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# chairman's letter

On behalf of the board of directors (the "Board") of CCT Telecom Holdings Limited (the "Company"), I am pleased to announce the annual results of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2005.

During the year under review, the Company recorded a turnover of HK\$3,980 million, a slight decrease of approximately 1.9% compared to previous year. Profit for the year attributable to shareholders of the Company, including other income and gains of HK\$175 million, rose to HK\$225 million, an increase of approximately 110.3%.

The financial year 2005 was a difficult and challenging year for our manufacturing business, attributable to several unfavorable factors. Keen market competition in our major markets led to increasing price pressure from our customers. Coupled with the labour shortage problem in the Pearl River Delta region, the People's Republic of China (the "PRC"), this resulted in a slight decrease of 1.9% in turnover during the year under review as compared to that of 2004. Operating profit dropped due to price reduction and increase in operating costs including the rising costs of certain materials, salaries and wages of staff and workers, increase in overheads and appreciation in Renminbi.

Despite a difficult environment in the financial year of 2005, we maintained our leading position in the cordless phone manufacturing sector. The business of the Group in the United States ("U.S."), our largest market, performed well and achieved an increase in both sales orders and volume. We have also made excellent progress in developing our business in countries outside the U.S., especially Europe and the Asian Pacific regions. Growth in these regions was encouraging as we secured increased business from existing and new customers.

We are extremely pleased with the performance of the Group's business of investments in properties and securities which bore fruitful results during the year. The disposal and dilution of our interest in Haier Electronics Group Co., Ltd ("Haier Electronics") in January 2005 generated a realized gain of HK\$109 million and the recovery of the commercial property market in Hong Kong resulted in the reversal of previous impairment loss of an investment property of our Group in the amount of HK\$64 million. These investment gains are the main factors that contributed to the significant increase in net profit.

The Board recommends the payment of a final dividend of HK\$0.02 per share for the year 2005 to the shareholders whose names appear on the register of members of the Company on Tuesday, 23 May 2006, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company. The proposed final dividend will be paid on or around Tuesday, 13 June 2006 following the shareholders' approval at the forthcoming annual general meeting of the Company. Taking into account the HK\$0.68 special interim dividend per ordinary share paid in August 2005, the total dividend per ordinary share amounted to HK\$0.70 for this financial year, compared with the total dividend of HK\$0.13 per ordinary share (including the special interim dividend of HK\$0.10 per share paid in 2004) distributed in respect of the financial year 2004. The increase in total dividend distributed this financial year is a sign of our gratitude towards the support of our shareholders throughout the past years.



## **PROPOSED PRIVATISATION OF CCT TECH INTERNATIONAL LIMITED**

The Group's attempt to gain approval of the scheme in relation to the privatisation of CCT Tech International Limited ("CCT Tech") at the court meeting of CCT Tech held on 13 February 2006 was unsuccessful and, accordingly, the privatisation of CCT Tech will not proceed. The shares of CCT Tech remain listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). CCT Tech and its subsidiaries will continue to be engaged in the manufacturing and sale of telecom and electronic products.

In order to restore the public float of CCT Tech, the Company entered into a conditional agreement with Deutsche Bank on 17 March 2006 under which the Company agreed to sell in total 13,800,000,000 shares ("Sale Shares") in CCT Tech to Deutsche Bank and at least two other independent institutional investors for a total consideration of approximately HK\$303.6 million upon the full conversion of the two convertible notes due by CCT Tech to the Group. At the same time, the Company also entered into a put agreement with Deutsche Bank granting the bank a right to put back the Sale Shares to the Company pursuant to the terms of the put agreement. The consideration for the sale of the Sale Shares will be paid to Deutsche Bank as an effective collateral to secure the Company's obligations under the put agreement. If the put options are not exercised pursuant to the terms of the put agreement, the consideration will be refunded back to the Company upon the early unwind of the put options or upon the expiration date of the put options. Upon completion of the sale of the Sale Shares, the Group's interest in CCT Tech will decrease from 84.12% to 74.62% and Deutsche Bank and the independent institutional investors together will hold in total approximately 21.4% of the then total issued share capital of CCT Tech.

The sale of the Sale Shares and the execution of the put agreement is subject to various conditions including the approval of the transactions at a special general meeting of CCT Telecom. The transactions have a number of advantages to the Group. First of all, the transactions will restore the public float of the CCT Tech on one hand and will increase the liquidity of shares of CCT Tech and broaden its shareholders base on the other. If the put options can be unwound and the consideration is refunded to the Company by Deutsche Bank, the Company would be able realise part of our investments in CCT Tech at a consideration of HK\$303.6 million and yet maintain CCT Tech as our major subsidiary.

## **OUTLOOK**

We are optimistic towards the outlook of the financial year of 2006 although we expect 2006 to be a challenging year for our manufacturing business. Keen market competition will continue to impose pressure on sale prices. The outlook for the prices of raw materials and components remain uncertain and we expect the prices to continue its upward trend or stabilize at a high level. The rising wages of workers due to continuing labour shortage and potential further appreciation of Renminbi will continue to affect our profit margin. To combat such issues, the Group has implemented various cost reduction and cost control measures. We have also invested in more automated production facilities and equipment and redesigned certain production processes in order to improve labour efficiency and reduce our reliance on manual labour. All these measures have produced encouraging results and the costs saved will partly compensate for the increase in operating costs. To further combat the difficulties caused by labour shortages, we will explore the possibility of establishing additional manufacturing facilities in locations outside the Guangdong Province in the northern part of China or even outside of China.

We will continue to benefit from the continuing robust economy in the U.S. and we expect revenue from our largest market will rise again. We are optimistic about our business in the markets outside the U.S., in the rest of the world. We expect the business in these non-U.S. markets to expand further especially Europe as the market in this region continues to grow and our customers increase sourcing from Asia.

Our strength in the telecom product business will continue to enable us to lead the market in the cordless telecom products industry. We will maintain our strong market position and will continue to diversify our customer and product base. We expect that the new advanced wireless and broadband telecom and electronic products will generate a lot of interest from the market. Our order books remain strong and continue to gain momentum. With an exciting product roadmap ahead of us, we are optimistic about the potential of the telecom and electronic product businesses.

As for our investment business, we are confident of its potential. We are very pleased that in January 2006, the Group further disposed of its approximately 24% remaining interest in Haier Electronics to Deutsche Bank generating approximately HK\$551 million in cash and approximately HK\$316 million unaudited profit which will be booked in the financial year 2006. We will continue to look for opportunities for new investment that will generate satisfactory returns. We will also closely monitor the property and investment market and will seize any opportunity to realize our investments for gains.

On the basis of the abovementioned measures and potential business opportunities, the management is optimistic about the Group's continuous growth in the years ahead.

## **ACKNOWLEDGEMENTS**

The year's results could not have been achieved without the dedication and commitment of many individuals and groups. I would like to take this opportunity to express my gratitude to the members of the Board for their diligent guidance and support, and to thank the Group's management team for their sound leadership and management and the Group's entire staff for their hard work. Finally, I would also like to thank our customers, suppliers, business partners, bankers and associates for their continued support and confidence in the Group. I am confident to say that we are well-placed to continue creating even greater value to our shareholders in the foreseeable future.

**Mak Shiu Tong, Clement**

*Chairman*

Hong Kong, 19 April 2006