv) For reference purpose, the value of the buildings and structures with an area of 66,822 sq.m. is HK$385,000,000 under the assumption that CCT Telecom Group possess valid legal title to the buildings and structures, the construction costs have been fully settled, and the Group will obtain the relevant certificates without significant legal impediment and onerous fee or payment to the government authorities and any other parties.

(v) The land portion of the property, which is leased by the CCT Telecom Group, has been ascribed no commercial value due to the lack of substantial profit rent.

(vi) We have been provided with a PRC legal opinion on the title to the property issued by 廣東鑄銘律師事務所 (Zhu Ming Lawyer Office of Guangdong), the PRC legal adviser, which contains, inter alias, the following information:

1. 中建電訊物業(東莞)有限公司 (CCT Properties (Dongguan) Limited) has no right to transfer, let or mortgage the land use rights and building ownership of the property.

2. buildings with a total gross floor area of 132,812 sq.m. are in the process of applying building ownership certificates.

3. the property is not subject to any charge, legal charge, mortgage or any other similar encumbrances.

	Property	Description and tenure	Capital value in existing state as at 31 December 2004
9.	Unit Nos. 2 & 3, 10/F. Office Tower 1 Henderson Centre No. 18 Jianguomennei Avenue Dongcheng District Beijing The People's Republic of China	The property comprises 2 office units on 10th floor of an office building erected over a multi-storey shopping and carport complex completed in about 1997. The property has a total gross floor area of about 262.63 sq.m. As at the valuation date, the property was left vacant.	HK$5,570,000 (HONG KONG DOLLAR FIVE MILLION FIVE HUNDRED AND SEVENTY THOUSAND)

Notes:

(i) Pursuant to Building Ownership Certificate Nos 0470123 and 0470124, the property is held by Rich Moon Limited, a wholly-owned subsidiary of CCT Telecom, for a term of 50 years commencing from 14 October 1993.

(ii) We have been provide with a PRC legal opinion on the title to the property issued by 廣東鑄銘律師事務所 (Zhu Ming Lawyer Office of Guangdong), the PRC legal adviser, which contains, inter alias, the following information:

(1) Rich Moon Limited has obtained the building ownership under the aforesaid Building Ownership Certificates mention in Note i.

(2) Rich Moon Limited is entitled to transfer, let or mortgage the building ownership of the property.

(3) the property is not subject to any charge, legal charge, mortgage or any other similar encumbrances.

Group III — Property held by CCT Tech Group in the PRC

	Property	Description and tenure	Capital value in existing state as at 31 December 2004
10.	Land, various buildings and structures located at The Upper Land Lot (Lot No. 0302002), Sanhan Development District (also known as Shiwei Administrative District) Danshui Town Huiyang City Guangdong Province The People's Republic of China	The property comprises a main factory block, a plastic factory, nine blocks of staff quarters, a canteen/recreational building, various plant rooms and service rooms, built together with ancillary structures and facilities upon a parcel of land having an area of about 255,629 sq.m. The total construction floor area of the erected buildings is about 179,684.09 sq.m and are summarised as below:	HK$474,200,000 (HONG KONG DOLLARS FOUR HUNDRED SEVENTY FOUR MILLION AND TWO HUNDRED THOUSAND)

Building and structures	No of Block	Construction Floor Area *(sq.m.)*
Main factories	2	87,198
Staff dormitories and quarters	9	80,252
Canteen and recreation building	1	7,289
Plant/service houses and store rooms	9	4,600
Ancillary rooms	3	345
	Total:	179,684

The buildings, structures and ancillary facilities were completed in 1999.

The property is currently occupied by the CCT Telecom Group as a factory complex manufacturing telecom products, plastic products and baby products.

Notes:

(i) According to a State-owned Land Use Rights Certificate No. 惠陽府國用(2002)字第 13212200005 (Huiyang Fu Guo Yong (2002) Zi No. 13212200005) dated 4 February 2002 issued by the Land Bureau of Huiyang City, the land use rights for the land having an area of approximately 255,629 sq.m. have been granted to 惠陽中建電訊製品有限公司 (Huiyang CCT Telecommunications Products Co., Ltd.) for industrial uses for a term expiring on 17 February 2050. As informed by CCT Tech, 惠陽中建電訊製品有限公司 (Huiyang CCT Telecommunications Products Co., Ltd.) is a wholly-owned subsidiary of CCT Tech International Limited.

(ii) According to 24 Real Property Ownership Certificates issued by the People's Government of Huiyang City dated 6 February 2002, the title to the various buildings and structures in the factory complex having a total construction floor area of 179,684 sq.m. is held by 惠陽中建電訊製品有限公司 (Huiyang CCT Telecommunications Products Co., Ltd.). The details are summarised below:

Real Property Ownership Certificate No.	**Use Designated by the Company**	**No. of Storey**	**Construction Floor Area** *(sq.m.)*
208902	Air-conditioning Centre	1	1,461.35
208903	Transformer House No.6	1	339.90
208904	Staff Quarters B	5	2,381.11
208905	Transformer Centre	1	702.52
208906	Staff Quarters A	5	3,211.37
208907	Workers' Dormitory B	6	11,927.94
208908	Canteen	2	7,288.90
208909	Workers' Dormitory A	6	11,885.89
208910	Staff Quarters B1	5	3,179.72
208911	Fuel Station	1	72.02
208912	Workers' Dormitory C	7	13,279.57
208913	Transformer House No. 2	1	384.49
208914	Transformer House No. 7	1	339.90
208915	Transformer House No. 4	1	384.49
208916	Compressor House No. 5	1	339.90
208917	Garbage Room	1	63.09
208918	Dangerous Good Store	1	308.04
208919	Main Factory	3	51,869.80
208920	Industrial Waste Room	1	209.67
208921	Plastic Factory	2	35,327.89
208922	Transformer House No. 8	1	339.90
208923	Workers Dormitory D	7	13,279.57
208924	Workers Dormitory E	8	15,431.33
208925	Staff Quarter C	5	5,675.73
		Total	**179,684.09**

(iii) We have been provided with a PRC legal opinion on the title to the property issued by 廣東鑄銘律師事務所 (Zhu Ming Lawyer Office of Guangdong), the PRC legal adviser, which contains, inter alias, the following information:

1. 惠陽中建電訊制品有限公司 (Huiyang CCT Telecommunications Products Co., Ltd.) has obtained the land use rights and building ownerships under the aforesaid State-owned Land Use Right Certificate and Building Ownership Certificates mention in Note i and Note ii.

2. 惠陽中建電訊制品有限公司 (Huiyang CCT Telecommunications Products Co., Ltd.) is entitled to transfer, let or mortgage the land use rights and building ownerships of the property.

