
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in CCT Tech International Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or registered institution in securities, or other agent through whom the sale or transfer was effected for onward transmission to the purchaser(s) or the transferee(s).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

CCTECH INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00261)

(1) PROPOSED CAPITAL REORGANISATION, (2) MAJOR ACQUISITION AND (3) CONNECTED TRANSACTION

A letter from the Board is set out on pages 7 to 26 of this circular.

A letter from the Independent Board Committee is set out on pages 27 to 28 of this circular.

A letter from First Shanghai containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 40 of this circular.

A notice convening the SGM to be held at 2208, 22/F., St. George's Building, 2 Ice House Street, Central, Hong Kong on Monday, 29 June 2009 at 9:15 a.m. is set out on pages 181 to 188 of this circular. A form of proxy for use by the Shareholders at the SGM is enclosed herein. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event, not later than 48 hours before the time appointed for holding the SGM or any adjourned meeting (as the case may be). Such form of proxy for use at the SGM is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cct-tech.com.hk). Completion and return of the form of proxy will not preclude you from attending and voting at the SGM in person should you so wish.

5 June 2009

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	7
Letter from the Independent Board Committee	27
Letter from First Shanghai	29
Appendix I — Financial information of the Group	41
Appendix II — Financial information of the CCT Industrial Group	99
Appendix III — Unaudited pro forma financial information of the Enlarged Group	146
Appendix IV — Valuation report on the CCT Industrial Group	158
Appendix V — Property valuation report on the Land	167
Appendix VI — General information	171
Notice of the SGM	181

DEFINITIONS

In this circular, the following expressions shall have the following meanings, unless the context otherwise requires:

“Agreement”	the conditional agreement dated 29 April 2009 as amended by the supplemental agreement dated 7 May 2009 and the Second Supplemental Agreement dated 27 May 2009 entered into between CCT Telecom as vendor and CCT Tech as purchaser in respect of the Transaction;
“Announcement”	the joint announcement dated 11 May 2009 made by the Company and CCT Telecom in connection with the proposed Capital Reorganisation, the Agreement and the Transaction;
“associate(s)”	has the meaning as ascribed to it under the Listing Rules;
“Board”	the board of the Directors;
“Business Day”	a day (other than Saturdays, Sundays and public holidays) on which licensed banks in Hong Kong are open for business;
“Capital Increase”	subject to and forthwith upon the Share Consolidation and the Capital Reduction becoming effective, the proposed increase of the authorised share capital of CCT Tech from HK\$120,000,000 divided into 12,000,000,000 shares of par value of HK\$0.01 each to HK\$240,000,000 divided into 24,000,000,000 shares of par value of HK\$0.01 each;
“Capital Reduction”	the proposed reduction of the par value of each issued Consolidated Share from HK\$0.10 each to HK\$0.01 each by cancelling HK\$0.09 paid-up capital on each issued Consolidated Share upon the Share Consolidation becoming effective;
“Capital Reorganisation”	the proposed share capital reorganisation of CCT Tech which includes the Share Consolidation, the Capital Reduction, the Credit Transfer, and the Capital Increase, Reclassification and Re-designation as more fully set out under the section headed “The Proposed Capital Reorganisation” in the “Letter from the Board” of this circular;
“CCASS”	Central Clearing and Settlement System established and operated by HKSCC;
“CCT Assets”	CCT Assets Management Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of CCT Telecom;

DEFINITIONS

“CCT Industrial”	CCT Industrial Products Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of CCT Telecom;
“CCT Industrial Group”	CCT Industrial and its subsidiaries from time to time;
“CCT Tech” or “Company”	CCT Tech International Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange;
“CCT Tech Existing Share(s)”	the existing issued share(s) of CCT Tech of par value of HK\$0.01 each before the Capital Reorganisation becoming effective;
“CCT Tech Ordinary Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of CCT Tech upon the Capital Reorganisation becoming effective;
“CCT Telecom”	CCT Telecom Holdings Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange;
“CCT Telecom Board”	the board of the CCT Telecom Directors;
“CCT Telecom Director(s)”	the director(s) (including the independent non-executive directors) of CCT Telecom;
“CCT Telecom Group”	CCT Telecom and its subsidiaries;
“CCT Telecom Remaining Group”	the CCT Telecom Group excluding the Group and excluding the CCT Industrial Group after Completion;
“CCT Telecom SGM”	the special general meeting of the CCT Telecom Shareholders to be convened to consider and, if thought fit, inter alia, approve the Agreement and the Transaction and the possible very substantial acquisition arising from the Possible Maximum Increase;
“CCT Telecom Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of CCT Telecom;
“CCT Telecom Shareholder(s)”	the holder(s) of the CCT Telecom Shares;
“Companies Act”	the Companies Act 1981 of Bermuda (as amended);
“Completion”	completion of the Transaction pursuant to the Agreement;

DEFINITIONS

“Components”	plastic casing, plastic components, linear mode power supplies, switching mode power supplies, transformers, adaptors, and other electronic components manufactured by the CCT Industrial Group for supply to the Group and other third party manufacturers for production of telecom and electronic products;
“Components Business”	the existing business of the CCT Industrial Group in the manufacture of the Components, most of which have been supplied to the Group;
“connected person(s)”	has the meaning as ascribed to it under the Listing Rules;
“Consideration”	HK\$346,311,000 for the Transaction under the Agreement;
“Consolidated Share(s)”	share(s) of HK\$0.10 each in the issued share capital of CCT Tech immediately upon the Share Consolidation becoming effective but prior to the Capital Reduction;
“Conversion Period”	the perpetual period commencing from the date of issue of the Convertible Preference Shares during which holder(s) of the Convertible Preference Shares are eligible to convert the Convertible Preference Shares into the CCT Tech Ordinary Shares;
“Conversion Ratio”	the ratio of conversion of the Convertible Preference Shares into the CCT Tech Ordinary Shares, at the initial ratio of one Convertible Preference Share convertible into one CCT Tech Ordinary Share, subject to adjustment only in the event of an alteration to the nominal value of the CCT Tech Ordinary Shares as a result of consolidation or subdivision of the CCT Tech Ordinary Shares and not otherwise;
“Conversion Shares”	CCT Tech Ordinary Shares to be allotted and issued by CCT Tech upon conversion of the Convertible Preference Shares, from time to time;
“Convertible Preference Share(s)”	the non-voting and non-redeemable convertible preference share(s) of par value of HK\$0.01 each, created by the Capital Reorganisation, to be issued by CCT Tech at the issue price of HK\$0.10 each pursuant to the terms of the Agreement and having the rights and benefits and subject to the restrictions to be set out in the Resolution;
“Credit Transfer”	has the meaning as referred to in the section headed “The Proposed Capital Reorganisation” in the “Letter from the Board” of this circular;

