

chairman's letter

On behalf of the Board of CCT Telecom Holdings Limited, I am pleased to announce the results of the Group for the year ended 31 December 2006.

I am delighted to report that the performance of the Group in 2006 was its best ever since its inception. Both revenue and profit set new records. Turnover increased by 5.5% to HK\$4,199 million. Profit attributable to shareholders of the Company, including gains from investments, rose to HK\$358 million, representing a significant jump of approximately 59.1%.

The year 2006 has also been a year of opportunity and challenges for the Group. In 2006, the Group's manufacturing business continued to face various challenges and operated in a business environment that was even more difficult than that of 2005. Market competition, high material costs and rising labor costs and overheads in China imposed pressure on our costs and margins, resulting in a fall in the profit of our manufacturing business.

Despite a difficult environment in 2006, the Group maintained its position as the worldwide leading ODM manufacturer of cordless phones and hi-tech electronic products. Our market diversification strategy has been successful. We have gained new customers and have expanded both our customer base and market demography. We have also made significant progress in growing our revenue outside the US. Turnover to the markets outside the US reached HK\$2,057 million, representing 49.0% of the total turnover.

Technology remains our core strength. In 2006, we launched a wide range of premium quality cordless phone products to meet market demand. In a swift response to the Federal Communications Commission's approval on DECT standard for communications in the US, we became the world's first manufacturer to launch DECT 6.0 cordless phones in the US market in the second half of 2006, thereby, giving us a decisive lead over our competitors. Our achievement in this regard is a clear testament to our ability to stay closely in tune with the ever-changing demands of our markets and our ability to react swiftly to such changes.

Other than the manufacturing business, the performance of our securities investment business was excellent. In early 2006, the Group realized a gain of HK\$316 million from the disposal of all our remaining equity interest in Haier Electronics. Furthermore, capturing the advantages of the buoyant Hong Kong stock market, we actively engaged in trading of listed securities and placing of funds into equity-linked deposits and treasury products during 2006 and achieved satisfactory returns and income in the amount of HK\$48 million.

To capture the many business opportunities arising from the Hong Kong and mainland China property markets, the Group established a new business division in 2006 — the Property Investment and Development Group — that is solely dedicated to exploring and seeking business opportunities in this area. This new business division has so far actively pursued property projects located within Hong Kong and mainland China especially in cities where we already have industrial investments. Given our wealth of knowledge and experience in doing business in China and Hong Kong, we are in an ideal position to explore and develop both residential and commercial property projects whether for sale or for lease. We believe that this new business division has great potential and will generate business growth and attractive returns for the Group in the near future.



The Board recommends the payment of a final dividend of HK\$0.025 per share for the year 2006 to the shareholders whose names appear on the register of members of the Company on Wednesday, 23 May 2007, 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 payable from the Company's retained profits and will be paid on or around Friday, 8 June 2007 following the shareholders' approval at the forthcoming annual general meeting of the Company. Taking into account the HK\$0.02 per share 2006 interim dividend paid in October 2006, the total dividend per ordinary share amounted to HK\$0.045 per share for this financial year 2006, compared with the total dividend of HK\$0.70 per ordinary share (including the special interim dividend of HK\$0.68 per share paid in 2005) distributed in respect of the financial year 2005.

CONVERSION OF CONVERTIBLE NOTES AND SALE OF SHARES IN CCT TECH

In May 2006, we converted all the convertible notes due to us by CCT Tech and sold 13.8 billion shares ("CCT Tech Sale Shares") in CCT Tech to Deutsche Bank and three other independent investors for a total consideration of approximately HK\$303.6 million. At the same time, the Company also entered into a put agreement ("Put Agreement") with Deutsche Bank granting the bank a right to put back the CCT Tech Sale Shares to the Company pursuant to the Put Agreement. The consideration for the sale of the CCT Tech Sale Shares has been paid to Deutsche Bank as an effective collateral to secure the Company's obligations under the Put Agreement. If the CCT Tech Sale Shares are disposed of by the investors and the put options are not exercised, the consideration will be refunded back pursuant to the terms of the Put Agreement. Upon the completion of the CCT Tech Sale Shares in May 2006, the public float of CCT Tech has been restored and the Group still maintained its controlling interest in CCT Tech.

OUTLOOK

Looking into the future, we are cautiously optimistic about the outlook of the financial year of 2007.

On the negative side, high oil prices, increased interest rates and the downturn of the US property market have dampened the US economy. Market competition continues to be keen. The acute shortage of labour in the Pearl River Region continues to affect our production in Guangdong factories and raise our labor costs. Furthermore, any further appreciation of Renminbi will no doubt further increase our production costs. On the positive side, oil prices have dropped by more than 15% from its peak level and the prices of raw materials and components are stabilizing. The consumer spending in the US remains strong and the US housing market appears to be near bottom. Many are of the view that the rising trend of US interest rates has ended and it is widely expected that interest rates will go down in the second half of 2007. The demand of telecom products from our markets in Europe and the emerging markets remains strong and we believe that this will be a crucial driving force to our growth in revenue and profit in 2007.

Our product roadmap holds great potential. We believe the broadband cordless phones, WiFi cordless phones, and VoIP cordless phones that we intend to launch in 2007 will provide momentum for growth and will improve profitability as these new products have higher price points giving better margins. We also expect that our inroads into the commercial telecommunication market by the introduction of SOHO telecom products, multi-line cordless phones and cordless conference boxes will provide us a new platform for growth in business.

To deal with the production issues, we have decided to establish a new plant in the Chaoyang City, Liaoning Province, in north-eastern China. The first phase of the new factory in Chaoyang is expected to commence mass production in the second half of 2007. The new factory in Chaoyang will enable us to tap into the abundant supply of low-cost labor in the region and help us resolve the labor shortage problem in our existing Guangdong factories. We believe the new plant in Chaoyang will deliver significant cost savings and will further strengthen our competitiveness which will improve the profitability of the Group.

Given the continuing strong economic growth in Hong Kong and China, we are optimistic about the new businesses of securities investment and property investment and development. We believe these businesses will provide great potential for growth as well as attractive income and returns.

On the basis of the abovementioned measures and potential business opportunities, the management is cautiously optimistic about the Group's continuous growth in the years ahead. We will continue to explore new market opportunities and income sources that are in line with our long-term growth strategy.

ACKNOWLEDGEMENTS

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, the staff for their hard work, and our shareholders, customers and suppliers, business partners and bankers for their continued support and confidence in the Group. We are confident of continuous growth in the years ahead and look forward to creating greater opportunities and delivering increased returns to our shareholders in the foreseeable future.

Mak Shiu Tong, Clement

Chairman

Hong Kong, 18 April 2007