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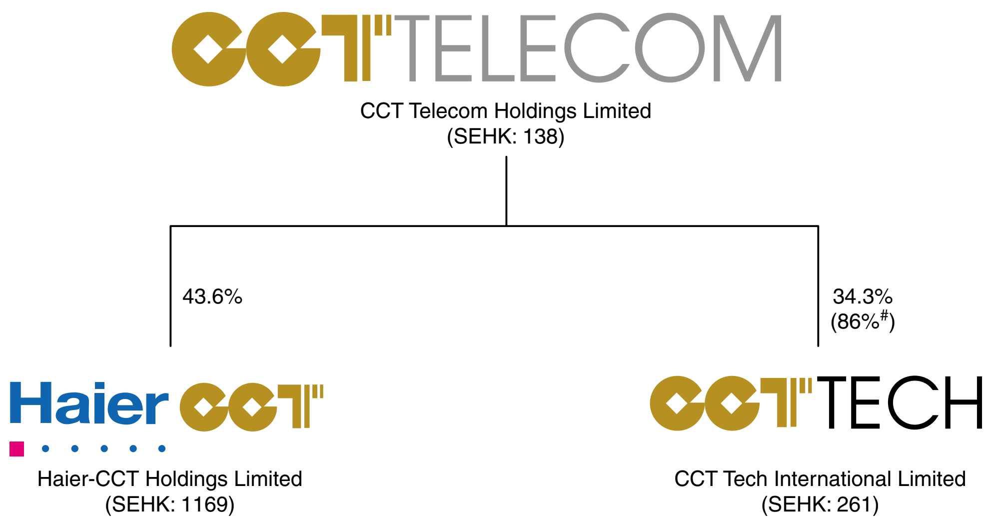
MISSION

CCT Telecom is one of the world's leading cordless phone manufacturers committed to innovation and technology. We believe that innovation and technology is the way to success. Our strong research and development team and our sophisticated advanced state-of-the-art manufacturing facilities allow us to maintain our leading position in the global market. This privileged position allow us to offer a wide range of reliable and advanced telecom products around the globe.

Our mission remains to enhance and lead the communication technology in the future.

GROUP STRUCTURE

As at 31 December 2003



Percentage of shareholding if all convertible notes of CCT Tech International had been converted.

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1ST PROOF • JOB > CCT TELECOM • **NAME > E0404071 HIGHLIGHTS** • DATE > 26-04-04 • INTERNAL REF. > 0404071(P)-02(F) • SIZE > 21.6 CM (W) X 28 CM (H)

FINANCIAL HIGHLIGHTS OF THE YEAR

HK$ Million	2003	2002 (Restated)	% Change
Operating Results			
Turnover	3,441	3,130	10%
Operating profit/(loss)	149	(201)	N/A
Net loss	(118)	(259)	(54%)
Financial Position			
Cash generated from operations	509	206	147%
Cash and bank balance	973	866	12%
Total borrowings	273	388	(30%)
Per Share Data			
Loss per share — basic	(HK$0.28)	(HK$0.61)	(54%)
Dividend per share — Interim & proposed final	3.0HKcents	3.0HKcents	

CHAIRMAN'S LETTER

I am pleased to report that CCT Telecom Holdings Limited ("CCT Telecom" or the "Company") and its subsidiaries (together the "Group") achieved a steady growth in turnover of approximately HK$3,441 million in 2003, representing an increase of approximately 10% as compared to 2002. Gross profit for the year under review was approximately HK$478 million, a solid gross profit expansion of approximately 10% as compared to 2002. This success has been driven by product excellence and our quality customer-orientated approach. Despite the challenging economic environment in the year under review, CCT Telecom, led by its experienced management team, sustained continuous growth.

The improvement in both turnover and gross profit margin was primarily driven by greater economies of scale which, in turn, increased profitability. Under our efficient cost control measures, the Group's total administrative expenses fell significantly in 2003. In addition, a change in the product mix to a higher profit margin product segment also contributed to the improvement.

After making a substantial write-off of non-performing investments in 2002, the Group recorded an operating loss of HK$201 million in prior year. In 2003, the Group focused on achieving a healthy and steady growth in both its ODM (original design manufacturing) and OEM (original equipment manufacturing) manufacturing business which resulted in an operating profit of HK$149 million.

During the year under review, our telecom product manufacturing business and related component business continued to form our core businesses contributing to over 90% of the Group's total turnover. To further extend the breadth and depth of our products, we are focusing on greater differentiation. Other than the existing 2.4GHz cordless phones, we have launched a variety of new telecom products and related accessories including the high-end 5.8GHz cordless phones during 2003. All these new products received very positive feedback from our customers. Despite the challenging economic conditions over the past year, we still managed to record an encouraging growth in sales orders received from our customers.

Our state-of-the-art production facility in Huiyang, Guangdong Province and our newly established production complex in Dongguan provided an annual production capacity of over 30 million cordless phones. However, in order to meet anticipated future production demands, capital expenditure has been budgeted for the continuous expansion and upgrade of these production facilities.

The United States remained our core market accounting for around 65% of the Group's turnover in 2003. We have, nonetheless, actively pursued new business opportunities in other markets to avoid over relying on the United States market. In this regard, we have directed more resources to develop opportunities in Europe and Asia Pacific. Our efforts thus far have resulted in a significant improvement on the revenue generated from China (including Hong Kong) in 2003.

Due to increasing competition among domestic manufacturers and with foreign players, the mobile handset business of Haier-CCT Holdings Limited ("Haier-CCT", a listed associated company of the Group) has been in a loss-making position for the past two years. The board of directors of Haier-CCT therefore decided this year that it would be appropriate to write down the carrying amount of goodwill attributable to Haier-CCT's acquired interest in the mobile handset business to reflect the impact of the intensifying market competition. The impairment of goodwill of approximately HK$732 million was assessed by the directors of Haier-CCT and was written off to the consolidated profit and loss account of Haier-CCT for the year ended 31 December 2003. As the goodwill is an intangible and non-cash item, the impairment of such goodwill will not have any adverse impact on Haier-CCT's cash position and its normal business operations. After the impairment of such goodwill, we expect to see a decrease in the annual amortisation of goodwill attributable to Haier-CCT's acquired interest in the mobile handset business in the immediate future. Taking into account the share of loss from Haier-CCT amounted to HK$200 million, the Group recorded a net loss attributable to shareholders of HK$118 million.

Without the substantial share of loss from Haier-CCT, the Group in fact recorded a net profit of HK$82 million, turnaround from a net loss of HK$226 million (before share of loss of associates) in 2002.

Outlook

Going forward, the Group will focus on its core manufacturing business. We remain bullish in sustaining growth in our leading market, the United States. In addition, we will actively strengthen our presence in selected European countries and the Asia Pacific region especially China as a whole. Leveraging on the improved economic environment in Asia Pacific especially China, we are expecting to generate healthy revenues from this market region in the near future.

With our technical expertise in digital and high radio frequency technology, we are confident that our sales in DECT telecom related product will further drive to our growth in 2004.

Internally, the Group will continue to strengthen our operational efficiency by streamlining the business. The management continues to explore new products and market segments with potential to contribute growth and higher profitability to the Group. With our strong professional management, outstanding research and development team and our most advance telecom products production facilities in the People's Republic of China ("PRC"), we are confident of maintaining our leading position in the high radio frequency telecom products manufacturing market.

On 5 March 2004, Haier-CCT entered into a conditional agreement with the Haier Group to acquire from the Haier Group its washing machine business. Haier-CCT also intends to exercise a call option in respect of the remaining 35.5% interest in Pegasus Telecom (Qingdao) Co., Ltd which is engaged in the manufacturing of mobile handsets. It is intended that the acquisition of the washing machine business and the exercise of the call option will be completed at the same time. The acquisition, once completed, is expected to provide a major boost to the business of Haier-CCT in that it will broaden Haier-CCT's revenue and profit base and result in Haier-CCT's diversification into the white goods business. Upon completion of the acquisition, Haier Group will become the controlling shareholder of Haier-CCT. The Group's shareholding in Haier-CCT will be diluted from 43.62% to 26.61%. The acquisition is, however, subject to, amongst other things, the approval of the independent shareholders of the Haier-CCT and regulatory approvals.