3. the property is subject to a mortgage in favour of Nanyang Commercial Bank Limited (Shenzhen Branch) commencing from 11 January, 2005 at a consideration of approximately RMB 100,000,000.

GRANT SHERMAN APPRAISAL LIMITED

31 March 2005

The Board of Directors
CCT Telecom Holdings Limited
32/F., China Merchants Tower
Shun Tak Centre,
168–200 Connaught Road Central,
Hong Kong

Dear Sir or Madam,

In accordance with your instructions, we have made an appraisal of the value of a single unit of Convertible Bonds with a face value of HK$1,840 each to be possibly issued by CCT Telecom (referred to as "the CB") pursuant to the proposed major and connected transaction announced on 31 January 2005 in respect of Voluntary Conditional Cash Offer with Securities Exchange Alternative by DBS Asia Capital Limited on behalf of Jade Assets Company Limited, a wholly-owned subsidiary of CCT Telecom Holdings Limited ("CCT Telecom" or "the Company"), to acquire all the issued shares and the convertible notes due 2005 of CCT Tech International Limited and Voluntary Conditional Cash Offer to cancel all outstanding options of CCT Tech International Limited. Terms used herein shall have the same meanings as defined in the circular of CCT Telecom Holding Limited dated 31 March 2005 unless defined otherwise.

BASIS OF VALUATION AND ASSUMPTIONS

In the calculation of the value of the CB, we have made the following assumptions:

1. The CCT Tech Shareholders and the holders of CCT Tech 2005 Convertible Note who accept the Cash Offer with Securities Exchange Alternative and opt for the CBs instead of cash ("Eligible Person") has the right to exercise the CBs at any time within the period from the date of issue of the CBs to the fifth business days before the expiration date of the CBs ("Conversion Period");

2. In the event the CB is not exercised within the Conversion Period, the Eligible Person will hold the CB until the expiration date of the CB;

3. If the Eligible Person exercise the CB within the Conversion Period and before the last day of the Conversion Period, the exercise will happen on the day immediately before any of the ex-dividend dates;

4. CCT Telecom will not exercise its right of repaying in whole or in part of the CBs prior to the Maturity Date of the CBs;

5. Dividends, HK$0.015 will be distributed to the Company's shareholders twice per year. The ex-dividend dates will be on May 20 and October 4, or the following trading day if May 20 or October 4 falls on either a Saturday or a Sunday;

6. CCT Telecom will have full capacity in meeting the liabilities arising from the CBs at the Maturity Date and credit risk involved will be negligible;

7. The discount rate for the pure bond component of the CB is assumed to be:

   (i) Constant during the Conversion Period;

   (ii) 9%, which represents a credit spread of 4% above the prime rate of 5% as of the appraisal date (Note: The 4% credit spread is assumed to be a reasonable rate as indicated by the principal banker of the Company on unsecured banking facilities and taking into account the upward trend of the lending rates in Hong Kong); and

8. Number of trading days per year is 260.

VALUATION METHODOLOGY

The valuation of the CB is based on the closing price of the shares of the Company as of March 16, 2005. Based on the assumptions as mentioned above, the value of the CB is considered to be divided into two parts, namely: (1) the zero-coupon bond value ("Bond Component"); and (2) option value derived from the right to convert the CB into the shares of CCT Telecom ("Option Component").

The methodology applied in valuing the Bond Component is similar to the valuation of a zero-coupon bond in view of the absence of coupon payments for the CB. The only cash flow for the Bond Component is the recovery of the CB's par value at maturity. Thus, the value of the Bond Component is simply the present value of its par value.

For the Option Component, the valuation methodology applied is the Black-Scholes option pricing model. The model is based on the assumption that it is possible to set up a perfectly hedged position consisting of owning the shares of stock and selling a call option on the stock. Any movement in the price of the underlying stock will be offset by an opposite movement in the option's value, resulting in no risk to the investor. This perfect hedge is riskless and, therefore, should yield the riskless rate of return.

The assumptions underlying the Black-Scholes model are as follows:

1. The short-term interest rate is known and is constant through time;

2. The stock price follows a random walk in continuous time with a rate of variance in proportion to the square of the stock price;

3. The distribution of possible stock prices at the end of any finite interval is log-normal;

4. The variance of the rate of return on the stock is constant;

5. The stock pays no dividends and makes no other shareholder distributions;

6. The option can be exercised only at maturity;

7. There are no commissions or other transaction costs in buying or selling the stock or option;

8. It is possible to borrow any fraction of the price of a security to buy it, or to hold it, at the short-term interest rate;

9. A seller who does not own a security (a short seller) will simply accept the price of the security from the buyer and agree to settle with the buyer on some future date by paying him an amount equal to the price of the security on that date. While this short sale is outstanding, the short seller will have the use of, or interest on, the proceeds to the sale; and

10. The tax rate, if any, is identical for all transactions and all market participants.

As the Black-Scholes option pricing model applies to stocks that do not pay dividends, an adjustment ("First Adjustment") is applied to approximate the option value of a dividend-paying stock like the share of the Company. The First Adjustment corresponds to a popular theory that assumes the stock price is the sum of two components: a riskless component that corresponds to the known dividends during the life of the option and a risky component. The riskless component at any given time is the present value of all the dividends during the life of the option discounted from the ex-dividend dates to the present at the risk-free rate. By the time the option matures, the dividends will have been paid and the riskless component will no longer exist. Operationally, this means that the Black-Scholes formula can be used provided that the stock price at the date of grant is reduced by the present value of all the dividends during the life of the option. The First Adjustment also assumes that the amount and timing of the dividends during the life of the option can be predicted with certainty.

In addition to the First Adjustment, as the Black-Scholes option pricing model applies to option that can be exercised only at maturity, i.e. European call option, another adjustment ("Second Adjustment") is applied to account for the possibility of early exercise of option that can be exercised on or before the expiration date, i.e. American call option, like the Option Component of the CB. The Second Adjustment corresponds to a popular theory which claims that when there are dividends, it may be optimal to exercise early only at a time immediately before the stock goes ex-dividend during the option period. In theory, American call option is liable to be exercised early immediately before any ex-dividend date if deemed to be optimal.

In this valuation, certain assumptions have been made including the three key parameters, being (a) interest rates (the "Interest Rate") at 9% per annum which is estimated based on the prime rate plus the credit spread on an unsecured loan and taking into account the upward trend of the interest rate; (b) the share price of the CCT Telecom Shares (the "Share Price") at HK$1.27 which is the share price at the time of preparing the valuation report; and (c) the time of exercise of the Convertible Bonds (the "Time of Exercise") in the fifth year after issue of the Convertible Bonds. These parameters used in this valuation are referred to as the "Base Case". The valuation model of the Base Case has been attached as Exhibit 1.