DEFINITIONS

“Directors”	the director(s) (including the independent non-executive directors) of CCT Tech;
“Discontinuation”	the discontinuation by the Group’s largest single customer in the US of its retail telephony business activities in North America in November 2008;
“Enlarged Group”	the Group as enlarged by the Transaction after Completion;
“Expert Success”	Expert Success International Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of CCT Telecom;
“First Shanghai”	First Shanghai Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Transaction and a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity;
“Grant Sherman”	Grant Sherman Appraisal Limited, the independent professional valuer on the CCT Industrial Group and on the Land;
“Group”	CCT Tech and its subsidiaries;
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“HKSCC”	Hong Kong Securities Clearing Company Limited;
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Board Committee”	the independent board committee of CCT Tech comprising Mr. Lau Ho Kit, Ivan and Mr. Chow Siu Ngor, the independent non-executive Directors not having material interest in the Transaction, established for the purpose of advising the Independent Shareholders on the Transaction;
“Independent Shareholders”	Shareholders other than CCT Telecom Group and its associates;
“Land”	the plot of land located at Shang Pai Lot Ban Pai, Shi Wei Ai Ling, Danshui Town, Huiyang City, Guangdong Province, the PRC with a site area of 450,000 square metres;
“Last Trading Date”	29 April 2009, being the last day on which the CCT Tech Existing Shares were traded on the Stock Exchange prior to the release of the Announcement;

DEFINITIONS

“Latest Practicable Date”	2 June 2009, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Long Stop Date”	originally 24 June 2009 which has been extended under the Second Supplemental Agreement to 31 July 2009, or such later date as agreed by the parties to the Agreement in writing;
“Possible Maximum Increase”	the maximum possible increase of the percentage of CCT Telecom’s shareholdings in CCT Tech which may arise from the future conversion of the Convertible Preference Shares into the CCT Tech Ordinary Shares;
“PRC”	the People’s Republic of China, excluding Hong Kong for the purpose of this circular;
“Reclassification and Re-designation”	the reclassification and re-designation of the authorised share capital of CCT Tech subject to and forthwith upon the Capital Increase become effective so that the authorised share capital of CCT Tech shall become HK\$240,000,000 divided into 24,000,000,000 shares of par value of HK\$0.01 each, comprised of 3,463,110,000 Convertible Preference Shares of par value of HK\$0.01 each and 20,536,890,000 CCT Tech Ordinary Shares of par value of HK\$0.01 each and the proposed re-designation of the then issued shares of CCT Tech into issued CCT Tech Ordinary Shares;
“Resolution”	the resolution to be proposed at the SGM in relation to, inter alia, the creation of the Convertible Preference Shares;
“Sale Share”	one share of US\$1.00 each in CCT Industrial, representing the entire issued share capital of CCT Industrial;
“Sale Shareholder’s Loan”	the outstanding interest-free loan due from CCT Industrial to CCT Telecom as at Completion, which amounted to HK\$393,990,107 as at the date of the Agreement;
“Second Supplemental Agreement”	the second supplemental agreement dated 27 May 2009 entered into between CCT Telecom and CCT Tech to extend the Long Stop Date from 24 June 2009 to 31 July 2009, or such later date as agreed by the parties to the Agreement in writing;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);

DEFINITIONS

“SGM”	the special general meeting of the Shareholders to be convened to consider and, if thought fit, inter alia, approve the Agreement, the Transaction and the Capital Reorganisation;
“Share Consolidation”	the proposed consolidation of every 10 issued CCT Tech Existing Shares of HK\$0.01 each in the share capital of CCT Tech into one issued Consolidated Share of HK\$0.10 each;
“Shareholder(s)”	the holder(s) of the CCT Tech Existing Share(s) before the Capital Reorganisation becoming effective or the holder(s) of the CCT Tech Ordinary Shares after the Capital Reorganisation becoming effective;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder(s)”	has the meaning as ascribed to it under the Listing Rules;
“Transaction”	the proposed acquisition of the Sale Share and the Sale Shareholder’s Loan by CCT Tech from CCT Telecom as contemplated under the Agreement;
“US”	the United States of America;
“US Customer”	the Group’s largest single customer in the US that discontinued its retail telephony business activities in North America; and
“%”	per cent.

LETTER FROM THE BOARD

TECH INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00261)

Executive Directors:

Mak Shiu Tong, Clement
Tam Ngai Hung, Terry
Cheng Yuk Ching, Flora
William Donald Putt

Registered office:

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Independent non-executive Directors:

Lau Ho Kit, Ivan
Chow Siu Ngor
Chen Li

*Head office and principal place
of business in Hong Kong:*

2208, 22/F.
St. George's Building
2 Ice House Street, Central
Hong Kong

5 June 2009

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED CAPITAL REORGANISATION,
(2) MAJOR ACQUISITION
AND
(3) CONNECTED TRANSACTION**

INTRODUCTION

On 11 May 2009, by means of the Announcement, the Board proposes to put forward the proposal to the Shareholders to effect the Capital Reorganisation which involves:

- (i) the Share Consolidation;
- (ii) the Capital Reduction;
- (iii) the Credit Transfer; and
- (iv) the Capital Increase, Reclassification and Re-designation.

The proposed Capital Reorganisation is conditional upon, among others, the Shareholders' approval of the proposed Capital Reorganisation and the Independent Shareholders' approval of the Agreement and the Transaction at the SGM.

LETTER FROM THE BOARD

On 11 May 2009, also by means of the Announcement, the Board and the CCT Telecom Board jointly announced that CCT Telecom and CCT Tech entered into the Agreement, pursuant to which CCT Telecom has agreed to sell the Sale Share and the Sale Shareholder's Loan to CCT Tech or its designated nominee(s) at a total consideration of HK\$346,311,000, which shall be satisfied by the allotment and issue of an aggregate of 3,463,110,000 Convertible Preference Shares by CCT Tech credited as fully paid at the subscription price of HK\$0.10 each in favour of Expert Success and CCT Assets, both of which are indirect wholly-owned subsidiaries of CCT Telecom. The Sale Share represents the entire issued share capital of CCT Industrial, a direct wholly-owned subsidiary of CCT Telecom.