As a major shareholder of Haier-CCT, we are very pleased about the acquisition which, if it proceeds, will enlarge the asset and revenue bases of Haier-CCT. Please refer to Haier-CCT's announcement dated 2 April 2004 for more details on the acquisition.

Haier Group also intends to inject its remaining white goods businesses into Haier-CCT in the future with a view to positioning Haier-CCT as the listed flagship for its white goods business. Haier-CCT will consider this potential acquisition of the remaining white goods businesses at the relevant time, subject to, amongst other things, the satisfactory completion of due diligence on their financial and business operation, the negotiation of a legally binding acquisition agreement and the receipt of all applicable governmental, regulatory and shareholders' approvals in Hong Kong and the PRC.

Acknowledgements

I would like to take this opportunity to express my appreciation to our management team for its sound leadership, our staff for their hard work and excellent team spirit especially during this challenging period, and to our customers, suppliers, bankers and shareholders for their continuing support. We will continue to strengthen our telecom business and explore other potential business opportunities so as to increase the value of the Company and returns to our shareholders.

Mak Shiu Tong, Clement
Chairman

Hong Kong, 23 April 2004

REVIEW OF OPERATIONS

The Group continues to deliver sound results with strong revenue growth, encouraging margin expansion and improvement in overall financial strength.

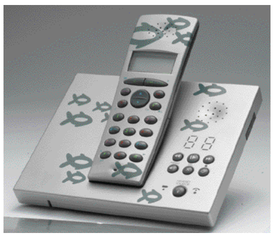
Cordless phone manufacturing business

Our cordless phone manufacturing business continued to form our core business contributing to over 90% of the Group's turnover. One of the main success stories in our cordless phone manufacturing business this year was the strong ongoing demand for our 900MHz and 2.4GHz cordless phones and the unexpected positive feed-back on our newly launched 5.8GHz cordless phones. The sales of our advance 5.8GHz cordless phones clearly demonstrated that there is still excellent potential for long-term growth in the cordless phone industry. To further extend the breadth and depth of our products, wide range of reliable and high quality telecom products have been launched which received recognition from our many well-known brand-name customers like GE, Alcatel and others. The continuing introduction of new technology and broadening of our customer base further led to a promising growth in both the turnover and the operating profit in the cordless phone manufacturing business. Our encouraging performance is also attributable to the continuing improvement in operational efficiencies and the effort of our strong research and development team.

In June 2003, the Group underwent a business realignment, whereby, the Company sold its 100% interest in Empire Success Holdings Limited ("ESH") to CCT Tech International Limited ("CCT Tech International", Stock Code: 261), a listed subsidiary of the Company. ESH and its subsidiaries (together the "ESH Group") are principally engaged in the design, manufacture and sale, on an ODM and OEM basis, of cordless telecom products. Despite of the acquisition of ESH by CCT Tech International on 30 June 2003, the Company shall continue to consolidate the turnover and financial results of CCT Tech International which will include the performance of the ESH Group's business operations.

Electric component business

The electric component business is carried out through Electronic Sales Limited ("ESL"), a wholly-owned subsidiary of CCT Tech International, the Company's currently 33.49% listed subsidiary. ESL is engaged in the manufacture of power supply components including linear and switching power supplies and transformers with ESH Group's cordless phone manufacturing business being one of its main customers. With the ongoing improvement in both product quality and pricing competitiveness, the electric component business contributed to our cordless phone manufacturing business' ability to remain competitive in an increasingly crowded market.



Plastic product business

The plastic product business continues to contribute a stable revenue to the Group. It has seen a steady growth that is in line with the growth of the cordless phone manufacturing business as the majority of its products are supplied internally to ESH Group's cordless phone business.

With the internal integration of our baby and health care businesses over the past two years, the baby and health care business achieved a satisfactory performance in 2003. With the synergy effect of the plastic product business, the profit margin of baby and health care business has improved considerably and has resulted in the growth of the operating profit of the baby and health care business in 2003. We expect to grow in this area as the market is huge and our present market share is relatively small.

Mobile handset business

The Group's mobile handset business, conducted in cooperation with Haier Group Corporation and its associates ("Haier Group") is operated through Haier-CCT, the Company's listed associate. Haier is the largest white goods manufacturer in China.

Following the acquisition of 64.5% interest in PRC mobile handset operation in October 2002, this is the first year that Haier-CCT has enjoyed a full-year return from its mobile handset business. Turnover of Haier-CCT in 2003 was HK$1,665 million, representing a significant increase of 233% over year 2002 due to the fact that turnover of year 2002 included only a three-month contribution from the PRC mobile handset operation after the Haier-CCT's acquisition.

Due to the substantial impairment of goodwill and the operating loss mainly caused by the provision of slow moving stock and amortisation of goodwill, the Group shared a loss of HK$200 million from Haier-CCT, an associate of the Company.

The directors of Haier-CCT are, nonetheless, optimistic towards the future of the Haier-CCT's mobile handset business in light of the steady and rapidly growing China mobile handset market. To this end, Haier-CCT has made a substantial investment in a new mobile handset factory in Qingdao. With the new factory, Haier-CCT is now set to increase its production capacity to cater for the increasing production demand in the years ahead.

In the foreseeable future, we will continue to place strong emphasis on research and development in order to maintain our leading position in the telecom products market.


CCT TECHNOLOGY


CCT

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. MAK Shiu Tong, Clement, aged 50, has served as Chairman, Chief Executive Officer and an Executive Director of the Company since January 1994. Mr. Mak is a substantial shareholder of the Company. He has over 27 years of experience in the electronics manufacturing and distribution industry, specialising in telephone and telecommunications products. He holds a Diploma in Electrical Engineering.

Mr.TAM Ngai Hung, Terry**, aged 50, has served as an Executive Director and Group Finance Director of the Company since March 2001. Mr.Tam has more than 26 years of experience in finance and accounting management, and also has extensive experience in mergers and acquisitions. Mr.Tam is a fellow of the Association of Chartered Certified Accountants and an associate of both the Hong Kong Society of Accountants and the Institute of Chartered Secretaries and Administrators. Mr.Tam has previously held a number of senior positions in several listed companies. Mr.Tam is also an executive director of Haier-CCT Holdings Limited and CCT Tech International Limited, both companies are listed on the main board of The Stock Exchange of Hong Kong Limited. Mr.Tam was a non-executive director of Tradeeasy Holdings Limited, a company listed on the GEM board of The Stock Exchange of Hong Kong Limited, until his resignation on 18 December 2003. Mr.Tam is also a director of certain subsidiaries of the Group.

Mr.Tam's service contracts with the Company and its listed subsidiary do not provide for a specific length of service period, subject to termination by either party giving six months' prior written notice. His emoluments comprise annual salaries of HK$3,640,000 and bonuses. His emoluments are determined by reference to his duties and responsibilities with the Group, the Group's performance as well as the market benchmark.

Mr.Tam does not have any relationships with any director, senior management or substantial or controlling shareholder of the Company. As at the date of this report, Mr.Tam had interest in 4,200,000 share options of the Company.

** Being the directors proposed to be rotated and re-elected by the shareholders at the forthcoming annual general meeting of the Company.

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Executive Directors *(continued)*

Ms. CHENG Yuk Ching, Flora, aged 50, has served as an Executive Director of the Company since February 1998. Ms. Cheng has over 24 years of experience in the electronics industry and has held senior positions in various well-known electronics companies. She holds a Diploma in Business Administration.

Dr. William Donald PUTT**, aged 67, has served as an Executive Director of the Company since January 1997. Dr. Putt obtained his PhD in Management from the Massachusetts Institute of Technology in the United States. Dr. Putt has over 31 years of experience in the telecom industry, and was the president and co-founder of TeleConcepts Corporation, which specialised in the design, production and distribution of telecom products. Dr. Putt is an executive director of the Company's subsidiary, CCT Tech International Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited. Dr. Putt was an executive director of Haier-CCT Holdings Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited, until his resignation on 4 November 2002.

There is no service contract between the Company and Dr. Putt and he is not entitled to any fixed remuneration.

Dr. Putt does not have any relationships with any director, senior management or substantial or controlling shareholder of the Company. As at the date of this report, Dr. Putt had interests in 171,500 shares and 420,000 share options of the Company.