For the purposes of this valuation, we were furnished with public financial information as well as other records and documents provided to us by the management of the Company. We have reviewed and examined the said information and have no reason to doubt the truth and accuracy of the information contained therein. In arriving at our opinion of value, we have relied upon a number of assumptions that are subjective and uncertain in nature. Any variation of these assumptions could affect the values of the underlying option.

SENSITIVITY ANALYSIS

A sensitivity analysis which is presented in Exhibit 2 has been performed on each parameter while keeping the other parameters unchanged from the Base Case.

Assuming the Interest Rate increased or decreased by 1% per annum from the current assumed level of 9% per annum under the Base Case, the unit value of the Convertible Bonds compared with a unit face value of the Convertible Bonds represented a discount of 2.09% and a premium of 3.88% respectively.

Assuming the Share Price increased or decreased by 10% from the current assumed share price of HK$1.27 under the Base Case, the unit value of the Convertible Bonds compared with a unit face value of the Convertible Bonds represented a premium of 8.21% and a discount of 6.15% respectively.

Assuming the Convertible Bonds were converted into CCT Telecom Shares in the first year and the fifth year from the date of issue of the Convertible Bonds, the unit value of the Convertible Bonds compared with the unit face value of the Convertible Bonds represented a premium of 7.14% and 0.81% respectively.

According to the sensitivity analysis, the unit value of the Convertible Bonds compared with the unit face value of the Convertible Bonds would be in the range of a premium of 8.21% to a discount of 6.15%.

CONCLUSION OF VALUE

Based upon the assumptions outlined above and on the appraisal method employed, it is our opinion that the value of a single unit of the CBs that will be offered under the Cash Offer with Securities Exchange Alternative as of 16 March 2005 is reasonably stated by the amount of HK$1,854.99 only.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We have not investigated the title to or any liabilities against the property appraised.

We hereby certify that we have neither present nor prospective interests in the Company, the CBs or the value reported.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED
Keith C.C. Yan, ASA
Managing Director

Analysis and report by:
Keith C.C. Yan, ASA
Kelvin C.H. Chan, CFA, ACCA

Note: Mr. Keith C.C. Yan is an Accredited Senior Appraiser (Business Valuation) and he has been conducting business valuation in the Greater China region for various purposes since 1988.

EXHIBIT 1: BASE CASE FOR VALUATION OF CONVERTIBLE BOND

Black-Scholes Options Pricing Model

S — Stock Price (Before adjustment for dividends)	1.270 (16/03/2005)
S* — Stock Price (adjusted for dividends)	1.270 (16/03/2005)
(Present Value of Expected Dividends = 0)	
X — Exercise Price	1.267
σ — Volatility (Annualized Volatility for 100 Trade Days)	35.35% (16/03/2005)
r — Interest Rates (continuously-compound)	2.78% (16/03/2005)

Note: Underlying Security — CCT Telecom Holdings Ltd (138 HK)

Face Value (HK$)	1,840.0
Coupon Rate	0%
HK Exchange Fund Bills (1-year)	2.42% (16/03/2005)
US 6 Mon Bill	3.07% (16/03/2005)
Prime Rate	5.00% (Base Case: Current Rate as at 16/3/2005)
Credit Spread for CCT Telecom (Assumed)	4.00%

Assumptions:

(1) Assume the Convertible Bond holder can exercise the right of the Convertible Bond at specific maturity time (T-t)

(2) Discount of liquidity for selling converted shares is insignificant.

(3) The median of 1-yr HK Exchange Fund Bills and 6-Mon US Treasury Bill is the reasonable interest rate benchmark in view of the narrowing trend of these two rates.

(4) Dividend amounts are replicated based on the most recent interim and final dividend payments, excluding special dividend.

(5) Based on discussion with management of CCT Telecom.

(6) Valuation Date: 16 March, 2005.

American Options Calculation

$C = S_t N(d_1) - Xe^{-r(T-t)}N(d_2)$

$d_1 = [\ln(S_0/X) + (r+.5\sigma^2)(T-t)] / \sigma(T-t)^{1/2}$
$d_2 = d_1 - \sigma(T - t)1/2$
$N(\bullet)$ = cumulative normal distribution

At each ex-dividend date, check for the following inequality:

if $Dn \leqslant X(1 - e^{-r(T-tn)})$, do not exercise early, on the other hand,
if $Dn > X(1 - e^{-r(T-tn)})$, exercise early.

EXHIBIT 1: BASE CASE FOR VALUATION OF CONVERTIBLE BOND (CONTINUED)

Expected Dividends During the Life of the CB:

Ex-Dividend Date	Age of CB	Gross Div Amount	Type	$X(1 - e^{-r(T-tn)})$	Exercise (Yes/No)	Present Value
20 May, 2005	0.178	0.0150	Projected	0.013	Yes	0.0000
4 October, 2005	0.553	0.0150	Projected	0.020	N/A	0.0000
2 May, 2006	1.129	0.0150	Projected	0.015	N/A	0.0000
4 October, 2006	1.553	0.0150	Projected	0.022	N/A	0.0000
22 May, 2007	2.184	0.0150	Projected	0.013	N/A	0.0000
4 October, 2007	2.553	0.0150	Projected	0.022	N/A	0.0000
20 May, 2008	3.181	0.0150	Projected	0.013	N/A	0.0000
6 October, 2008	3.562	0.0150	Projected	0.022	N/A	0.0000
20 May, 2009	4.181	0.0150	Projected	0.013	N/A	0.0000
5 October, 2009	4.559	0.0150	Projected	0.016	N/A	0.0000
16 March, 2010	5.003	N/A	N/A	N/A	N/A	N/A

Present Value of Expected Dividends = 0.0000

Note: The option may be early exercised.