As at the Latest Practicable Date, CCT Telecom is the ultimate controlling shareholder of CCT Tech and indirectly held 33,026,391,124 CCT Tech Existing Shares (representing approximately 50.49% of the total issued share capital of CCT Tech) through its indirect wholly-owned subsidiaries including Jade Assets Company Limited which held 29,326,391,124 CCT Tech Existing Shares, Expert Success which held 2,350,000,000 CCT Tech Existing Shares and CCT Assets which held 1,350,000,000 CCT Tech Existing Shares, representing approximately 44.83%, 3.59% and 2.07% respectively of the total issued share capital of CCT Tech as at the Latest Practicable Date. CCT Telecom is therefore a substantial shareholder and hence a connected person of CCT Tech under the Listing Rules. Accordingly, the Transaction constitutes a non-exempt connected transaction for CCT Tech under the Listing Rules. As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Transaction exceed 25% but not more than 100% for CCT Tech, the Transaction also constitutes a major acquisition for CCT Tech under the Listing Rules. The Agreement and the Transaction will be subject to the approval of the Independent Shareholders by way of poll at the SGM. CCT Telecom's indirect wholly-owned subsidiaries, namely, Jade Assets Company Limited, Expert Success and CCT Assets which held, as at the Latest Practicable Date, 29,326,391,124 CCT Tech Existing Shares, 2,350,000,000 CCT Tech Existing Shares and 1,350,000,000 CCT Tech Existing Shares respectively, through which they controlled the voting rights of their respective shares, will abstain from voting in respect of the resolution to approve the Agreement and the Transaction at the SGM. CCT Telecom's associate, Mr. Mak Shiu Tong, Clement who is an executive Director, the chairman and the chief executive officer of CCT Tech and controls more than one-third of the shareholding of CCT Telecom, and who held 120,000,000 CCT Tech Existing Shares as at the Latest Practicable Date, through which he controlled the voting rights in respect of these shares, will also abstain from voting in respect of the resolution to approve the Agreement and the Transaction at the SGM.

The purpose of this circular is to provide you with, among other things, (i) further particulars of the Capital Reorganisation and further details of the Transaction and the Agreement; (ii) a letter of advice from the Independent Board Committee regarding the Transaction; (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Transaction; and (iv) the notice of the SGM.

THE PROPOSED CAPITAL REORGANISATION

The Board proposes to put forward a proposal to the Shareholders to effect the Capital Reorganisation which involves:

- (1) the Share Consolidation under which every 10 issued CCT Tech Existing Shares of HK\$0.01 each of CCT Tech will be consolidated into one issued Consolidated Share of HK\$0.10 each;

LETTER FROM THE BOARD

- (2) the Capital Reduction under which the par value of each issued Consolidated Share will be reduced from HK\$0.10 to HK\$0.01 by cancelling HK\$0.09 paid-up capital on each issued Consolidated Share;
- (3) the Credit Transfer by transferring the credit in the amount of approximately HK\$588,725,946 arising from the Capital Reduction of the issued share capital of CCT Tech to the contributed surplus account of CCT Tech which will be applied to set-off against the accumulated losses of CCT Tech on the date the Capital Reduction becoming effective; and
- (4) subject to and forthwith upon the Share Consolidation and the Capital Reduction becoming effective, the Capital Increase of the authorised share capital of CCT Tech from HK\$120,000,000 divided into 12,000,000,000 shares of par value of HK\$0.01 each of CCT Tech to HK\$240,000,000 divided into 24,000,000,000 shares of par value of HK\$0.01 each and the Reclassification and Re-designation of the increased authorised share capital so that it shall become HK\$240,000,000 divided into 24,000,000,000 shares of par value of HK\$0.01 each, comprised of 3,463,110,000 Convertible Preference Shares of par value of HK\$0.01 each and 20,536,890,000 CCT Tech Ordinary Shares of par value of HK\$0.01 each and the re-designation of all of the then issued shares of the CCT Tech into issued CCT Tech Ordinary Shares of par value of HK\$0.01 each.

The Directors have no present intention of issuing any part of the increased authorised share capital of CCT Tech other than for the purpose of allotment and issue of the Convertible Preference Shares and the Conversion Shares.

Effects of the Capital Reorganisation

As at the Latest Practicable Date, the authorised share capital of CCT Tech is HK\$1,200,000,000 divided into 120,000,000,000 shares of CCT Tech of HK\$0.01 each. The existing issued share capital of CCT Tech is HK\$654,139,939.90 divided into 65,413,993,990 CCT Tech Existing Shares of HK\$0.01 each, which are issued and fully paid. Subject to the approval by the Shareholders on the Capital Reorganisation and the approval by the Independent Shareholders on the Agreement and the Transaction and on the assumption that no further shares of CCT Tech will be issued from the Latest Practicable Date up to and including the date when the Capital Reorganisation becoming effective, the authorised share capital of CCT Tech immediately upon the Capital Reorganisation becoming effective will be HK\$240,000,000 divided into 24,000,000,000 shares of HK\$0.01 each, comprised of 3,463,110,000 Convertible Preference Shares of par value of HK\$0.01 each and 20,536,890,000 CCT Tech Ordinary Shares of par value of HK\$0.01 each, of which 6,541,399,399 CCT Tech Ordinary Shares will be in issue. Fractional CCT Tech Ordinary Shares will not be issued to the Shareholders but will be aggregated and, if possible, sold for the benefit of CCT Tech.

Based on the 6,541,399,399 issued Consolidated Shares immediately before the Capital Reduction, a credit of approximately HK\$588,725,946 will arise as a result of the Capital Reduction of the issued share capital of CCT Tech and will be transferred to the contributed surplus account of CCT Tech and applied to set-off against the accumulated losses of CCT Tech on the date the Capital Reduction becoming effective (the “**Credit Transfer**”).

As at the Latest Practicable Date, CCT Tech has no outstanding options, warrants, conversion rights or other similar rights giving rights to subscribe for the unissued existing shares of CCT Tech.