** Being the directors proposed to be rotated and re-elected by the shareholders at the forthcoming annual general meeting of the Company.

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Independent Non-executive Directors

Mr. Samuel OLENICK, aged 76, has served as an Independent Non-executive Director and a member of the audit committee of the Company since November 1997. He is a certified public accountant in the United States, and has many years of experience in the US telecommunications field.

Mr. TAM King Ching, Kenny, aged 54, has served as an Independent Non-executive Director and a member of the audit committee of the Company since December 1999, and is a practising Certified Public Accountant in Hong Kong. He holds a Bachelor's Degree in Commerce and is a fellow of the Hong Kong Society of Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. He is serving as a member of the Insolvency Practitioners Committee, Professional Risk Management Committee, Insolvency Education Steering Committee and Small and Medium Practitioners Committee in the Hong Kong Society of Accountants. Mr. Tam is also the Past President of the Society of Chinese Accountants and Auditors.

Mr. LAU Ho Man, Edward, aged 49, has served as an Independent Non-executive Director and a member of the audit committee of the Company since February 2000. Mr. Lau has more than 27 years of experience in finance, accounting management and administration, and also has extensive experience in taxation and corporate finance matters. He is a Certified Public Accountant and a fellow of the Hong Kong Society of Accountants and The Association of Chartered Certified Accountants. Mr. Lau is also a member of the Chartered Institute of Management Accountants and the American Institute of Certified Public Accountants.

Senior Management

Mr. TONG Chi Hoi, aged 38, joined the Group in November 1997. He is an executive director of CCT Tech International Limited, a listed subsidiary of the Company and holds the position of Managing Director of CCT Tech's telecom product business. Mr. Tong has a First Class Honours Degree in Electrical and Electronics Engineering from the University of London. He has over 16 years of experience in the electronics manufacturing industry.

Mr. LAI Ving Kam, aged 52, currently holds the position of Managing Director of CCT Industrial Group and is responsible for the baby product business. Mr. Lai graduated from Henley Management College (UK) with Master's Degree in management. Mr. Lai has over 34 years of experience in global consumer electronics, telecommunications, semi-conductors, plastic and juvenile product industries and has held various senior management positions and at board level. Prior to joining the Group, he served in General Electrics (USA), Thomson Consumer Electronics (France), and other multinational and listed corporations and has also served as supply chain management consultant for KPMG Far East.

Mr. MAN Chin Keung, Daniel, aged 40, joined the Group in November 2002. Mr. Man currently holds the position of Deputy Managing Director in a principal subsidiary of the Company. He has a Bachelor's Degree in Mechanical Engineering. He has more than 12 years of experience in the plastic injection industry.

Mr. TUNG Shuk Lun, Maximilian, aged 35, has been the General Counsel of the Company since December 1999 and is responsible for advising on all legal matters of the Company. Mr. Tung graduated from the University of London with an LL.B. Degree and is a practicing solicitor qualified to practice in Hong Kong and the United Kingdom.

Mr. CHEUNG Chi Wah, Patrick, aged 33, joined the Company in October 1999. He currently holds the position of Group Financial Controller and is responsible for finance and accounting management. Mr. Cheung graduated from the Hong Kong Polytechnic University with an Honours Degree in Accountancy. He holds the Master's Degree in Information Technology Management from the Chinese University of Hong Kong. He is an associate of the Hong Kong Society of Accountants and a fellow of the Association of Chartered Certified Accountants.

Ms. LOW Pui Man, Jaime, aged 35, joined the Company in August 1999. She currently holds the position of Company Secretary of the Company. She has extensive experience in company secretarial practice. She is a fellow of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.

FINANCIAL REVIEW

Financial Results

Summary of Results

The Group recorded a turnover of approximately HK$3,441 million, an increase of approximately 10% due to the encouraging growth in our telecom product manufacturing business. Gross profit recorded an increase of approximately 10%. Net loss attributable to shareholders amounted to HK$118 million which was mainly due to the share of loss of HK$200 million from Haier-CCT in relation to the significant amortisation and impairment of goodwill of its acquired interest in the mobile handset business. Excluding such share of loss, the Group recorded a net profit of HK$82 million, as compared to net loss of HK$226 million (before share of loss of associates) in last year.

The Board expects that the core manufacturing business will perform satisfactory in 2004 and business will continue to grow.

Dividend

The Board recommends the payment of a final dividend of 1.50HKcents per share for the year 2003 to the shareholders whose names appear on the register of members of the Company on 27 May 2004, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Total dividend for the year, including the interim dividend of 1.50HKcents per share, amounted to 3.0HKcents per share, representing a dividend yield of 2.4% at the date of this report. The proposed final dividend will be paid on or around 18 June 2004 following the shareholders' approval at the forthcoming annual general meeting of the Company. A special interim dividend of approximately 10.0HKcents per share was proposed subject to the approval by the Board in the Company's Board meeting which is to be held on 28 April 2004. The special interim dividend will be paid out of the net sale proceeds of the HK$45 million convertible note in CCT Tech International which will be disposed to New Capital Industrial Limited, a company controlled by Mr. Mak Shiu Tong, Clement and his associates. For further details, please refer to our announcement dated 4 March 2004.

Analysis by Business Segment

	Turnover				
HK$'million	2003	Relative %	2002	Relative %	% Change
Telecom products	3,224	94%	2,864	92%	13%
Baby and health care products	157	5%	166	5%	(5%)
Corporate and others	60	1%	100	3%	(40%)
Total	3,441	100%	3,130	100%	10%

	Profit/(loss) from operating activities		
HK$'million	2003	2002	% Change
Telecom products	215	167	29%
Baby and health care products	19	6	217%
Corporate and others	(85)	(374)	(77%)
Total	149	(201)	N/A

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Financial Results *(Cont'd)*

Analysis by Business Segment *(Cont'd)*

In 2003, the telecom products segment continued to dominate the Group's turnover with 94% (2002: 92%). The telecom products segment recorded an encouraging growth in both turnover and revenue. The turnover of telecom products segment increased 13% to HK$3,224 million in 2003. The operating profit of telecom products segments rose 29% to HK$215 million in 2003. The major success of the telecom product segment was the outstanding performance of our cordless phone products, and the improvement in efficiency produced by our strong research and development capability together with effective cost control.

The remaining turnover came from our baby and health care products and corporate items, accounting for 5% (2002: 5%) and 1% (2002: 3%), respectively of the total turnover.

The baby and health care business continues to contribute a stable revenue and satisfactory operating profit to the Group. The significant drop in operating loss from corporate segment was mainly attributable to our effective cost control and the substantial drop in impairment of investments and fixed assets.

Analysis by Geographical Segment

	Turnover				
HK$'million	2003	Relative %	2002	Relative %	% change in sales amount
USA	2,222	65%	2,198	70%	1%
PRC, including Hong Kong	645	19%	462	15%	40%
Europe	119	3%	155	5%	(23%)
Others and unallocated	455	13%	315	10%	44%
Total	3,441	100%	3,130	100%	10%

United States, continued to be the major market of the Group, accounting for 65% (2002: 70%) of the Group's total turnover for the year. The increase in turnover and operating profit from the USA was mainly attributable to the strong demand of our cordless phone products in the USA. Due to the ongoing strong demand of telecom products in the USA, management believes that USA will continue to remain as a key market of the Group. However, following to the continuing growth in sales to the PRC market and other Asia Pacific countries, the market segment will believed to be more evenly distributed and more diversified.

The PRC (including Hong Kong) and Europe ranked second and third, accounting for 19% (2002: 15%) and 3% (2002: 5%), respectively, of the Group's total turnover. With the effort from our strong sales team together with our effective business strategy, the percentage sales derived from the PRC including Hong Kong was growing from 15% in 2002 to 19% in 2003. PRC market is still believed to be a fast-growing market and its portion is expected to jump in the coming years.