Valuation of American Call Option Assuming (T-t)	=	**5**
$d_1 = [\ln(S_0/X) + (r+.5\sigma^2)(T-t)] / \sigma(T-t)^{1/2}$	=	0.574257
$d_2 = d_1 - \sigma(T-t)^{1/2}$	=	(0.216193)
$N(d_1)$	=	0.717103
$N(d_2)$	=	0.414419
$C = S_tN(d_1) - Xe^{-r(T-t)}N(d_2)$	=	0.454
Value of Each Option (T-t)	=	0.454
Number of Options (= Face Value/Exercise Price of CB)	=	1,452.2
Total Value of Option (T-t)	=	**659.1**

Definition:

C = theoretical call price

S = stock price as at appraisal date

t = time to maturity of Convertible Bonds

e = exponential term

l = natural logarithm

EXHIBIT 1: BASE CASE FOR VALUATION OF CONVERTIBLE BOND (CONTINUED)

Time to Maturity (T-t) (Year)	Discount Rate for Bonds	Present Value of Bond Value *(HK$)*	Present Value of Option Value *(HK$)*	Total Present Value of Convertible Bond *(HK$)*	Face Value *(HK$)*	Premium/ (Discount) *(%)*
5	9.00%	1,195.87	659.12	1,854.99	1,840.00	0.81%

EXHIBIT 2: SENSITIVITY ANALYSIS

	Interest Rate	Current Share Price	Time of Conversion	Unit Value of CB *(HK$)*	Unit Face Value *(HK$)*	% of Premium/ (Discount)
Base Case of the Valuation Report	9% *(Note)*	1.27	Year 5	1,854.99	1,840.00	0.81%
Sensitivity on Interest rate						
Interest Rate +1%	10%	1.27	Year 5	1,801.61	1,840.00	(2.09%)
Interest Rate –1%	8%	1.27	Year 5	1,911.39	1,840.00	3.88%
Sensitivity on Share Price						
Share price + 10%	9%	1.397	Year 5	1,990.98	1,840.00	8.21%
Share price – 10%	9%	1.143	Year 5	1,726.92	1,840.00	(6.15%)
Sensitivity on time of conversion						
Conversion at year 1	9%	1.27	Year 1	1,971.33	1,840.00	7.14%
Conversion at year 5	9%	1.27	Year 5	1,854.99	1,840.00	0.81%

Note: The interest rate is estimated to be the prime rate plus the credit spread of an unsecured loan as indicated by the principal banker of the Company after taking into account of the upward trend of the interest rate.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to CCT Telecom and the Offers. The CCT Telecom Directors collectively and individually accept full responsibility for the accuracy of the information stated in this circular. The CCT Telecom Directors confirm, having made all reasonable enquiries, that to the best of their knowledge, 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. The issue of this circular has been approved by the Board.

The CCT Telecom Directors jointly and severally take full responsibility for the correct and fair reproduction of the public information of the CCT Tech Group and confirm that such extraction is not misleading.

2. SHARE CAPITAL

(a) As at the Latest Practicable Date, the authorised and issued share capital of CCT Telecom were as follows:

Authorised share capital:		*HK$*
2,000,000,000	CCT Telecom Shares	200,000,000.00
Issued and fully paid or credited as fully paid CCT Telecom Shares:		
422,525,230	CCT Telecom Shares	42,252,523.00

All CCT Telecom Shares in issue rank pari passu in all respects.

(b) As at the Latest Practicable Date, the authorised and issued share capital of CCT Tech were as follows:

Authorised share capital:		*HK$*
120,000,000,000	CCT Tech Shares	1,200,000,000.00
Issued and fully paid or credited as fully paid CCT Tech Shares:		
15,938,422,562	CCT Tech Shares	159,384,225.62

All CCT Tech Shares in issue rank pari passu in all respects.

3. MARKET PRICES

(a) CCT Telecom Shares

The table below shows the closing market prices for the CCT Telecom Shares as quoted on the Stock Exchange: (i) at the end of each of the six calendar months preceding the date of the Announcement; (ii) on 17 January 2005, being the Last Trading Day; (iii) at the end of each of the two calendar months preceding the Latest Practicable Date; and (iv) on the Latest Practicable Date.

Date	CCT Telecom Share price *HK$*
30 July 2004	0.90
31 August 2004	0.92
30 September 2004	1.06
29 October 2004	1.29
30 November 2004	1.26
31 December 2004	1.30
17 January 2005	1.33
Latest Practicable Date	1.26

The highest and lowest closing market prices for the CCT Telecom Shares as quoted on the Stock Exchange for the period between 1 August 2004 (being the commencement of the six-month period preceding the date of the Announcement) and the Latest Practicable Date were HK$1.41 recorded on 15 November 2004 and HK$0.89 recorded on 16 August 2004 respectively.

(b) CCT Tech Shares

The table below shows the closing market prices for the CCT Tech Shares as quoted on the Stock Exchange: (i) at the end of each of the six calendar months preceding the date of the Announcement; (ii) on 17 January 2005, being the Last Trading Day; (iii) at the end of each of the two calendar months preceding the Latest Practicable Date; and (iv) on the Latest Practicable Date.

Date	CCT Tech Share price *HK$*
30 July 2004	0.015
31 August 2004	0.014
30 September 2004	0.015
29 October 2004	0.015
30 November 2004	0.021
31 December 2004	0.024
17 January 2005	0.024
Latest Practicable Date	0.022

The highest and lowest closing market prices for the CCT Tech Shares as quoted on the Stock Exchange for the period between 1 August 2004 (being the commencement of the six-month period preceding the date of the Announcement) and the Latest Practicable Date were HK$0.030 recorded on 6 January 2005 and HK$0.014 recorded on 28 September 2004 respectively.

4. DISCLOSURE OF INTERESTS

(A) CCT Telecom

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

As at the Latest Practicable Date, the Directors and the chief executive of CCT Telecom and their respective associates had the following interests and short positions in the shares, underlying shares and debentures of CCT Telecom and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to CCT Telecom 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 CCT Telecom referred to therein or were required, pursuant to Part XV of the SFO or were required to be disclosed in this circular under the Takeovers Code, or the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to CCT Telecom and the Stock Exchange:

(1) *Interests and short positions in the CCT Telecom Shares, underlying shares and debentures of CCT Telecom*

(i) Long positions in the CCT Telecom Shares:

Name of Director	*Notes*	Number of shares beneficially held and nature of interest				Approximate percentage of total shareholding *(%)*
		Personal	Family	Corporate	Total	
Mak Shiu Tong, Clement	*(a)*	—	—	86,261,941	86,261,941	20.42
Cheng Yuk Ching, Flora	*(b)*	9,876,713	120,000	—	9,996,713	2.37
William Donald Putt		171,500	—	—	171,500	0.04
Samuel Olenick	*(c)*	—	—	125,000	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) The family interest of Ms. Cheng Yuk Ching, Flora in 120,000 shares was held by her spouse and she was deemed to be interested in the same under the provisions of Part XV of the SFO.

