

chairman's letter

The fiscal year 2004 was truly a remarkable year for CCT Telecom Holdings Limited (the "Company") and its subsidiaries (together the "Group"). Despite facing the increasing market uncertainty and the competitive business environment, we managed to sustain an encouraging and remarkably strong financial performance.

Group turnover grew 18% to around HK\$4 billion. Net profit was recorded at HK\$56 million. The results represent a milestone for the Company as it has turnaround from a net loss of HK\$118 million in the previous year. Basic earnings per share were HK\$0.13 in 2004 as compared to a loss per share of HK\$0.28 in 2003. Dividend per share (excluding the special interim dividend of HK\$0.10 per share paid in June 2004) amounted to HK\$0.03 per share, which is same as in the previous year.

In the year under review, we faced challenges from keen competition in the cordless phone market, which led to price pressure from our customers. The fluctuation of the supply and price of raw materials due to, for instance, the continued rise of price of petroleum, the shortage of electricity and labour in the Guangdong Province where the Group's factories are located have placed pressure on the operating costs of the Group. Despite such factors, we had been able to deliver satisfactory results in the year under review.

Our continued success is mainly attributable to our product diversification strategy of developing and launching new and innovative products and our market diversification strategy of venturing into Europe and the Asia Pacific regions. Our streamlined operating structure and efficient supply chain management have resulted in better and effective control in costs. Our performance was further enhanced by the reduction in the share of loss from our then listed associate, Haier Electronics Group Co., Limited ("Haier Electronics", formerly known as Haier-CCT Holdings Limited) by the Group from approximately HK\$200 million in 2003 to approximately HK\$2 million in 2004, as a result of the improvement in the operating results of Haier Electronics and that there was no goodwill impairment in Haier Electronics in the year under review.

Financial position of the Group remained strong and healthy. As at 31 December 2004, total assets reached around HK\$4 billion with cash and bank balance maintained at approximately HK\$1 billion. Net current assets increased by HK\$24 million to approximately HK\$694 million. The gearing ratio remained at a low level of approximately 14%. All these have signified not only our growth but also our rock-solid and healthy financial position.

CCT TECH GROUP

The telecom product business of the Group includes the sales and manufacture of cordless phones and advance and hi-tech electronic products on both an original design manufacturing ("ODM") basis and a contract manufacturing basis. This core business is carried out by Company's principal listed subsidiary, CCT Tech International Limited ("CCT Tech") and its subsidiaries (together the "CCT Tech Group"), which has already established itself as one of the largest and leading ODM manufacturers and contract manufacturing providers of telecom products in the world. During the year under review, the telecom product business continued its outstanding performance, with the monthly sales figures well exceeded those recorded in the corresponding months of the previous years, attributable to the successful implementation of the Group's strategies of product differentiation and geographical diversification.



CCT INDUSTRIAL GROUP

CCT Industrial Group is engaged in the manufacture of plastic products, electronic components and baby and health care products. The plastic products and electronic components are manufactured primarily for internal supply to the CCT Tech Group for the production of its telecom products. Despite the worldwide unstable supply and rising demand of copper and oil which have placed considerable pressure on both the supply and costs of the raw materials, the turnover of the plastic product and electronic component businesses managed to grow in line with the growth of the telecom product business and continued to contribute stable revenue to the Group during the year under review by taking full advantage of economies of scale of the Group and implementing effective cost control. In particular, we invested considerably in production machineries for the plastic product business during the year under review for its future horizontal expansion to external customers apart from its vertical supply to the CCT Tech Group. We believe that the plastic product business and the electronic component business will continue to provide satisfactory contributions to the Group.

Another product line of the CCT Industrial Group is the baby and health care products, which includes a variety of traditional plastic baby products, baby toys and other accessories. The business represents an insignificant portion of the Group but, nonetheless, contributes steady revenue to the Group.