Financial Position

Capital Structure and Gearing Ratio

	As at 31 December 2003		As at 31 December 2002	
HK$'million	Amount	Relative %	Amount	Relative %
Bank loans	253	10%	363	13%
Convertible debt	18	1%	20	1%
Finance lease payable	2	—	5	—
Total borrowings	273	11%	388	14%
Equity	2,295	89%	2,427	86%
Total capital employed	2,568	100%	2,815	100%

The financial position of the Group remains strong, with a low gearing ratio (total borrowings over total capital employed) of only 11% at 31 December 2003 (2002: 14%), reflecting a healthy financial position and the prudent financial policy of the Group.

The outstanding convertible notes amounting to HK$18 million at 31 December 2003 were raised through the Company's listed subsidiary, CCT Tech International. The outstanding convertible notes, with a conversion price at HK$0.01 per share of CCT Tech International, bear interest at the rate of 2-5% per annum and fall due in July 2004 and May 2005.

At 31 December 2003, total borrowings of the Group substantially dropped by HK$115 million to HK$273 million (2002: HK$388 million), due to the repayment of some borrowings. The maturity profile of the borrowings falling due within one year, in the second to the fifth year and in the sixth to the tenth year amounted to HK$138 million, HK$73 million and HK$62 million, respectively (2002: HK$205 million, HK$106 million and HK$77 million, respectively). There is no material effect of seasonality on the Group's borrowing requirements.

Liquidity and Financial Resources

	At 31 December 2003	At 31 December 2002
Current ratio	*HK$'million*	*HK$'million*
Current assets	1,872	1,647
Current liabilities	1,202	991
	156%	166%

Current ratio (a ratio of current assets over current liabilities) as at 31 December 2003 was 156% (2002: 166%). The strong liquid position was attributable to strong cash flow from the operations and the prudent investment strategy of management.

At 31 December 2003, the Group had a cash balance of HK$973 million (2002: HK$866 million), increased by HK$107 million as compared with 2002.

Financial Position *(Cont'd)*

Liquidity and Financial Resources *(Cont'd)*

Among the total cash balance of HK$973 million, approximately HK$100 million (2002: HK$83 million) was pledged for general banking facilities. Almost all of the Group's cash was placed on deposits with licensed banks in Hong Kong.

The Group had outstanding bank loans amounting to HK$253 million at 31 December 2003 (2002: HK$363 million). Approximately 51% of these bank loans were arranged on a short-term basis for the ordinary business of the Group and are repayable within one year. The remaining 49% were of long-term nature, principally comprised of mortgage loans on properties used by the Group.

Certain of the Group's assets were financed by finance leases and the total outstanding for finance leases payable at 31 December 2003 amounted to HK$2 million (2002: HK$5 million).

At 31 December 2003, the Group had banking facilities of HK$584 million (2002: HK$646 million), of which HK$327 million (2002: HK$360 million) had been utilised.

Capital Commitments

The Group had authorised and contracted capital commitments of approximately HK$62 million (2002: HK$60 million) at 31 December 2003. These capital commitments mainly relate to capital expenditure for the manufacturing business of the Group and will be funded by internal resources.

Treasury Management

The Group employs a conservative approach to cash management and risk control. To achieve better risk control and efficient fund management, the Group's treasury activities are centralised.

During the year under review, the Group's receipts were mainly denominated in United States dollars, with a small portion of the receipts denominated in Hong Kong dollars and Euros. Payments were mainly made in Hong Kong dollars and United States dollars, with some in Renminbi and Euros. Cash was generally placed in short-term deposits denominated in Hong Kong dollars and United States dollars. At 31 December 2003, all of the Group's outstanding borrowings were denominated in Hong Kong dollars. Other than the fixed rate convertible notes of HK$18 million in principal amount, the Group's borrowings were principally made on a floating rate basis.

The objective of the Group's treasury policies is to minimize risks and exposures from the fluctuations in foreign currency exchange rates and interest rates. The Group does not have any significant interest rate risk as the interest rate is stable and remains at low level. As the Hong Kong dollar continues to be pegged to United States dollar at a fixed exchange rate, the Group does not foresee any substantial risk or exposure from having the majority of its receipts and payments in United States dollars. The Group's exposure to foreign exchange risk is not substantial and forward exchange contracts will be entered into to minimize such risks when necessary and appropriate.

Other Information

Employees and Remuneration Policy

The total number of employees of the Group as at 31 December 2003 was 18,673 (2002: 13,245). Remuneration packages are normally reviewed on an annual basis. Apart from salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group. At 31 December 2003, there were outstanding share options of approximately 42 million.

Significant Investment

There was no significant investment unrelated to the core ODM and OEM manufacturing business during the year. The Group continues to focus on the original design and manufacturing of telecom products. During the year, HK$245 million was used for capital expenditure, mainly relating to the Group's core manufacturing business.

Acquisition and Disposal of Material Subsidiaries and Associates

During the year under review, the Group did not have any significant acquisition and disposal of material subsidiaries and associates.

In June 2003, the Group made a significant group restructuring of which the Company sold its entire interests in ESH Group, which is engaged in the OEM and ODM manufacturing business of cordless telecom product, to CCT Tech International. The consideration was satisfied by way of convertible note issued to the Company. The group restructuring aims at capturing further economies of scale by means of centralising the existing resources and rationising the business of the respective listed groups.

Pledge of Assets

At 31 December 2003, certain of the Group's assets with a net book value of HK$255 million (2002: HK$277 million) and time deposits of HK$100 million (2002: HK$83 million) were pledged to secure the general banking facilities granted to the Group.

Contingent Liabilities

Apart from guarantee in lieu of property rental of HK$45 million (2002: HK$40 million) and possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$8 million (2002: HK$7 million), the Group did not have any other significant contingent liabilities at 31 December 2003.

CORPORATE INFORMATION

COMPANY NAME

CCT Telecom Holdings Limited

BOARD OF DIRECTORS

Executive Directors
MAK Shiu Tong, Clement *(Chairman and Chief Executive Officer)*
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

COMPANY SECRETARY

LOW Pui Man, Jaime

PRINCIPAL BANKERS

Standard Chartered Bank
Nanyang Commercial Bank, Ltd

SOLICITORS

Sidley Austin Brown & Wood

AUDITORS

Ernst & Young Certified Public Accountants

FINANCIAL YEAR END

December 31

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

32/F China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tengis Limited
G/F Bank of East Asia Harbour View Centre
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STOCK CODE

138

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1ST PROOF • JOB > CCT TELECOM • **NAME > E0404071 DIRECTORS** • DATE > 26-04-04 • INTERNAL REF. > 0404071(SING)-06(KITW) • SIZE > 21.6 CM (W) X 28 CM (H)

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the manufacture and sale of telecom products and accessories, the manufacture and sale of baby and health care products and magazine publishing. During the year, the Group disposed of a group of subsidiaries engaging in the business of magazine publishing, details of which are set out in note 35(b) to the financial statements.

Results and Dividends

The Group's loss for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 36 to 85.

An interim dividend of HK$0.015 (2002: HK$0.01) per ordinary share was paid on 16 October 2003.

The directors recommend the payment of a final dividend of HK$0.015 (2002: HK$0.02) per ordinary share in respect of the year to shareholders on the register of members of the Company on 27 May 2004 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. This recommendation has been incorporated in the financial statements as an allocation of retained profits or capital reserve within the capital and reserves section of the balance sheet.

Five Year Financial Summary

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 86. This summary does not form part of the audited financial statements.

Fixed Assets and Investment Properties

Details of movements in the fixed assets and the investment properties of the Group and the fixed assets of the Company during the year are set out in note 14 to the financial statements.

Share Capital and Share Options

There were no movements in either the Company's authorised or issued share capital during the year. Details of movements in the Company's share options during the year are set out in note 33 to the financial statements.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Companies Law (2002 Revision) Chapter 22 of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Sale or Redemption of Listed Shares of the Company

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the listed shares of the Company during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

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 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) of which approximately HK$6 million has been proposed as a final dividend for the year maintained in the reserve accounts which would be available for distribution.

Charitable Contributions

During the year, the Group made charitable contributions totalling HK$2 million (2002: HK$1 million).