(c) 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 CCT Telecom — CCT Telecom Options:

Name of Director	Date of grant of share options	Exercise period of share options	Exercise price per share *HK$*	Number of share options outstanding	Number of total underlying shares	Approximate percentage of total shareholding *(%)*
Mak Shiu Tong, Clement	17/3/2003	17/3/2003 – 16/3/2008	0.75	420,000	420,000	0.10
Cheng Yuk Ching, Flora	17/3/2003	17/3/2003 – 16/3/2008	0.75	4,200,000	4,200,000	1.00
Tam Ngai Hung, Terry	17/3/2003	17/3/2003 – 16/3/2008	0.75	4,200,000	4,200,000	1.00
William Donald Putt	17/3/2003	17/3/2003 – 16/3/2008	0.75	420,000	420,000	0.10
Samuel Olenick	17/3/2003	17/3/2003 – 16/3/2008	0.75	420,000	420,000	0.10
Tam King Ching, Kenny	17/3/2003	17/3/2003 – 16/3/2008	0.75	420,000	420,000	0.10
Lau Ho Man, Edward	17/3/2003	17/3/2003 – 16/3/2008	0.75	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 and underlying shares of equity derivatives of Haier Electronics Group Co., Ltd. (formerly known as Haier-CCT Holdings Limited) ("**Haier**"):

(1) Shares in Haier:

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)*	—	30,717,334	0.188
Cheng Yuk Ching, Flora		22,312,498	—	0.136
William Donald Putt		179,112	—	0.001
Samuel Olenick	*(b)*	—	130,548	0.001

Notes:

(a) The shares were held by Capital Interest Limited, which is a corporation controlled by Mr. Mak Shiu Tong, Clement.

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

(2) Share options in Haier:

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	16/8/2002	16/8/2003 – 15/8/2007	0.156	89,000,000	89,000,000	0.54
Cheng Yuk Ching, Flora	16/8/2002	16/8/2003 – 15/8/2007	0.156	74,000,000	74,000,000	0.45
Tam Ngai Hung, Terry	16/8/2002	16/8/2003 – 15/8/2007	0.156	84,000,000	84,000,000	0.51
William Donald Putt	16/8/2002	16/8/2003 – 15/8/2007	0.156	5,000,000	5,000,000	0.03

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

(1) CCT Tech Options:

Name of Director	Date of grant of share options	Exercise period of share options	Exercise price per share *HK$*	Number of share options outstanding	Number of total underlying shares	Approximate percentage of total shareholding *(%)*
Mak Shiu Tong, Clement	30/4/2003	30/4/2003 – 29/4/2008	0.014	100,000,000	100,000,000	0.63
Cheng Yuk Ching, Flora	30/4/2003	30/4/2003 – 29/4/2008	0.014	100,000,000	100,000,000	0.63
Tam Ngai Hung, Terry	30/4/2003	30/4/2003 – 29/4/2008	0.014	100,000,000	100,000,000	0.63

(2) Convertible note in CCT Tech:

Name of Director	Description of equity derivatives	Number of total underlying shares	Approximate percentage of total shareholding *(%)*
Mak Shiu Tong, Clement *(Note)*	CCT Tech 2005 CN	4,500,000,000	28.23

Note: The CCT Tech 2005 CN was held by New Capital, which is a corporation wholly owned by Mr. Mak Shiu Tong, Clement and his family members.

(b) ***Particulars of the 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 CCT Telecom or any member of the CCT Telecom Group (excluding contracts expiring or determinable within one year without payment of compensation other than statutory compensation).

(c) ***Save as disclosed in the section headed "Disclosure of Interests" in this appendix, as at the Latest Practicable Date***

(i) none of the Directors and the chief executive of CCT Telecom and their respective associates held any interests or short positions in the shares, underlying shares and debentures of CCT Telecom or any of its associated corporations (within the meaning of the SFO) which were required to be notified to CCT Telecom 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 CCT Telecom referred to therein or were required, pursuant to Part XV of the SFO or were required to be disclosed in this circular under the Takeovers Code, or the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to CCT Telecom and the Stock Exchange;

(ii) none of the Directors was interested in any business that was in competition with the CCT Telecom Group;

(iii) none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2003, being the date of the latest published audited accounts of CCT Telecom were made up, acquired or disposed of by, or leased to CCT Telecom or any member of the CCT Telecom Group, or were proposed to be acquired or disposed of by, or leased to, CCT Telecom or any member of the CCT Telecom Group; and

(iv) none of the Directors was materially interested in any contract or arrangement entered into by CCT Telecom or any member of the CCT Telecom Group which contract or arrangement was subsisting and which was significant in relation to the business of the CCT Telecom Group taken as a whole.

(B) CCT Tech

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

As at the Latest Practicable Date, the CCT Tech Directors and the chief executive of CCT Tech and their respective associates had the following interests and short positions in the shares, underlying shares and debentures of CCT Tech and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to CCT Tech 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 CCT Tech referred to therein or were required, pursuant to Part XV of the SFO or were required to be disclosed in this circular under the Takeovers Code, or the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to CCT Tech and the Stock Exchange were as follows:

(1) *Interests and short positions in the shares, underlying shares and debentures of CCT Tech*

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

(i) CCT Tech Options:

Name of CCT Tech 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	0.63
Cheng Yuk Ching, Flora	30/4/2003	30/4/2003 – 29/4/2008	0.014	100,000,000	100,000,000	0.63
Tam Ngai Hung, Terry	30/4/2003	30/4/2003 – 29/4/2008	0.014	100,000,000	100,000,000	0.63
Tong Chi Hoi	30/4/2003	30/4/2003 – 29/4/2008	0.014	50,000,000	50,000,000	0.31
Chow Siu Ngor	30/4/2003	30/4/2003 – 29/4/2008	0.014	8,000,000	8,000,000	0.05
Lau Ho Kit, Ivan	30/4/2003	30/4/2003 – 29/4/2008	0.014	8,000,000	8,000,000	0.05

(ii) Convertible note:

Name of CCT Tech Director	Description of equity derivatives	Number of total underlying shares	Approximate percentage of total shareholding *(%)*
Mak Shiu Tong, Clement *(Note)*	CCT Tech 2005 CN	4,500,000,000	28.23

Note: The CCT Tech 2005 CN was held by New Capital, which is a corporation wholly owned by Mr. Mak Shiu Tong, Clement and his family members. This interest in the underlying shares has also been disclosed under the section headed "Substantial Shareholders' Interests" below.

