

chairman's letter

On behalf of the board of CCT Tech International Limited, I am pleased to announce the annual results of the Group for the year ended 31 December 2006.

During the year of 2006, the Group's turnover set a new record and reached HK\$3,858 million, representing an increase of approximately 1.7% as compared to the previous year. The Group's profit performance was, however, affected by a difficult business environment which resulted in a decrease of the Group's net profit by approximately 11.5% from HK\$113 million to HK\$100 million.

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

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 from the markets outside the US increased by 21.2% and reached HK\$1,818 million, representing 47% 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.

CONVERSION OF CONVERTIBLE NOTES AND RESTORATION OF PUBLIC FLOAT

In 2006, important strategic moves were taken by CCT Telecom to improve the capital structure and restore the public float of the Company following its unsuccessful attempts to privatize the Company. The conversion of all the outstanding convertible bonds and the subsequent sale of 13.8 billion shares in the Company by CCT Telecom to Deutsche Bank and three other independent institutional investors was completed in May 2006 and the Company's public float has since been restored. The transaction has substantially broadened the Company's capital base and has enhanced the shareholders mix to include major institutional investors. The conversion of the convertible notes has also greatly improved the Company's financial position as it has relieved the Company's financial burden in respect of the substantial annual interest payments and the principal repayment that would have otherwise arisen on the maturity date.



OUTLOOK

Looking into the future, we are cautiously optimistic about the outlooks of the financial year 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. Consumer spending in the US remains strong and all indications seem to suggest that 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 crucial driving force to our growth in revenue and profit in 2007.

Our product roadmap holds great potential. We believe that 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-lines cordless phones and cordless conference boxes will provide us with 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.

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.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to take this opportunity to express our appreciation and gratitude to the senior management and all staff for their support, hard work and dedication over the years. We would also like to express our sincere thanks to our shareholders, bankers, customers and suppliers for their continued encouragement and strong support to the Group.

Mak Shiu Tong, Clement

Chairman

Hong Kong, 18 April 2007