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers, respectively, during the financial year is as follows:

	Percentage of the Group's total			
	Sales		Purchases	
	2003	2002	2003	2002
Largest customer	51%	59%		
Five largest customers in aggregate	80%	78%		
Five largest suppliers in aggregate			<30%	<30%

Major Customers and Suppliers *(Continued)*

None of the directors of the Company or any of their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

Directors

The directors of the Company during the year and up to the date of this report were as follows:

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

In accordance with the articles of association of the Company, Messrs. Tam Ngai Hung, Terry and William Donald Putt will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

The independent non-executive directors of the Company are not appointed for any specific terms and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 12 to 15 of the Annual Report.

Directors' Service Contracts

During the year, no director had a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Interests In Contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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 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”), 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.

Share Option Scheme *(Continued)*

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:

	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 *(Note 1)*	Exercise period of share options	Exercise price per share *(Note 2)* HK$
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.

Share Option Scheme *(Continued)*

Details of the movements of the share options under the New Share Option Scheme during the year were as follows:

Name or category of participant	Number of share options: 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.

Share Option Scheme *(Continued)*

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.

Directors' Interests in Shares and Warrants

As at 31 December 2003, the directors and the chief executive of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") under the Listing Rules:

(a) Interests and short positions in the shares, underlying shares and debentures of the Company

(i) Long positions in the shares of the Company:

Name of director	*Notes*	Number of shares beneficially held and nature of interest: Personal	Family	Corporate	Total	Approximate percentage of total shareholding (%)
Mak Shiu Tong, Clement	*(a)*	856,000	1,407,500	83,998,441	86,261,941	20.44
Cheng Yuk Ching, Flora		9,876,713	—	—	9,876,713	2.34
William Donald Putt		171,500	—	—	171,500	0.04
Samuel Olenick	*(b)*	—	—	125,000	125,000	0.03

Notes:

(a) The family interest of Mr. Mak Shiu Tong, Clement in 1,407,500 shares in the Company was held by his wife, Ms. Yiu Yu Ying, and the corporate interest of Mr. Mak Shiu Tong, Clement in 83,998,441 shares in the Company was held by Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons had beneficial interests, under the provisions of Part XV of the SFO. These interests in the shares of the Company have also been disclosed under the section headed "Substantial Shareholders' Interests" below.

Directors' Interests in Shares and Warrants *(Continued)*

(a) Interests and short positions in the shares, underlying shares and debentures of the Company *(Continued)*

(i) Long positions in the shares of the Company: *(Continued)*

Notes: (Continued)

(b) Mr. Samuel Olenick was deemed to be interested in 125,000 shares in the Company under the provisions of Part XV of the SFO.

(ii) Long positions in underlying shares of equity derivatives of the Company — share options:

The Company has granted to certain directors of the Company the rights to subscribe for shares in the share capital of the Company. Details of the interests in the share options granted under the Old Share Option Scheme and the New Share Option Scheme to the directors of the Company are disclosed under the section headed "Share Option Scheme" above.

(b) Interests and short positions in the shares, underlying shares and debentures of associated corporations

(i) Long positions in the shares, underlying shares and debentures of Haier-CCT Holdings Limited ("Haier-CCT"):

(1) Shares:

Name of director	*Notes*	Number of shares in Haier-CCT beneficially held and nature of interest: Personal	Family	Corporate	Total	Approximate percentage of total shareholding (%)
Mak Shiu Tong, Clement	*(a)*	20,574,412	1,150,391	85,494,864	107,219,667	1.076
Cheng Yuk Ching, Flora		19,312,498	—	—	19,312,498	0.194
Tam Ngai Hung, Terry		10,000,000	—	—	10,000,000	0.100
William Donald Putt		179,112	—	—	179,112	0.002
Samuel Olenick	*(b)*	—	—	130,548	130,548	0.001

Notes:

(a) The family interest of Mr. Mak Shiu Tong, Clement in 1,150,391 shares in Haier-CCT was held by his wife, Ms. Yiu Yu Ying, and the corporate interest of Mr. Mak Shiu Tong, Clement in 85,494,864 shares in Haier-CCT was held by Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons had beneficial interests, under the provisions of Part XV of the SFO.

(b) Mr. Samuel Olenick was deemed to be interested in 130,548 shares in Haier-CCT under the provisions of Part XV of the SFO.

Directors' Interests in Shares and Warrants *(Continued)*

(b) Interests and short positions in the shares, underlying shares and debentures of associated corporations *(Continued)*

(i) Long positions in the shares, underlying shares and debentures of Haier-CCT Holdings Limited ("Haier-CCT"): *(Continued)*

(2) the 2004 warrants*:

Name of director	*Notes*	Amount of 2004 warrants* in Haier-CCT beneficially held and nature of interest: Personal *HK$*	Family *HK$*	Corporate *HK$*	Number of total underlying shares	Approximate percentage of total shareholding *(%)*
Mak Shiu Tong, Clement	*(a)*	1,069,869.32	59,820.28	4,444,651.64	10,719,887	0.1076
Cheng Yuk Ching, Flora		1,004,249.48	—	—	1,931,249	0.0194
Tam Ngai Hung, Terry		520,000.00	—	—	1,000,000	0.0100
William Donald Putt		9,313.72	—	—	17,911	0.0002
Samuel Olenick	*(b)*	—	—	6,788.08	13,054	0.0001

Notes:

(a) The family interest of Mr. Mak Shiu Tong, Clement in the 2004 warrants in an aggregate amount of HK$59,820.28 in Haier-CCT was held by his wife, Ms. Yiu Yu Ying, and the corporate interest of Mr. Mak Shiu Tong, Clement in the 2004 warrants in an aggregate amount of HK$4,444,651.64 in Haier-CCT was held by Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons had beneficial interests, under the provisions of Part XV of the SFO.

(b) Mr. Samuel Olenick was deemed to be interested in the 2004 warrants in an aggregate amount of HK$6,788.08 in Haier-CCT under the provisions of Part XV of the SFO.

* The 2004 warrants in Haier-CCT entitled the holders thereof to subscribe for its shares at a subscription price of HK$0.52 per share, subject to adjustments, until 26 February 2004. The 2004 warrants were expired on 26 February 2004.

(3) Share options:

Name of director	Share options in Haier-CCT: 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	0.89
Cheng Yuk Ching, Flora	16/8/2002	16/8/2003 — 15/8/2007	0.156	89,000,000	89,000,000	0.89
Tam Ngai Hung, Terry	16/8/2002	16/8/2003 — 15/8/2007	0.156	89,000,000	89,000,000	0.89
William Donald Putt	16/8/2002	16/8/2003 — 15/8/2007	0.156	5,000,000	5,000,000	0.05

Directors' Interests in Shares and Warrants *(Continued)*

(b) Interests and short positions in the shares, underlying shares and debentures of associated corporations *(Continued)*

(ii) Long positions in shares, underlying shares and debentures of CCT Tech International Limited ("CCT Tech") — share options:

Name of director	Date of grant of share options	Exercise period of share options	Share options in CCT Tech: Exercise price per share HK$	Share options in CCT Tech: 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	0.76
Cheng Yuk Ching, Flora	30/4/2003	30/4/2003 — 29/4/2008	0.014	100,000,000	100,000,000	0.76
Tam Ngai Hung, Terry	30/4/2003	30/4/2003 — 29/4/2008	0.014	100,000,000	100,000,000	0.76

Save as disclosed above, as at 31 December 2003, none of the directors and the chief executive of the Company and/or any of their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

Directors' Rights to Acquire Shares

Save as disclosed under the section headed "Share Option Scheme" above in respect of the share options granted to the directors by the Company under the Old Share Option Scheme and the New Share Option Scheme and the section headed "Directors' Interests in Shares and Warrants — Interests and short positions in the shares, underlying shares and debentures of associated corporations" above in respect of share option granted by the associated corporations to the directors of the Company, at no time during the year were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any of its associated corporation (within the meaning of Part XV of the SFO) granted to any director of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, or any of its associated corporation (within the meaning of Part XV of the SFO) a party to any arrangement to enable the directors of the Company to acquire such rights in any other body corporate.