(2) Interests and short positions in the shares, underlying shares and debentures of an associated corporation — CCT Telecom

(i) Long positions in the CCT Telecom Shares:

Name of CCT Tech Director	*Notes*	Number of shares beneficially held and nature of interest				Approximate percentage of total shareholding *(%)*
		Personal	Family	Corporate	Total	
Mak Shiu Tong, Clement	(1)	—	—	86,261,941	86,261,941	20.42
Cheng Yuk Ching, Flora	(2)	9,876,713	120,000	—	9,996,713	2.37
Tong Chi Hoi		282,000	—	—	282,000	0.07
William Donald Putt		171,500	—	—	171,500	0.04

Notes:

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

(2) The family interest of Ms. Cheng Yuk Ching, Flora in 120,000 shares was held by her spouse and she was deemed to be interested in the same under the provisions of Part XV of the SFO.

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

Name of CCT Tech Director	Date of grant of share options	Exercise period of share options	Exercise price per share *HK$*	Number of share options outstanding	Number of total underlying shares	Approximate percentage of total shareholding *(%)*
Mak Shiu Tong, Clement	17/3/2003	17/3/2003 – 16/3/2008	0.75	420,000	420,000	0.10
Cheng Yuk Ching, Flora	17/3/2003	17/3/2003 – 16/3/2008	0.75	4,200,000	4,200,000	1.00
Tam Ngai Hung, Terry	17/3/2003	17/3/2003 – 16/3/2008	0.75	4,200,000	4,200,000	1.00
Tong Chi Hoi	17/3/2003	17/3/2003 – 16/3/2008	0.75	1,000,000	1,000,000	0.24
William Donald Putt	17/3/2003	17/3/2003 – 16/3/2008	0.75	420,000	420,000	0.10

(b) ***Particulars of the CCT Tech Directors' other interests***

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

(c) ***Save as disclosed in the section headed "Disclosure of Interests" in this appendix, as at the Latest Practicable Date:***

(i) none of the CCT Tech Directors and the chief executive of CCT Tech and their respective associates held any interests or short positions in the shares, underlying shares and debentures of CCT Tech or any of its associated corporations (within the meaning of the SFO) which had to be notified to CCT Tech 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 CCT Tech referred to therein or which were required, pursuant to Part XV of the SFO or were required to be disclosed in this circular under the Takeovers Code, or the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to CCT Tech and the Stock Exchange; and

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

(C) The Offeror

As at the Latest Practicable Date, none of the directors of CCT Telecom and CCT Tech had any interest in the Offeror.

5. SUBSTANTIAL SHAREHOLDERS' INTERESTS

(A) CCT Telecom

As at the Latest Practicable Date, the following persons (other than the directors or the chief executive of CCT Telecom) had interests or short positions in the shares or underlying shares as recorded in the register required to be kept by CCT Telecom under section 336 of the SFO:

Long positions in the CCT Telecom Shares:

Name of shareholder	Number of shares held	Approximate percentage of total shareholding *(%)*
Capital Force International Limited *(Note)*	56,850,093	13.46
Capital Interest Limited *(Note)*	29,411,848	6.96
	86,261,941	20.42

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, as at the Latest Practicable Date, there was no other person (other than the directors or the chief executive of CCT Telecom) who had any interests or short positions in the shares and underlying shares as recorded in the register required to be kept by CCT Telecom under section 336 of the SFO.

(B) CCT Tech

As at the Latest Practicable Date, the following persons (other than the directors or the chief executive of CCT Tech) had interests or short positions in the shares or underlying shares as recorded in the register required to be kept by CCT Tech under section 336 of the SFO:

(i) *Long positions in the CCT Tech Shares:*

Name of shareholder	Notes	Number of shares held	Approximate percentage of total shareholding *(%)*
CCT Telecom	(1)	5,500,000,000	34.51
CCT Technology Investment Limited	(2)	5,500,000,000	34.51
Jade Assets Company Limited		1,800,000,000	11.29
CCT Assets Management Limited		1,350,000,000	8.47
Expert Success International Limited		1,350,000,000	8.47
Noble Team Investments Limited		1,000,000,000	6.28
Kwong Cheong Trading Limited		2,000,000,000	12.55
Yang Shao Wu	(3)	2,000,000,000	12.55

Notes:

(1) The interest disclosed comprises 5,500,000,000 shares indirectly owned by CCT Technology Investment Limited through the subsidiaries stated in note (2) below. CCT Technology Investment Limited is a wholly-owned subsidiary of CCT Telecom.

(2) The interest disclosed comprises 1,800,000,000 shares held by Jade Assets Company Limited, 1,350,000,000 shares held by CCT Assets Management Limited, 1,350,000,000 shares held by Expert Success International Limited and 1,000,000,000 shares held by Noble Team Investments Limited, all of them are wholly-owned subsidiaries of CCT Technology Investment Limited.

(3) The interest disclosed comprises 2,000,000,000 shares held by Kwong Cheong Trading Limited, which is wholly owned by Mr. Yang Shao Wu.

(ii) *Long positions in the underlying shares of equity derivatives of CCT Tech — Convertible notes:*

Name of holder of equity derivatives	Notes	Description of equity derivatives	Number of total underlying shares	Approximate percentage of total shareholding *(%)*
CCT Telecom	(1)	CCT Tech 2008 CN	43,928,571,428	275.61
CCT Technology Investment Limited	(2)	CCT Tech 2008 CN	43,928,571,428	275.61
Noble Team Investments Limited		CCT Tech 2008 CN	43,928,571,428	275.61
New Capital	(3)	CCT Tech 2005 CN	4,500,000,000	28.23

Notes:

(1) The interest disclosed comprises 43,928,571,428 underlying shares indirectly owned by CCT Technology Investment Limited through the subsidiary stated in note (2) below. CCT Technology Investment Limited is a wholly-owned subsidiary of CCT Telecom.

(2) The interest disclosed comprises 43,928,571,428 underlying shares held by Noble Team Investments Limited, which is a wholly-owned subsidiary of CCT Technology Investment Limited.

(3) New Capital is a corporation wholly owned by Mr. Mak Shiu Tong, Clement and his family members. This interest in the underlying shares has also been disclosed under the section headed "Disclosure of Interests" above.

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

(C) The Offeror

As at the Latest Practicable Date, CCT Telecom held 100% interest in the Offeror through a wholly-owned subsidiary. The Offeror held 1,800,000,000 CCT Tech Shares, representing approximately 11.29% of the existing issued share capital of CCT Tech. Save for 1,800,000,000 CCT Tech Shares, the Offeror had not held any other securities in CCT Tech.

6. OTHER SHAREHOLDERS' INTERESTS

Saved as disclosed above, as at the Latest Practicable Date, so far as was known to any directors or chief executive of CCT Telecom, there was no other person (other than a director or chief executive of CCT Telecom) who has an interest or short position in the shares and underlying shares of CCT Telecom which would fall to be disclosed to CCT Telecom under the provisions of

Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the CCT Telecom Group.