HAIER ELECTRONICS

We are pleased to report that the acquisition of the washing machine business from Haier Group Corporation (together with its subsidiaries and associates, the “Haier Group”) and the exercise of the call option to acquire the 35.5% of the mobile handset business (the “Asset Injection”) by Haier Electronics were successfully completed on 28 January 2005. Immediate upon completion of the Asset Injection and the placing of shares to restore public float, the shareholding of the Haier Group in Haier Electronics has increased to 50.3% and the equity interests of the Group in Haier Electronics was diluted from 43.6% to 24.0%. Since the Group is no longer the single largest shareholder of Haier Electronics, all the directors as nominated by the Group to the board of Haier Electronics were resigned as directors of Haier Electronics upon completion of the Asset Injection. Furthermore, as the Group does not exercise any management control or significant influence over Haier Electronics since then, Haier Electronics will not be treated as an associate of the Group in the Group’s result effective therefrom.

Haier Group is a renowned international white goods manufacturer and distributor based in the People’s Republic of China. The Asset Injection marked a new page for Haier Electronics and will no doubt enhance the asset value and earnings of Haier Electronics. The Haier Group has indicated its intention to further inject quality assets into Haier Electronics in order to transform Haier Electronics as the listed flagship of the Haier Group’s white goods business. As one of the substantial shareholders of Haier Electronics, we are pleased to witness the broadening and strengthening of Haier Electronics’ asset and revenue base and look forward to increasing the value of our investment in Haier Electronics.

PROPOSED VOLUNTARY OFFERS TO BE MADE TO ACQUIRE THE MINORITY INTERESTS IN CCT TECH

The Company and CCT Tech jointly announced on 31 January 2005 that the Company, through Jade Assets Company Limited (“Jade Assets”), a wholly-owned subsidiary of the Company, proposed to make a voluntary conditional cash offer with securities exchange alternative to acquire all the issued shares of CCT Tech (other than those owned by Jade Assets and parties acting in concert with it) and the convertible notes due on 2005 of CCT Tech (which is held by New Capital Industrial Limited, a company wholly owned by me and my family members), and to make a voluntary conditional cash offer to the holders of the share options of CCT Tech to cancel all outstanding share options of CCT Tech. The proposed offers were approved by the independent shareholders of the Company on 18 April 2005.

Although a significant portion of the Group's turnover and profit is contributed by the telecom product business of CCT Tech, as at 31 December 2004, we owned only 34.5% interest in CCT Tech. The purpose of the offers is to increase our shareholding interest in CCT Tech as well as to bring increasing returns from CCT Tech to the Group. The Company also intends to effect the compulsory acquisition and privatisation of CCT Tech, so far as it is permitted to do so under the applicable laws and regulations, and to apply for delisting of CCT Tech.

The offers are subject to various conditions, all of which have been fulfilled on or before 21 April 2005 and as a result, the offers have become unconditional on 21 April 2005. As at 21 April 2005, being the first closing date of the offers, valid acceptances have been received in respect of approximately 7.6 billion shares of CCT Tech, the entire amount of the convertible notes due on 2005 and all the outstanding share options of CCT Tech. Once the transfer of the shares, in which acceptances have been received as at 21 April 2005, is effected, the Company's equity interest in CCT Tech will increase from 34.5% to 82.3%. Pursuant to the Hong Kong Code on Takeovers and Mergers, the offers remain open and the closing date has been extended to Friday, 6 May 2005 (or any subsequent date(s) as may be announced by Jade Assets and approved by Securities and Futures Commission of Hong Kong). The shareholders will be kept informed of the status and results of the offers.

OUTLOOK

We expect the year 2005 continue to be a challenging year. Price pressure from customers, fluctuation of supply and price of raw materials and electronic components and shortage of labour and electricity, all of these will continue to impose pressure on the costs and margins of the Group.

Despite the uncertainties ahead, the Company is well positioned to continue its financial success and achieve further growth given its strong R&D capabilities, efficient productivity and economies of scale. The board is optimistic about the future of the telecom product business given the strong support from the existing customers and the positive response and interest from the potential customers. We will continue to maintain our strong and long-term partnership with our customers, thus enhance future collaboration. It is believed that with the strong R&D team, healthy growth prospect and outstanding management team, along with our high quality products and advance production facilities, the Group will achieve new heights in the future.

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 business partners, bankers and associates for their continuing support.

Mak Shiu Tong, Clement

Chairman

Hong Kong, 25 April 2005