LETTER FROM THE BOARD

Implementation of the Capital Reorganisation will not, of itself, alter the underlying assets, business operations, management or financial position of the Group or the proportionate interests of the Shareholders in CCT Tech, except for the payment of related expenses (which are expected to be insignificant) and the Credit Transfer. The Board believes that the Capital Reorganisation will not have any adverse effect on the financial position of the Group and that on the date the Capital Reorganisation becoming effective, there are no reasonable grounds for believing that CCT Tech is, or after the Capital Reorganisation will be, unable to pay its liabilities as they fall due. The Capital Reorganisation does not involve any diminution of any liability in respect of any unpaid capital of CCT Tech or the repayment to the Shareholders of any paid-up capital of CCT Tech. Upon completion of the Capital Reorganisation, the CCT Tech Ordinary Shares will rank *pari passu* in all respects with each other and the Capital Reorganisation will not result in any change in the relative rights of the Shareholders.

Conditions of the Capital Reorganisation

The Capital Reorganisation (which will be effected in accordance with the bye-laws of the Company and the Companies Act) is conditional upon:

- (i) the passing of necessary resolution(s) by the Shareholders to approve the Capital Reorganisation at the SGM;
- (ii) the passing of necessary resolution(s) by the Independent Shareholders to approve the Agreement and the Transaction at the SGM;
- (iii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the CCT Tech Ordinary Shares in issue following completion of the Capital Reorganisation; and
- (iv) (a) publication of a notice in relation to the Capital Reduction in Bermuda in accordance with section 46(2)(a) of the Companies Act; and (b) that on the date when the Capital Reduction is to take effect, there are no reasonable grounds for believing that CCT Tech is, or after the Capital Reduction will be, unable to pay its liabilities as they fall due.

Assuming that the above conditions are fulfilled, it is expected that the Capital Reorganisation will become effective from 9:30 a.m. on the Business Day next following the day which the relevant resolution(s) to approve the Capital Reorganisation is passed. Subject to the passing of the relevant resolution(s) at the SGM approving the Capital Reorganisation and compliance with the applicable requirement under the Companies Act, the Capital Reorganisation will comply with the laws of Bermuda.

Reasons for the Capital Reorganisation

The proposed Capital Reorganisation is effected to cater for the issue of the Convertible Preference Shares and the Conversion Shares pursuant to the terms of the Agreement. CCT Tech will not proceed with the proposed Capital Reorganisation if the Independent Shareholders do not approve the Agreement and the Transaction at the SGM.

LETTER FROM THE BOARD

Listing and dealings

Application has been made to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the CCT Tech Ordinary Shares in issue following completion of the Capital Reorganisation.

The CCT Tech Ordinary Shares will be identical in all respects and will rank *pari passu* in all respects with each other as to all future dividends and distributions which are declared, made or paid. Subject to the granting of the listing of, and permission to deal in, the CCT Tech Ordinary Shares on the Stock Exchange, the CCT Tech Ordinary Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the CCT Tech Ordinary Shares on the Stock Exchange, or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Arrangement for odd lot trading

In order to facilitate the trading of odd lots (if any) of the CCT Tech Ordinary Shares arising from the Capital Reorganisation, a designated broker will be appointed to match the sale and purchase of odd lots of the CCT Tech Ordinary Shares at the relevant market price per CCT Tech Ordinary Share for the period from Wednesday, 15 July 2009 to Tuesday, 4 August 2009 (both dates inclusive). Holders of odd lots of the CCT Tech Ordinary Shares should note that the above matching service is on a best effort basis only and successful matching of the sale and purchase of odd lots of the CCT Tech Ordinary Shares is not guaranteed. Any Shareholder, who is in any doubt about the odd lot facility, is recommended to consult his/her/its own professional advisers.

Free exchange of share certificates for CCT Tech Ordinary Shares

Subject to the Capital Reorganisation becoming effective, Shareholders may submit share certificates for their CCT Tech Existing Shares, to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for exchange from Tuesday, 30 June 2009 to Thursday, 6 August 2009 (both dates inclusive), at the expense of CCT Tech for share certificates of the CCT Tech Ordinary Shares. Thereafter, share certificates for the CCT Tech Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may, from time to time, be allowed by the Stock Exchange) for each share certificate of the CCT Tech Existing Shares cancelled or each new share certificate issued for the CCT Tech Ordinary Shares, whichever number of share certificates cancelled or issued is higher. The existing share certificates will be valid for trading and settlement up to 4:00 p.m. on Tuesday, 4 August 2009, being the latest time for trading in board lots of 8,000 of CCT Tech Ordinary Shares in the form of existing share certificates (or such other date as may be announced by CCT Tech) and will continue to be good evidence of legal title after the Capital Reorganisation has become effective, and may be exchanged for share certificates of the CCT Tech Ordinary Shares at any time in accordance with the foregoing.

Unless otherwise instructed, new share certificates for the CCT Tech Ordinary Shares will be issued in board lots of 80,000 CCT Tech Ordinary Shares or its multiple. It is expected that new share certificates for the CCT Tech Ordinary Shares will be available for collection on or after the 10 Business Days from the submission of existing share certificates for the CCT Tech Existing Shares to the branch share registrar and transfer office of the Company in Hong Kong for exchange. If Shareholders are able to lodge their existing share certificates for the CCT Ordinary Shares with the

LETTER FROM THE BOARD

branch share registrar and transfer office of the Company in Hong Kong during normal business hours on Tuesday, 30 June 2009, new share certificates for the CCT Tech Ordinary Shares will be available for collection during normal business hours on Tuesday, 14 July 2009.

Expected timetable

The expected timetable in respect of the proposed Capital Reorganisation is set out as follows:

2009

SGM Monday, 29 June

Publication of the announcement of the results of the SGM Tuesday, 30 June

Effective Date of the Capital Reorganisation Tuesday, 30 June

First day of free exchange of share certificates for
CCT Tech Existing Shares into new share certificates
for the CCT Tech Ordinary Shares Tuesday, 30 June

Commencement in dealings in the CCT Tech Ordinary
Shares 9:30 a.m., Tuesday, 30 June

Original counter for trading in the CCT Tech Existing
Shares in existing share certificates in board lots
of 80,000 CCT Tech Existing Shares temporarily closes 9:30 a.m., Tuesday, 30 June

Temporary counter for trading in the CCT Tech
Ordinary Shares in board lots of 8,000 CCT Tech
Ordinary Shares (in the form of existing share certificates)
opens 9:30 a.m., Tuesday, 30 June

Original counter for trading in the CCT Tech Ordinary Shares
in board lots of 80,000 CCT Tech Ordinary Shares
(in the form of new share certificates in board lots of
80,000 CCT Tech Ordinary Shares) re-opens Wednesday, 15 July

Parallel trading commences on Wednesday, 15 July

Designated broker starts to stand in the market
to provide matching service Wednesday, 15 July
to Tuesday, 4 August

Temporary counter for trading in the CCT Tech Ordinary
Shares in board lots of 8,000 CCT Tech Ordinary
Shares (in the form of existing share certificates) closes 4:00 p.m., Tuesday, 4 August

Last day for free exchange of share certificates Thursday, 6 August

Further announcement(s) will be made by CCT Tech if there is any change to the above expected timetable.