7. DEALINGS IN SECURITIES

During the period commencing six months before the date of the Announcement and ending on the Latest Practicable Date, there had been no holdings and dealings of the CCT Telecom Shares, the CCT Tech Shares, the CCT Tech Options, shares of the Offeror, or convertible securities, warrants, options or derivatives in respect of the CCT Telecom Shares, shares of the Offeror or the CCT Tech Shares owned and controlled by any person with whom the Offeror, CCT Telecom or any person acting in concert with either of them has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code.

During the period commencing six months before the date of the Announcement and ending on the Latest Practicable Date, there had been no holdings and dealings of the CCT Tech Shares, the CCT Tech Options, the CCT Telecom Shares, shares of the Offeror, or convertible securities, warrants, options or derivatives in respect of the CCT Tech Shares, shares of the Offeror or the CCT Telecom Shares owned and controlled by any person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with CCT Tech or with any person who is an associate of CCT Tech by virtue of classes (1), (2), (3) and (4) of the definition of associate.

During the period commencing six months before the date of the Announcement and ending on the Latest Practicable Date, the Offeror, CCT Telecom, the directors of the Offeror and CCT Telecom and parties acting in concert with the Offeror and CCT Telecom had no dealings in the CCT Tech Shares and other securities of CCT Tech.

During the period commencing six months before the date of the Announcement and ending on the Latest Practicable Date, the Offeror, CCT Telecom, the directors of the Offeror and CCT Telecom (expect for the spouse of Ms. Cheng Yuk Ching, Flora as mentioned is the next paragraph) and parties acting in concert with the Offeror and CCT Telecom had no dealings in the CCT Telecom Shares and other securities of CCT Telecom.

During the six months before the date of the Announcement, Mr. Po Pui Lam, the spouse of Ms. Cheng Yuk Ching, Flora, being a CCT Telecom Director, a CCT Tech Director and a director of the Offeror, purchased 50,000 CCT Telecom Shares at the price of HK$1.10 each on 20 September 2004, 50,000 CCT Telecom Shares at the price of HK$1.08 each on 24 September 2004 and 20,000 CCT Telecom Shares at the price of HK$1.30 each on 11 January 2005.

Except as disclosed in the above paragraph, none of the CCT Tech Directors nor CCT Tech had dealt in any securities, shares, options, warrants, derivatives or convertible securities of CCT Telecom or the Offeror during the period between 1 August 2004, being six months prior to the date of the Announcement, and the Latest Practicable Date.

None of the CCT Tech Directors had dealt in any securities, shares, options, warrants, derivatives or convertible securities of CCT Tech during the period between 1 August 2004, being six months prior to the date of the Announcement, and the Latest Practicable Date.

During the period commencing six months before the date of the Announcement and ending on the Latest Practicable Date, the parties acting in concert with the Offeror had the following interests in the securities of CCT Tech and CCT Telecom:

Name	Securities of CCT Tech	Securities of CCT Telecom
CCT Telecom	— 5,500,000,000 CCT Tech Shares *(Note)* — CCT Tech 2008 CN (held through Noble Team Investments Limited)	Nil
CCT Assets Management Limited	— 1,350,000,000 CCT Tech Shares	Nil
Expert Success International Limited	— 1,350,000,000 CCT Tech Shares	Nil
Noble Team Investments Limited	— 1,000,000,000 CCT Tech Shares — CCT Tech 2008 CN	Nil
Mak Shiu Tong, Clement	— 100,000,000 CCT Tech Options — CCT Tech 2005 CN (held through New Capital)	— 86,261,941 CCT Telecom Shares — 420,000 CCT Telecom Options
New Capital	— CCT Tech 2005 CN	Nil

Note: The 5,500,000,000 CCT Tech Shares are held by the Offeror as to 1,800,000,000 CCT Tech Shares, CCT Assets Management Limited as to 1,350,000,000 CCT Tech Shares, Expert Success International Limited as to 1,350,000,000 CCT Tech Shares and Noble Team Investments Limited as to 1,000,000,000 CCT Tech Shares.

During the period commencing six months before the date of the Announcement and ending on the Latest Practicable Date, CCT Tech did not have any interest in the CCT Telecom Shares, shares of the Offeror, or convertible securities, warrants, options or derivatives in respect of CCT Telecom Shares or shares of the Offeror.

8. MATERIAL CHANGE

As at the Latest Practicable Date, the CCT Telecom Directors were not aware of any material change in the financial or trading position or prospects of the CCT Telecom Group since 31 December 2003, being the date to which the latest published audited financial statements of the CCT Telecom Group were made up, save as disclosed in (i) the interim report for the six months ended 30 June 2004; and (ii) the statement of indebtedness of the CCT Telecom Group as set out in the sub-section headed "Statement of indebtedness" in Appendix IA of this circular.

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

As at the Latest Practicable Date, none of the CCT Telecom 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 CCT Telecom were made up, been acquired or disposed of by or leased to any member of the CCT Telecom Group or were proposed to be acquired or disposed of by or leased to any member of the CCT Telecom Group.

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

10. MATERIAL CONTRACTS

In the two years immediately preceding the date of the Announcement, the following contracts, not being contracts entered into in the ordinary course of business, were entered into by CCT Telecom Group which are or may be material:

(i) a conditional placing agreement dated 19 January 2005 made amongst the Info-Net International Corp. (a wholly-owned subsidiary of CCT Telecom), CCT Telecom and Deutsche Bank AG, Hong Kong Branch relating to the placing of 419,997,667 shares of HK$0.10 each in Haier, the then associated company of CCT Telecom at a price of HK$0.24 per share of Haier;

(ii) a conditional agreement dated 2 June 2004 made between CCT Telecom and CCT Tech relating to the sale and purchase of the entire equity interest in First Precision Holdings Limited and CCT Investment Limited, the then indirect wholly-owned subsidiaries of CCT Tech, and the assignment of their respective shareholder's loans; and

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

11. LITIGATION

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

12. QUALIFICATIONS AND CONSENTS OF EXPERTS

Each of DBS Asia, VC Capital, Ernst & Young, the PRC Legal Adviser (as defined below) and Grant Sherman, has given and has not withdrawn its written consent to the issue of this circular with copies of its letter or report (as the case may be) and the references to its name included herein in the form and context in which they respectively appear.