Substantial Shareholders' Interests

As at 31 December 2003, the following persons (other than the directors or the chief executive of the Company) had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Substantial Shareholders' Interests *(Continued)*

Long positions in the shares, underlying shares and debentures of the Company:

	Number of shares beneficially held		Number of underlying shares — share options beneficially held		
Name of shareholders	Number of shares	Approximate percentage of total shareholding (%)	Number of share options	Number of total underlying shares	Approximate percentage of total shareholding (%)
Capital Interest Limited *(Note)*	83,998,441	19.90	—	—	—
Yiu Yu Ying *(Note)*	1,407,500	0.34	—	—	—
Mak Shiu Tong, Clement	856,000	0.20	420,000	420,000	0.10
	86,261,941	20.44	420,000	420,000	0.10

Note: Under the provisions of Part XV of the SFO, Mr. Mak Shiu Tong, Clement, a director of the Company, was deemed to control or have an interest in Capital Interest Limited, the issued share capital of which his wife, Ms. Yiu Yu Ying, and his two sons had beneficial interests. Mr. Mak Shiu Tong, Clement was also deemed to have an interest in the shares owned by his wife, Ms. Yiu Yu Ying. These interests in the shares of the Company have also been disclosed under the section headed "Directors' Interests in Shares and Warrants" above.

Save as disclosed above, as at 31 December 2003, no other person (other than the directors or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

Connected Transactions

During the year, the Company had transactions with connected persons as defined in the Listing Rules, which constituted connected transactions under Section 14 of the Listing Rules. Details of the transactions are as follows:

(1) On 15 May 2003, the Company and CCT Tech (an indirect non wholly-owned listed subsidiary of the Company) entered into a conditional agreement pursuant to which the Company has agreed (i) to dispose of the entire interest in Empire Success Holdings Limited ("ESH"), a then indirect wholly-owned subsidiary of the Company, to CCT Tech; and (ii) to assign its interest-free shareholder's loan due from ESH and its subsidiaries ("ESH Group") to CCT Tech 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 CCT Tech to an indirect wholly-owned subsidiary of the Company.

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 disposal are set out in the Company's circular dated 11 June 2003.

TO > CCT TELECOM • ATTN > MR PATRICH C.W. CHEUNG • TEL > 2102 8138 • **FAX > 2102 8100** • TRANSLATOR > ETC
1ST PROOF • JOB > CCT TELECOM • **NAME > E0404071 DIRECTORS** • DATE > 26-04-04 • INTERNAL REF. > 0404071(SING)-06(KITW) • SIZE > 21.6 CM (W) X 28 CM (H)

Connected Transactions *(Continued)*

(2) During the year, certain indirect wholly-owned subsidiaries of the Company had the following material transactions with ESH Group (the "Ongoing Connected Transactions") subsequent to its disposal to CCT Tech on 30 June 2003:

HK$' million	Notes	2003
Factory rental expenses	*(a)*	3
Factory rental income	*(b)*	1
Office rental income	*(c)*	1
Management information system service fee	*(d)*	1

Notes:

(a) The factory rental expenses were charged to Shine Best Developments Limited ("Shine Best"), an indirect wholly-owned subsidiary of the Company, by CCT Enterprise Limited ("CCT Ent"), an indirect wholly-owned subsidiary of CCT Tech, 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.

(b) The factory rental income was charged to CCT Investment Limited ("CCT Inv"), an indirect wholly-owned subsidiary of CCT Tech, by CCT Properties (Dongguan) Limited ("CCT Prop"), an indirect wholly-owned subsidiary of the Company, 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.

(c) The office rental income was charged to CCT Telecom (HK) Limited ("CCT HK") and CCT Telecom R&D Limited ("CCT R&D"), indirect wholly-owned subsidiaries of CCT Tech, by Goldbay Investments Limited ("Goldbay"), an indirect wholly-owned subsidiary of the Company, 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.

(d) The management information system service fee was charged to the Company 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 the Company and CCT HK on 15 May 2003.

The Stock Exchange has granted conditional waivers to the Company from strict compliance with the connected transactions requirements as set out in the Listing Rules for the three financial years ending 31 December 2005. The Ongoing Connected Transactions have obtained the approval of the independent non-executive directors of the Company.

The independent non-executive directors of the Company have reviewed and confirmed that:

(a) the consideration receivable from/payable to the Group under each of the Ongoing Connected Transactions for the period from 1 July 2003 to 31 December 2003 did not exceed the higher of HK$10 million or 3% of the net tangible asset value of the Company;

(b) the Ongoing Connected Transactions were conducted on normal commercial terms; and

(c) the Ongoing Connected Transactions were conducted in accordance with the terms of the agreements governing such transactions.

Post Balance Sheet Events

Details of the significant post balance sheet events of the Group are set out in note 40 to the financial statements.

Compliance with the Code of Best Practice

In the opinion of the Board, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules throughout the financial year covered by this report, except that the independent non-executive directors of the Company are not appointed for any specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

Audit Committee

Pursuant to the requirements of the Listing Rules, the Company has established an audit committee comprising three independent non-executive directors of the Company. A set of written terms of reference which describes the authorities and duties of the audit committee, was adopted by the Board.

The audit committee is answerable to the Board and the principal duties of the audit committee include the review and supervision of the financial reporting process and internal control of the Company. The audit committee had reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2003.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Mak Shiu Tong, Clement
Chairman

Hong Kong
23 April 2004

REPORT OF THE AUDITORS

ERNST & YOUNG
安永會計師事務所

To the members
CCT Telecom Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 36 to 85 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
23 April 2004

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CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2003

HK$'million	*Notes*	2003	2002 (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.

CONSOLIDATED BALANCE SHEET

31 December 2003

HK$'million	*Notes*	2003	2002 (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

HK$'million	Notes	Issued share capital	Share premium account	Capital reserve (Note34(a))	Retained profits/ (accumulated losses)	Proposed final dividend	Total
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

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CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

HK$'million	*Notes*	2003	2002
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

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

HK$'million	*Notes*	2003	2002
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

HK$'million	*Notes*	2003	2002
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.

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2. Impact of New and Revised Statements of Standard Accounting Practice ("SSAP") and Interpretations *(Continued)*

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.

3. Summary of Significant Accounting Policies *(Continued)*

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.

3. Summary of Significant Accounting Policies *(Continued)*

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.

3. Summary of Significant Accounting Policies *(Continued)*

Impairment of assets *(Continued)*

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.

3. Summary of Significant Accounting Policies *(Continued)*

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.

3. Summary of Significant Accounting Policies *(Continued)*

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.

3. Summary of Significant Accounting Policies *(Continued)*

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.

3. Summary of Significant Accounting Policies *(Continued)*

Employee benefits *(Continued)*

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.

3. Summary of Significant Accounting Policies *(Continued)*

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;

4. Segment Information *(Continued)*

(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	
HK$'million	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002 (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)

4. Segment Information *(Continued)*

(a) Business segments *(Continued)*

Group

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

4. Segment Information *(Continued)*

(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.

Group

	United States of America		PRC, including HK		European Union		Others		Consolidated	
HK$'million	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
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:

HK$'million	2003	2002
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

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6. Profit/(Loss) from Operating Activities

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

		Group	
HK$'million	*Notes*	2003	2002
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	
HK$'million	2003	2002
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	
HK$'million	2003	2002
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
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	
HK$'million	2003	2002
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
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.

10. Tax *(Continued)*

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.

HK$'million	Group 2003	Group 2002 (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

HK$'million	Hong Kong	%	Mainland China	%	Total	%
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)

10. Tax *(Continued)*

Group — 2002

HK$'million	Hong Kong	%	Mainland China	%	Total	%
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

HK$'million	2003	2002
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.

13. Loss Per Share *(Continued)*

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

HK$'million	Investment properties	Leasehold land and buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total
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

14. Fixed Assets *(Continued)*

Company

HK$'million	Furniture and office equipment
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:

HK$'million	Hong Kong	Elsewhere	Total
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

HK$'million	Deferred development costs	Publishing rights	Total
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	
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

16. Goodwill *(Continued)*

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	
HK$'million	2003	2002
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		Principal activities
			Direct	Indirect	
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

17. Interests in Subsidiaries *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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

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17. Interests in Subsidiaries *(Continued)*

* 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	
HK$'million	2003	2002
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 2003	2002	Principal activities
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.