LETTER FROM THE BOARD

THE AGREEMENT AND THE TRANSACTION

The Agreement

The sale and purchase agreement dated 29 April 2009 as amended by the supplemental agreement dated 7 May 2009 were entered into between the following parties in relation to the sale and purchase of the following assets:

Vendor: CCT Telecom

Purchaser: CCT Tech

Assets to be acquired: CCT Telecom and CCT Tech have conditionally agreed that CCT Tech or its designated nominee(s) shall acquire the Sale Share and the Sale Shareholder's Loan from CCT Telecom at a total consideration of HK\$346,311,000. The Sale Share represents the entire issued share capital of CCT Industrial, a direct wholly-owned subsidiary of CCT Telecom.

On 27 May 2009, CCT Telecom and CCT Tech agreed in writing under the Second Supplemental Agreement to extend the Long Stop Date from 24 June 2009 to 31 July 2009, or such later date as agreed by the parties to the Agreement in writing.

CCT Telecom is the ultimate controlling shareholder of CCT Tech and indirectly holds 33,026,391,124 CCT Tech Existing Shares, representing approximately 50.49% of the total issued share capital of CCT Tech as at the Latest Practicable Date. CCT Telecom is therefore a substantial shareholder and hence a connected person of CCT Tech under the Listing Rules.

Consideration of the Transaction

The total consideration of HK\$346,311,000 shall be satisfied at Completion by the allotment and issue of 3,463,110,000 Convertible Preference Shares credited as fully paid at the subscription price of HK\$0.10 each in favour of the following indirect wholly-owned subsidiaries of CCT Telecom:

- (a) as to 1,731,555,000 Convertible Preference Shares in favour of Expert Success; and
- (b) as to 1,731,555,000 Convertible Preference Shares in favour of CCT Assets.

The Convertible Preference Shares carry the right to convert into the CCT Tech Ordinary Shares at the Conversion Ratio on a one to one basis (subject to adjustment in the future event of a consolidation or subdivision of the CCT Tech Ordinary Shares but not otherwise) and shall have the rights and benefits and subject to restrictions set out in the sub-section headed "Rights, benefits and restrictions of the Convertible Preference Shares" below. The Conversion Shares to be issued upon the conversion of the Convertible Preference Shares will be issued under a specific mandate of CCT Tech.

LETTER FROM THE BOARD

The issue price of the Convertible Preference Shares at HK\$0.10 each is equal to each of the following adjusted closing prices per CCT Tech Ordinary Share:

- (a) the adjusted closing price of approximately HK\$0.10 per CCT Tech Ordinary Share, based on the closing price of HK\$0.01 per CCT Tech Existing Share as quoted on the Stock Exchange immediately before the suspension of trading on the Last Trading Date and adjusted for the effect of the Capital Reorganisation;
- (b) the adjusted average closing price of approximately HK\$0.10 per CCT Tech Ordinary Share, based on the average closing price of approximately HK\$0.01 per CCT Tech Existing Share as quoted on the Stock Exchange immediately for the five consecutive trading days up to and including the Last Trading Date and adjusted for the effect of the Capital Reorganisation;
- (c) the adjusted average closing price of approximately HK\$0.10 per CCT Tech Ordinary Share, based on the average closing price of approximately HK\$0.01 per CCT Tech Existing Share as quoted on the Stock Exchange immediately for the 10 consecutive trading days up to and including the Last Trading Date and adjusted for the effect of the Capital Reorganisation;
- (d) the adjusted average closing price of approximately HK\$0.10 per CCT Tech Ordinary Share, based on the average closing price of approximately HK\$0.01 per CCT Tech Existing Share as quoted on the Stock Exchange immediately for the 30 consecutive trading days up to and including the Last Trading Date and adjusted for the effect of the Capital Reorganisation; and
- (e) the adjusted average closing price of approximately HK\$0.10 per CCT Tech Ordinary Share, based on the average closing price of approximately HK\$0.01 per CCT Tech Existing Share as quoted on the Stock Exchange immediately for the 60 consecutive trading days up to and including the Last Trading Date and adjusted for the effect of the Capital Reorganisation;

The issue price of the Convertible Preference Shares represents a discount of approximately 16.67% to the adjusted closing price of HK\$0.12 per CCT Tech Ordinary Share, based on the closing price of HK\$0.012 per CCT Tech Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation.

The issue price of the Convertible Preference Shares also represents a discount of approximately 9.1% to the audited consolidated net assets value of approximately HK\$0.11 per CCT Tech Ordinary Share as at 31 December 2008, as adjusted for the effect of the Capital Reorganisation.

The issue price of the Convertible Preference Shares was arrived at arm's length negotiation between CCT Tech and CCT Telecom with reference to the market price of the CCT Tech Existing Shares and adjusted for the effect of the Capital Reorganisation. The Directors consider that the issue price of the Convertible Preference Shares of HK\$0.10 each, which equals to the adjusted market price of the CCT Tech Ordinary Shares is fair and reasonable and in the best interests of CCT Tech and the Shareholders as a whole. Although the Convertible Preference Shares will be issued at a slight discount of approximately 9.1% to the adjusted audited consolidated net assets value of CCT Tech, such discount is acceptable in view of the prevailing market conditions.