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

Name	Qualification
DBS Asia	A deemed licensed corporation under the SFO permitted to engage in types 1, 4 and 6 of the regulated activities as defined under the SFO
VC Capital	A deemed licensed corporation under the SFO permitted to engage in types 1, 4, 6 and 9 of the regulated activities as defined under the SFO
Ernst & Young	Certified public accountants
Grant Sherman	Independent valuer
廣東鑄銘律師事務所 (Zhu Ming Lawyer Office of Guangdong) (the "PRC Legal Adviser")	Registered law firm in the PRC

As at the Latest Practicable Date, none of DBS Asia, VC Capital, Ernst & Young, the PRC Legal Adviser and Grant Sherman is interested in any CCT Telecom Share or share in any member of the CCT Telecom Group, any CCT Tech Share or share in any member of the CCT Tech Group, nor does it have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any CCT Telecom Share or share in any member of the CCT Telecom Group, any CCT Tech Share or share in any member of the CCT Tech Group.

13. GENERAL

(i) The Offeror

(a) The registered office of the Offeror is situated at the offices of Shellbourne Trust Company (BVI) Limited, Road Town, Tortola, British Virgin Islands.

(ii) CCT Telecom

(a) The registered office of CCT Telecom is situated at the offices of The Harbour Trust Co. Ltd., P. O. Box 1787 GT, One Capital Place, Grand Cayman, Cayman Islands, British West Indies and the head office and the principal place of business of CCT Telecom in Hong Kong is located at 32/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

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

(c) The company secretary of CCT Telecom 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.

(d) The qualified accountant of CCT Telecom is Mr. Cheung Chi Wah, Patrick, who is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

(iii) CCT Tech

(a) The registered office of CCT Tech is situated at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and the head office and the principal place of business of CCT Tech in Hong Kong is located at 32/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

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

(c) The company secretary of CCT Tech 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.

(d) The qualified accountant of CCT Tech is Mr. Ho Yiu Hong, Victor, who is a fellow of the Association of Chartered Certified Accountants and an associate of The Institute of Chartered Secretaries and Administrators.

(iv) Others

(a) The registered office of DBS Asia is situated at 16/F., Man Yee Building, 68 Des Voeux Road Central, Hong Kong.

(b) None of the experts named in paragraph 12 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 CCT Telecom were made up, been acquired or disposed of by or leased to any member of the CCT Telecom Group or were proposed to be acquired or disposed of by or leased to any member of the CCT Telecom Group.

(c) Any person who, alone or acting together with any other person(s) pursuant to an agreement or understanding (whether formal or informal) to acquire or control securities of CCT Tech, owns or control 5% or more of any class of securities of CCT Tech, including a person who as a result of any transaction owns or controls 5% or more of any class of securities of CCT Tech, is generally required under the provisions of Rule 22 of the Takeovers Code to notify the Stock Exchange and the Executive of every dealing in such securities during the offer period of the Offers. Please consult your financial adviser, legal adviser and/or other professional advisers immediately if you believe this rule may be applicable to you.

(d) As at the Latest Practicable Date, no agreements, arrangements or understandings (including any compensation arrangement) exist between CCT Telecom, the Offeror or any person acting in concert with any one of them and any of the CCT Tech Directors, the recent CCT Tech Directors, and holders or recent holders of the CCT Tech Shares or the CCT Tech Options which is conditional on or dependent upon the outcome of the Offers or is otherwise connected with the Offers.

(e) Unless otherwise required by the Listing Rules and/or other applicable rules and regulations regarding the public float requirements, the Offeror and CCT Telecom have no intention to transfer the CCT Tech Shares acquired in pursuance to the Offers to any other persons.

(f) As at the Latest Practicable Date, no benefit had been, nor will any be, given to any CCT Tech Directors as compensations for loss of office or otherwise in connection with the Offers (save as statutory compensation required under the appropriate laws).

(g) The emoluments of the directors of the Offeror will not be affected by the acquisition of CCT Tech or by any other associated transaction.

(h) There is no arrangement of the kind referred to in the third paragraph of Note 8 of Rule 22 of the Takeovers Code between the Offeror or CCT Telecom, parties acting in concert with the Offeror or CCT Telecom, or any associate of the Offeror or CCT Telecom, and any other person.

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

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office and the principal place of business of CCT Telecom 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 EGM:

(a) the memorandum and articles of association of CCT Telecom;

(b) the letter from the Board, the text of which is set out on pages 7 to 27 of this circular;

(c) the letter from the Independent Board Committee, the text of which is set out on pages 28 to 29 of this circular;

(d) the letters from VC Capital, the text of which is set out on pages 30 to 48 of this circular;

(e) the property valuation reports from Grant Sherman, the text of which are set out on pages 167 to 189 of this circular;

(f) the valuation report of the Convertible Bonds from Grant Sherman, the text of which is set out in Appendix IIC of this circular;

(g) the letter from Ernst & Young, certified public accountants, the text of which is set out on pages 163 to 164 of this circular;

(h) the unaudited pro forma statement of assets and liabilities of the Combined Group, the text of which is set out in Appendix IC of this circular;

(i) the letters of consent dated 31 March 2005 from each of DBS Asia, VC Capital, Ernst & Young, Grant Sherman and the PRC Legal Adviser referred to in the section headed "Qualifications and Consents of Experts" in this appendix;

(j) the letter of irrevocable undertaking given by New Capital to accept the Offers;

(k) the annual reports of CCT Telecom for the two financial years ended 31 December 2002 and 2003;

(l) the interim reports of CCT Telecom for the six months ended 30 June 2003 and 2004;

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

(n) the Composite Offer Document; and

(o) 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 CCT Telecom 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 Monday, 18 April 2005 at 10:00 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 acquisition of all the issued shares of and the convertible note due in 2005 issued by CCT Tech International Limited ("**CCT Tech**") (other than those owned by Jade Assets Company Limited, an indirect wholly-owned subsidiary of the Company, and the parties acting in concert with it (other than New Capital Industrial Limited ("**New Capital**"))), and the cancellation of all the outstanding options of CCT Tech by or on behalf of the Company (the "**Offers**") on terms as set in the Company's circular dated 31 March 2005 (the "**Circular**"), a copy of which is tabled at the meeting and marked "A" and initialled by the chairman of the meeting for identification purpose, be and is hereby approved;

(b) the allotment and issue of convertible bonds and shares pursuant to the conversion thereof by the Company pursuant to the terms of the Offers on terms as set out in the Circular be and is hereby approved; and

(c) any of the directors of the Company (the "**Directors**"), or any two Directors if the affixation of the common seal of the Company is necessary, be and are hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other further documents (if any) and to take all such steps which in the opinion of the Directors may be necessary, appropriate, desirable or expedient to implement and/or give effect to the transactions set out in paragraphs (a) and (b) of this resolution."

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

Hong Kong, 31 March 2005

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 will 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.