18. Interests in Associates *(Continued)*

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 *HK$'million*	As at 31 December 2002 *HK$'million* (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$'million*	Year ended 31 December 2002 *HK$'million* (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	
HK$'million	2003	2002
Club memberships, at cost	14	14
Provision for impairment	(2)	(2)
	12	12

20. Investments

	Group		Company	
HK$'million	2003	2002	2003	2002
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	32.1
		GBP31,474,000 Preference	

* Listed on the Growth Enterprise Market of the Stock Exchange.

21. Inventories

	Group	
HK$'million	2003	2002
Raw materials	45	41
Work in progress	47	34
Finished goods	86	47
	178	122

21. Inventories *(Continued)*

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	
HK$'million	Balance	Percentage	Balance	Percentage
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	
HK$'million	2003	2002	2003	2002
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	
HK$'million	2003	2002	2003	2002
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

24. Cash and Cash Equivalents and Pledged Time Deposits *(Continued)*

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	
HK$'million	Balance	Percentage	Balance	Percentage
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	
HK$'million	2003	2002	2003	2002
Other payables	67	62	—	5
Accruals	131	105	5	4
	198	167	5	9

27. Interest-Bearing Bank and Other Borrowings

		Group	
HK$'million	*Notes*	2003	2002
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	
HK$'million	2003	2002
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

HK$'million	Minimum lease payments 2003	Minimum lease payments 2002	Present value of minimum lease payments 2003	Present value of minimum lease payments 2002
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	
HK$'million	2003	2002
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

30. Convertible Notes *(Continued)*

(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

HK$'million	2003 Accelerated tax depreciation
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

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31. Deferred Tax *(Continued)*

Deferred tax assets

Group

HK$'million	2003 Losses available for offset against future taxable profit
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

HK$'million	2002 Accelerated tax depreciation
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

31. Deferred Tax *(Continued)*

Deferred tax assets

Group

HK$'million	2002 Losses available for offset against future taxable profit
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	
HK$'million	2003	2002
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$0.10 each *(in millions)*	Issued share capital *HK$'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 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"), 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.

33. Share Option Scheme *(Continued)*

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:

	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 *(Note 1)*	Exercise period of share options	Exercise price per share *(Note 2)* *HK$*
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.

33. Share Option Scheme *(Continued)*

Details of the movements of the share options under the New Share Option Scheme during the year were as follows:

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$
	Number of share options								
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.

33. Share Option Scheme *(Continued)*

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

HK$'million	*Note*	Share premium account	Capital reserve	Retained profits/ (accumulated losses)	Total
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

34. Reserves *(Continued)*

(b) Company *(Continued)*

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

HK$'million	2003	2002
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

35. Notes to the Consolidated Cash Flow Statement *(Continued)*

(b) Disposal/deemed disposal of subsidiaries *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the disposal/deemed disposal of subsidiaries is as follows:

HK$'million	2003	2002
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

HK$'million	2003	2002
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

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35. Notes to the Consolidated Cash Flow Statement *(Continued)*

(c) Acquisition of subsidiaries *(Continued)*

HK$'million	2003	2002
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:

HK$'million	2003	2002
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	
HK$'million	2003	2002	2003	2002
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).

36. Contingent Liabilities *(Continued)*

(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	
HK$'million	2003	2002
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	
HK$'million	2003	2002
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	
HK$'million	2003	2002
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	
HK$'million	2003	2002
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.

40. Post Balance Sheet Events *(Continued)*

(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.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below. The amounts for each year in the five year financial summary have been adjusted for the retrospective effect of adopting a revised SSAP, as details in note 2 to the financial statements.

Results

	Year ended 31 December				
HK$'million	2003	2002 (Restated)	2001 (Restated)	2000 (Restated)	1999 (Restated)
TURNOVER	3,441	3,130	3,106	2,190	1,572
OPERATING PROFIT/(LOSS)	141	(228)	(666)	(238)	(150)
Share of profits and losses of jointly — controlled entities	—	5	9	5	(23)
Share of profits and losses of associates	(200)	(33)	(9)	1	—
LOSS BEFORE TAX	(59)	(256)	(666)	(232)	(173)
Tax	(12)	(9)	(11)	(6)	(4)
LOSS BEFORE MINORITY INTERESTS	(71)	(265)	(677)	(238)	(177)
Minority interests	(47)	6	(13)	40	49
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	(118)	(259)	(690)	(198)	(128)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
HK$'million	2003	2002 (Restated)	2001 (Restated)	2000 (Restated)	1999 (Restated)
TOTAL ASSETS	3,740	3,636	4,648	4,551	3,487
TOTAL LIABILITIES	(1,344)	(1,181)	(1,300)	(1,514)	(907)
MINORITY INTERESTS	(101)	(28)	(827)	(95)	(36)
	2,295	2,427	2,521	2,942	2,544

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NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual 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 Thursday, 27 May 2004 at 11:00 a.m. for the following purposes:

As Ordinary Business

1. To receive and consider the audited Financial Statements and the Reports of the Directors and Auditors for the year ended 31 December 2003.

2. To declare a final dividend.

3. To re-elect retiring directors and to authorise the board of directors to fix the remuneration of the directors.

4. To re-appoint auditors and to authorise the board of directors to fix the remuneration of the auditors.

As Special Business

5. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution of the Company:

   "**THAT** subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the shares of HK$0.01 each in the share capital of CCT TECH INTERNATIONAL LIMITED (**"CCT Tech"**) to be issued pursuant to the exercise of share options which may be granted under the New Scheme Limit (as defined below), the refreshment of the scheme limit of CCT Tech's share option scheme conditionally adopted on 17 September 2002 which became effective on 7 November 2002 and all other share option scheme(s) of CCT Tech, up to 10 per cent. of the number of shares of CCT Tech in issue as at the date of passing of the resolution in the annual general meeting of CCT Tech (the **"New Scheme Limit"**) be and is hereby generally and unconditionally approved."

6. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution of the Company:

   "**THAT**:

   (a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase issued shares of HK$0.10 each in the capital of the Company subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or of any other stock exchange as amended from time to time and the manner of any such repurchase be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall be in addition to any other authorisation given to the directors of the Company and shall authorise the directors on behalf of the Company during the Relevant Period (as hereinafter defined) to procure the Company to repurchase its shares at a price determined by the directors;

(c) the aggregate nominal amount of the shares of the Company which are authorised to be repurchased by the directors of the Company pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by laws or the Company's articles of association to be held; or

(iii) the date upon which the authority set out in this resolution is revoked or varied by way of an ordinary resolution of the shareholders of the Company in general meeting."

7. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution of the Company:

"**THAT**:

(a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall be in addition to any other authorisation given to the directors of the Company and shall authorise the directors on behalf of the Company during the Relevant Period (as hereinafter defined) to make or grant offers, agreements, options and rights of exchange or conversion which would or might require the exercise of such powers after the end of the Relevant Period (as hereinafter defined);

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted or issued (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval granted in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the share option scheme of the Company approved by The Stock Exchange of Hong Kong Limited; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company from time to time, shall not exceed 20 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of this resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this resolution:

"Relevant Period" shall have the same meaning as that ascribed to it under resolution no. 6 as set out in the notice convening the meeting of which this resolution forms part; and

"Rights Issue" means an offer of shares open for a period fixed by the directors of the Company to the holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange, in any territory outside Hong Kong)."

8. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution of the Company:

"**THAT** conditional upon the passing of the resolutions nos. 6 and 7 as set out in the notice convening the meeting of which these resolutions form part, the general mandate granted to the directors of the Company pursuant to the resolution no. 7 as set out in the notice convening the meeting of which this resolution forms part be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of share capital of the Company repurchased by the Company under the authority granted pursuant to the resolution no. 6 as set out in the notice convening the meeting of which this resolution forms part, provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of this resolution."