LETTER FROM THE BOARD

The Sale Shareholder's Loan shall be assigned to CCT Tech or its designated assignee(s) at its book value. The Consideration of HK\$346,311,000 was determined based on the net total of: (i) the audited consolidated net deficit in the amount of HK\$47,680,000 of the CCT Industrial Group after deduction of the Sale Shareholder's Loan as at 31 December 2008; and (ii) the audited book value of the Sale Shareholder's Loan in the amount of HK\$393,991,000 as at 31 December 2008. The Consideration was determined after arm's length negotiation between the parties to the Transaction and with reference to the net assets value (before deduction of the Sale Shareholder's Loan) of the CCT Industrial Group as at 31 December 2008 in the amount of HK\$346,311,000 and taking into account the following factors in arriving at the consideration:

- (a) current market environment;
- (b) current financial position and historical financial performance of the CCT Industrial Group; and
- (c) potential income generation of the CCT Industrial Group.

An independent valuation of the CCT Industrial Group has been carried out by the independent professional valuer, Grant Sherman and the value of the CCT Industrial Group as at 31 March 2009 as appraised by Grant Sherman amounted to HK\$389,405,000. The Consideration of HK\$346,311,000 represents a discount of approximately 11.1% to the valuation of HK\$389,405,000. Accordingly, the Directors consider the Consideration to be fair and reasonable to CCT Tech, on normal commercial terms and in the interests of CCT Tech and its shareholders as a whole.

Rights, benefits and restrictions of the Convertible Preference Shares

On Completion, the share capital of CCT Tech will comprise CCT Tech Ordinary Shares and Convertible Preference Shares. The Convertible Preference Shares will only carry limited voting rights, have no right to dividend payment by CCT Tech but can be converted into CCT Tech Ordinary Shares at the Conversion Ratio on a one to one basis. The Conversion Ratio will only be adjusted where there is an alteration to the nominal value of a CCT Tech Ordinary Share as a result of consolidation or subdivision of the CCT Tech Ordinary Shares. Save for the foregoing, the Conversion Ratio will not be subject to any other adjustment event.

The rights of the Convertible Preference Shares will be set out in the Resolution and a summary of which is set out below:

Issuer	:	CCT Tech
Issue price	:	HK\$0.10 per Convertible Preference Share
Conversion Ratio	:	Each Convertible Preference Share carries the right to convert into one CCT Tech Ordinary Share (subject to adjustment only in the event of an alteration to the nominal value of the CCT Tech Ordinary Shares as a result of consolidation or subdivision of the CCT Tech Ordinary Shares and not otherwise).

LETTER FROM THE BOARD

- Dividend : Holders of Convertible Preference Shares are not entitled to any dividend payment or any distribution (including bonus issue) of CCT Tech.
- Conversion : Holders shall have the right to convert, in whole or in part, during the Conversion Period, each Convertible Preference Share into one CCT Tech Ordinary Share at the Conversion Ratio provided that the public float of the CCT Tech Ordinary Shares shall not be less than 25% or the minimum percentage as set out in the Listing Rules from time to time, immediately following the exercise of such conversion right.
- Conversion period : Perpetual as from the date of issue.
- Transferability : Convertible Preference Shares are freely transferable from the date of issue.
- Voting right : Holders of Convertible Preference Shares shall be entitled to receive notices of and attend any shareholders' meeting of CCT Tech but shall not be entitled to vote at any shareholders' meeting of CCT Tech by reason only of being holders of Convertible Preference Shares save where the resolutions in question relate to the dissolution or winding up of CCT Tech or variation or abrogation of the rights attaching to the Convertible Preference Shares in which cases the holders of the Convertible Preference Shares will have the same voting rights as those attaching to the CCT Tech Ordinary Shares on an as-converted basis.
- Ranking : Rank in priority to the CCT Tech Ordinary Shares as to a return of capital on a winding up or otherwise up to the aggregate of the amounts paid up or credited as paid up on all outstanding Convertible Preference Shares. The Conversion Shares shall rank *pari passu* in all respects with all other CCT Tech Ordinary Shares in issue.
- Redemption : Without prejudice to the power of CCT Tech to purchase its shares in accordance with the bye-laws of CCT Tech, the Convertible Preference Shares are non-redeemable.
- Listing : No listing of the Convertible Preference Shares will be sought on the Stock Exchange or on any other stock exchanges. Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares which may fall to be issued upon the exercise of the conversion rights attaching to the Convertible Preference Shares.

LETTER FROM THE BOARD

Upon full conversion of the 3,463,110,000 Convertible Preference Shares, a total of 3,463,110,000 CCT Tech Ordinary Shares will be issued, subject to adjustment to the Conversion Ratio, which represent approximately 52.94% of the total issued CCT Tech Ordinary Shares immediately after the Capital Reorganisation becoming effective but before Completion and approximately 34.62% of the total issued share capital of CCT Tech as enlarged by the Conversion Shares to be issued upon full conversion of the Convertible Preference Shares.

Neither issue nor conversion of the Convertible Preference Shares will result in any change of control of CCT Tech.

Conditions precedent of the Agreement

Completion is conditional upon the fulfillment or waiver of the following conditions precedent:

- (a) CCT Telecom having complied fully with the obligations and having performed all of the covenants and agreements required to be performed by it under the Agreement;
- (b) the warranties given by CCT Telecom under the Agreement remaining true and accurate and not misleading;
- (c) the warranties given by CCT Tech under the Agreement remaining true and accurate and not misleading;
- (d) the approval by the Independent Shareholders at the SGM of (i) the acquisition by CCT Tech of the Sale Share and the Sale Shareholder's Loan and the transactions contemplated under the Agreement; and (ii) the issue and allotment of the Convertible Preference Shares and the Conversion Shares by CCT Tech pursuant to the Agreement having been obtained; and the approval by the Shareholders at the SGM of the Capital Reorganisation having been obtained;
- (e) all requisite resolution(s) being passed by the CCT Telecom Shareholders at the CCT Telecom SGM approving the terms of and the transactions contemplated under the Agreement and the implementation thereof, in compliance with the Listing Rules;
- (f) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the CCT Tech Ordinary Shares in issue following completion of the Capital Reorganisation and the Conversion Shares falling to be issued upon exercise of the conversion rights attaching to the Convertible Preference Shares;
- (g) the granting of the requisite approval/consent(s) by the Bermuda Monetary Authority, where applicable, for the issue of the Convertible Preference Shares and the Conversion Shares falling to be issued upon exercise of the conversion rights attaching to the Convertible Preference Shares; and

LETTER FROM THE BOARD

- (h) all necessary consents from third parties (including governmental or official authorities) in connection with the transactions contemplated under the Agreement having been obtained by CCT Telecom and no statute, regulations or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Share and the Sale Shareholder's Loans having been proposed, enacted or taken by any governmental or official authority.

CCT Tech shall have the right to waive the conditions set out in paragraphs (a), (b) and (h) above at any time by notice in writing to CCT Telecom. CCT Telecom shall have the right to waive the condition in paragraph (c) above at any time by notice in writing to CCT Tech.

In the event that any of the conditions shall not have been fulfilled or waived on or before 31 July 2009 or such later date as agreed by the parties to the Agreement in writing, the Agreement shall cease to be of any effect save in respect of claims arising out of any antecedent breach of the Agreement.

Completion

Completion of the Transaction is expected to take place on or before the third Business Day after all of the conditions have been fulfilled or waived (which shall be fulfilled by no later than the Long Stop Date). The Convertible Preference Shares will be issued in favour of Expert Success and CCT Assets on the date of Completion.

Upon Completion, all the members of the CCT Industrial Group will be accounted for as subsidiaries of CCT Tech.

Further information about the CCT Industrial Group

CCT Industrial is an investment holding company and the CCT Industrial Group is principally engaged in the manufacture and sale of the Components. Most of the Components are sold to the Group for the production of telecom and electronic products. Some of the Components are sold to independent third parties. The production plants of the CCT Industrial Group are located in the cities of Huiyang and Dongguan, Guangdong Province, the PRC. The manufacturing operations of the CCT Industrial Group are substantial and are vertically integrated. Besides the production of the Components, the CCT Industrial Group is also engaged in the plastic mould making and secondary operation of plastic products such as spraying, silk-screening & UV printing, hot-stamping, laser marking, and ultrasonic welding. The CCT Industrial Group is equipped with a large number of advance machines, including plastic mould injection machines, automatic robot arm plastic moulding machines, electrical injection machines, tooling making machines, digital milling machines, wire-cutting machines, EDM and CNC processing centres, High Stabilised Programmable AC Source and Temperature & Humidity Controlled Chamber.

Besides the plant and machinery and fixed assets used in its operations, CCT Industrial Group also holds the Land with a site area of approximately 450,000 square metres which was acquired by the CCT Telecom Group in 2000 at a cost of HK\$160 million from a third party independent of and not connected with the substantial shareholders, chief executive and directors of the CCT Telecom Group. As at the Latest Practicable Date, the Land is vacant and is adjunct to the factory complex of the Group located in the Huiyang City. After Completion, the Land is available for future development and expansion of the CCT Industrial Group as well as the Group. The carrying book value of the Land as at 31 December 2008 is approximately HK\$142 million.

LETTER FROM THE BOARD

The audited consolidated turnover of the CCT Industrial Group for the two years ended 31 December 2007 and 2008 were approximately HK\$525 million and HK\$446 million, respectively. The audited consolidated loss before tax of the CCT Industrial Group for the two years ended 31 December 2007 and 2008 were approximately HK\$8 million and HK\$110 million, respectively. The audited consolidated loss after tax of the CCT Industrial Group for the two years ended 31 December 2007 and 2008 were approximately HK\$10 million and HK\$110 million, respectively. As at 31 December 2008, the audited consolidated net assets of the CCT Industrial Group before deduction of the Sale Shareholders' Loan were HK\$346,311,000 and the audited consolidated net deficit of the CCT Industrial Group after deduction of the Sale Shareholder's Loan was HK\$47,680,000.

The CCT Industrial Group was profitable in years prior to 2006. During the two years of 2007 and 2008, the CCT Industrial Group operated under adverse business difficult environment and its performance was adversely affected by uncontrollable outside factors including (i) high production costs due to high material costs of plastic resins (as a result of high petroleum price until September last year) and metal, surge of labour costs in the Guangdong Province and appreciation of Renminbi against US dollar; (ii) the financial turmoil which has resulted in global economic downturn and drop in the sales orders of the Group which in turn lowered the production orders of the CCT Industrial Group; and (iii) exceptional impairment loss of fixed asset in the amount of approximately HK\$65 million in 2008 due to the Discontinuation which resulted in under-utilisation of certain fixed assets of the CCT Industrial Group.

Various measures and initiatives have been taken by the CCT Industrial Group to trim down costs and overheads and improve its efficiency and competitiveness and these measures have shown positive effect to the performance of the CCT Industrial Group. Although the CCT Industrial Group is currently loss-making, it has been a reliable source for the supply of a large volume of good quality Components to the Group at competitive prices.

Information on CCT Tech and CCT Telecom

CCT Tech is the holding company of the Group which is principally engaged in the design, manufacture and sale of telecom and electronic products before Completion.

CCT Telecom is the holding company of the CCT Telecom Group whose principal activities before Completion are: (i) manufacture and sale of telecom and electronic products through the Group; (ii) manufacture and sale of the Components through the CCT Industrial Group; (iii) manufacture and sale of infant and child products; (iv) securities business; (v) property development and holding; and (vi) the forestry resources business through CCT Resources Holdings Limited (whose shares are listed on the Growth Enterprise Market of the Stock Exchange and in which CCT Telecom has a substantial shareholding).

After Completion, the Components Business of the CCT Industrial Group (which accounted for 100% of the revenue and loss of the CCT Industrial Group in 2008) will be transferred to the Group and the CCT Telecom Remaining Group will continue to be engaged in the businesses set out in (iii) to (vi) above.