9. To consider and, if thought fit, pass the following resolution as a special resolution of the Company:

"**THAT** the articles of association (the "**Articles**") of the Company be and are hereby amended by:

(a) adding the following as new definitions in Article 2:

""associate(s)" in relation to any Director, has the meaning ascribed to it under the Listing Rules;

"clearing house" means a recognised clearing house as referred to in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and any amendments thereto for the time being in force or a clearing house or authorised share depository recognised by the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction;

"Listing Rules" means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time);";

(b) deleting the words "2 months" in line 2 of Article 12.(A) and substituting therefor the words "the relevant time limit as prescribed in the applicable laws or as the relevant stock exchange may from time to time determine, whichever is shorter,";

(c) re-numbering the existing Article 14 as Article 14.(A) and adding the following as a new Article 14.(B) immediately after Article 14.(A):

“(B) The Company shall not be bound to register more than four persons as joint holders of any share.”;

(d) re-numbering the existing Article 47 as Article 47.(A) and adding the following as a new Article 47.(B) immediately after Article 47.(A):

“(B) Without prejudice to the rights of the Company under the provisions of Article 47.(A) and Article 150, the Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered.”;

(e) deleting the existing Article 74 in its entirety and substituting therefor the following as a new Article 74.(A):

“74.(A) Subject to any rights or restrictions for the time being attached to any class or classes of shares and to the provisions of Article 86.(B), on a show of hands every member present in person or by proxy or by authorised representative shall have one vote, and on a poll every member present in person or by proxy or by authorised representative shall have one vote for each share of which he is the holder and which is fully paid up or credited as fully paid up and shall have for every partly paid share of which he is the holder the fraction of one vote equal to the proportion which the nominal amount due and paid up or credited as paid up thereon bears to the nominal value of the share (but so that no amount paid up or credited as paid up on a share in advance of calls or instalments shall be treated for the purpose of this Article as paid up on the share). Notwithstanding anything contained in these Articles, where more than one proxy is appointed by a member of the Company which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. A person entitled to cast more than one vote upon a poll need not use all his votes or cast all the votes he uses in the same way.”;

(f) adding the following as a new Article 74.(B) immediately after Article 74.(A):

“(B) Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.”;

(g) deleting the words “Article 86” in Article 79 and substituting therefor the words “Articles 86.(A) and 86.(B)”;

(h) deleting the existing Article 86.(B) in its entirety and substituting therefor the following as a new Article 86.(B):

"(B) If a clearing house (or its nominee(s)) is a member of the Company it may, by resolution of its directors or other governing body or by power of attorney, appoint such person or persons as it thinks fit to act as its proxy or proxies or representative(s), to the extent permitted by applicable laws, at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so appointed, the proxy form or authorisation shall specify the number and class of shares in respect of which each such person is so appointed. A person so appointed pursuant to this provision shall be entitled to exercise the same powers on behalf of the clearing house (or its nominee(s)) which he represents as that clearing house (or its nominee(s)) could exercise if it were an individual member of the Company holding the number and class of shares specified in such proxy form or authorisation including without limitation the right to vote individually on a show of hands.";

(i) deleting the existing Article 89 in its entirety and substituting therefor the following as a new Article 89:

"89. No person, other than a retiring Director, shall, unless recommended by the Directors for election, be eligible for election to the office of Director at any general meeting, unless notice in writing by some member (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been given to the Company. The period for lodgment of the notice required under this Article shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting, provided that such period shall be at least 7 days.";

(j) deleting the existing Article 113.(E) in its entirety and substituting therefor the following as a new Article 113.(E):

"(E) Save as otherwise provided by the Articles, a Director shall not vote (nor be counted in the quorum) on any resolution of the Directors approving any contract or arrangement or any other proposal in which he or any of his associate(s) has to the knowledge of such Director a material interest, but this prohibition shall not apply to any of the following proposals, contracts or arrangements, namely:—

(i) the giving of any security or indemnity either:—

(a) to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries; or

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(b) to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(ii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iii) any proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or an executive or a shareholder or in which the Director or his associate(s) is/are beneficially interested in shares of that company in which the Director and any of his associate(s) are not in aggregate beneficially interested in 5 per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associate(s) is derived) or of the voting rights;

(iv) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including:—

(a) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which the Director or his associate(s) may benefit; or

(b) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors or their associate(s) and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his associate(s) as such any privilege or advantage not generally accorded to the class of persons to whom such scheme or fund relates; and

(v) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

For the purpose of Article 113.(E), "subsidiary" or "subsidiaries" shall have the same meaning ascribed to it under the Listing Rules.";

(k) deleting the existing Article 113.(F) in its entirety and substituting therefor the following as a new Article 113.(F):

"(F) If any question shall arise at any meeting of the Directors as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than the chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director or his associate(s) shall be final and conclusive except in a case where the nature or extent of the interest of the Director or his associate(s) concerned as known to such Director has not been fairly disclosed to the other Directors. If any question as aforesaid shall arise in respect of the chairman of the meeting or his associate(s), such question shall be decided by a resolution of the Directors (for which purpose such chairman shall not be counted in the quorum and shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman or his associate(s) as known to such chairman has not been fairly disclosed to the other Directors. For the purposes of this paragraph and in relation to an alternate Director, an interest of his appointor or his associate(s) shall be treated as an interest of the alternate Director without prejudice to any interest which the alternate Director has otherwise.";

(l) deleting the existing Article 159 in its entirety and substituting therefor the following as a new Article 159:

"159. Every balance sheet of the Company shall be signed pursuant to the relevant provisions of the laws and, subject to those provisions, a copy of every balance sheet (including every document required by laws to be annexed thereto) and profit and loss account which is to be laid before the Company at the annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the general meeting, be delivered or sent by post to the registered address of every member of, and every holder of debentures of, the Company and every person registered under Article 49 and to all persons other than members or holders of debentures of the Company, being persons entitled to receive notices of general meetings of the Company, at the same time as notice of the general meeting is being sent; provided that this Article shall not require a copy of those documents to be delivered or sent to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures. Copies of each of the said documents shall also be forwarded in appropriate number to the relevant stock exchange on which the shares of the Company shall be listed or the relevant committee thereof in accordance with the terms of any listing agreement for the time being binding on the Company or with the continuing obligation binding on the Company by virtue of any listing.";

and **THAT** any director of the Company be and is hereby authorised to take such further action as he/she may, at his/her sole and absolute discretion, think fit for and on behalf of the Company to implement the aforesaid amendments to the existing Articles."

By Order of the Board of
CCT TELECOM HOLDINGS LIMITED
Mak Shiu Tong, Clement
Chairman

Hong Kong, 30 April 2004

Notes:

(1) The register of members of the Company will be closed from Monday, 24 May 2004 to Thursday, 27 May 2004 (both days inclusive) during which period no transfer of share(s) will be effected. In order to qualify for the proposed final dividend and to determine the entitlement to attend and vote at the annual general meeting of the Company, all transfer of share(s), accompanied by the relevant share certificate(s) with the completed transfer form(s) either overleaf or separately, must be lodged with 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 for registration not later than 4:00 p.m. on Friday, 21 May 2004.

(2) Any shareholder entitled to attend and vote at the meeting is entitled to appoint another person as his/her proxy to attend and vote on his/her behalf. A proxy need not be a shareholder of the Company. A shareholder may appoint not more than two proxies to attend on the same occasion.

(3) In order to be valid, a form of proxy in the prescribed form 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 with 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 fixed for holding the annual general meeting.

(4) With respect to the resolution set out in resolution no. 3 of this notice, Messrs. Tam Ngai Hung, Terry and William Donald Putt will retire by rotation and, being eligible, offer themselves for re-election at the annual general meeting. Details of the above directors will be set out in the 2003 Annual Report of the Company.

(5) With respect to the resolution set out in resolution no. 5 of this notice, approval is being sought from the shareholders for an approval to refresh the 10% general limit on grant of options under the share option scheme of CCT Tech International Limited conditionally adopted on 17 September 2002 which became effective on 7 November 2002 and all other share option scheme(s) of CCT Tech International Limited.

(6) With respect to the resolution set out in resolution no. 6 of this notice, approval is being sought from the shareholders for a general mandate to be given to the directors to repurchase shares of the Company.

(7) An explanatory statement containing further information with respect to the resolution set out in resolution no. 6 of this notice will be sent to the shareholders together with the 2003 Annual Report of the Company.

(8) With respect to the resolutions set out in resolutions nos. 7 and 8 of this notice, approval is being sought from the shareholders for general mandates to be given to the directors to allot, issue and deal with shares of the Company in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(9) With respect to the resolution set out in resolution no. 9 of this notice, approval is being sought from the shareholders for an approval to amend the articles of association of the Company.