LETTER FROM THE BOARD

Change to the shareholding of CCT Tech

The table below shows the shareholding movements of CCT Tech before and immediately after the Capital Reorganisation but before the Completion, immediately after the Capital Reorganisation and the Completion and after full conversion of the Convertible Preference Shares:

Name of the Shareholders	As at the Latest Practicable Date		Immediately after the Capital Reorganisation becoming effective		Immediately after the Capital Reorganisation and the Completion but before any conversion of the Convertible Preference Shares	
	No. of shares held	%	No. of shares held	%	No. of shares held	%
Jade Assets Company Limited*	29,326,391,124	44.83	2,932,639,112	44.83	2,932,639,112	44.83
Expert Success*	2,350,000,000	3.59	235,000,000	3.59	235,000,000	3.59
CCT Assets*	<u>1,350,000,000</u>	<u>2.07</u>	<u>135,000,000</u>	<u>2.07</u>	<u>135,000,000</u>	<u>2.07</u>
CCT Telecom Total	33,026,391,124	50.49	3,302,639,112	50.49	3,302,639,112	50.49
Directors	168,000,000	0.26	16,800,000	0.26	16,800,000	0.26
Public	<u>32,219,602,866</u>	<u>49.25</u>	<u>3,221,960,287</u>	<u>49.25</u>	<u>3,221,960,287</u>	<u>49.25</u>
Total	<u>65,413,993,990</u>	<u>100.00</u>	<u>6,541,399,399</u>	<u>100.00</u>	<u>6,541,399,399</u>	<u>100.00</u>

Name of the Shareholders	Immediately after the Capital Reorganisation and the Completion but before any conversion of the Convertible Preference Shares		Immediately after the Capital Reorganisation and the Completion and full conversion of the Convertible Preference Shares	
	No. of shares held	%	No. of shares held	%
Jade Assets Company Limited*	2,932,639,112	44.83	2,932,639,112	29.31
Expert Success*	235,000,000	3.59	1,966,555,000	19.66
CCT Assets*	<u>135,000,000</u>	<u>2.07</u>	<u>1,866,555,000</u>	<u>18.66</u>
CCT Telecom Total	3,302,639,112	50.49	6,765,749,112	67.63
Directors	16,800,000	0.26	16,800,000	0.17
Public	<u>3,221,960,287</u>	<u>49.25</u>	<u>3,221,960,287</u>	<u>32.20</u>
Total	<u>6,541,399,399</u>	<u>100.00</u>	<u>10,004,509,399</u>	<u>100.00</u>

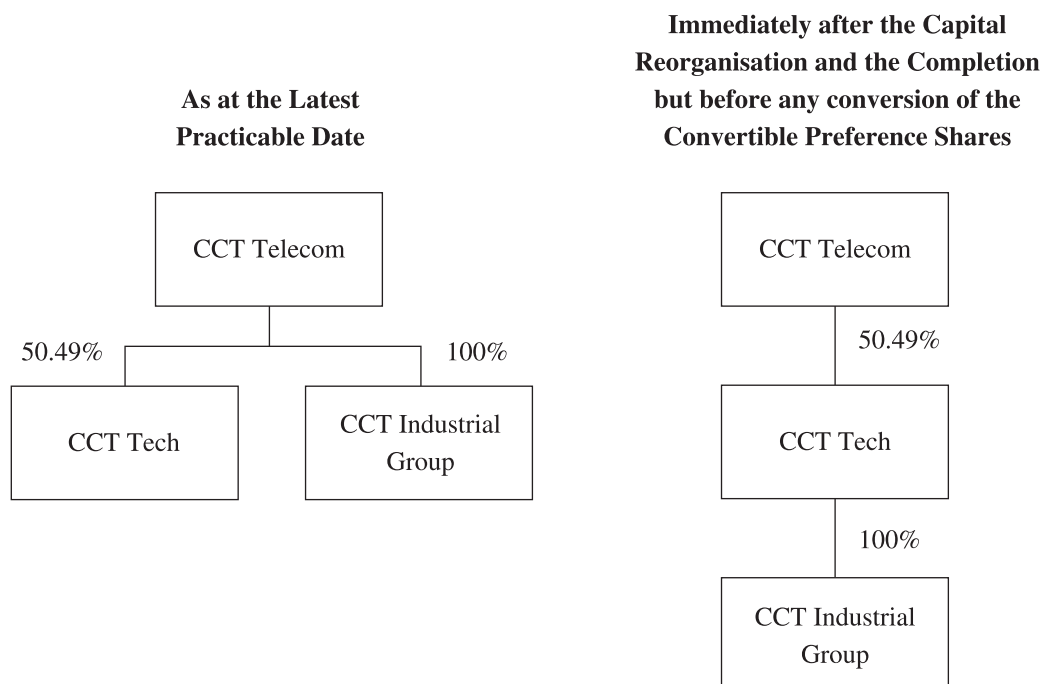
* all are indirect wholly-owned subsidiaries of CCT Telecom.

Application has been made to the Stock Exchange for the listing of, and the permission to deal in, the CCT Tech Ordinary Shares in issue following completion of the Capital Reorganisation, the Conversion Shares to be issued upon the conversion of the Convertible Preference Shares.

LETTER FROM THE BOARD

Group charts before and after the Transaction

The following diagrams illustrate a simplified corporate and shareholding structure of CCT Telecom and CCT Tech before and following the Capital Reorganisation and Completion:



Reasons for and benefits of the proposed Transaction

The Directors are of the view that the Transaction will result in the following benefits to the Group:

- (a) the Enlarged Group, consisting of the existing telecom product business of the Group and the Components Business of the CCT Industrial Group will significantly increase scale of operations of the Enlarged Group, improve its resource integration and allocation, which would help to create meaningful synergies and strengthen the overall competitiveness of the Group;
- (b) to enable the Group to vertically integrated with the Components Business of the CCT Industrial Group and to capture further economies of scale and savings of management costs by means of centralising the existing management and resources and rationalising and streamlining the businesses of the respective groups;
- (c) to enlarge the capital base of CCT Tech by the allotment and issue of the Convertible Preference Shares;

LETTER FROM THE BOARD

- (d) to enable the Group to focus on its operations after Completion which will enhance management and operational effectiveness with greater focus on its core strength and competencies including dedication of resources on its businesses and development of new businesses;
- (e) to reduce the continuing connected transactions of CCT Tech as members of the CCT Industrial Group will cease to be connected persons of CCT Tech and the existing continuing connected transactions between the Group and the CCT Industrial Group will cease to be continuing connected transactions for CCT Tech after Completion; and
- (f) to attach a clearer corporate identity for CCT Tech (whose core businesses are principally manufacture of telecom, electronic products and the Components) after Completion, with a view to enabling a better appreciation of the value of its businesses.

In light of the benefits above, the Directors believe that the terms of the Agreement are on normal terms and are fair and reasonable, and in the interests of the Shareholders as a whole.

Financial effects of the Transaction

Upon Completion, CCT Tech will hold 100% equity interest in CCT Industrial and members of the CCT Industrial Group will become wholly-owned subsidiaries of CCT Tech and as a result, the assets, liabilities and the post-acquisition financial results of the CCT Industrial Group will be consolidated into the accounts of the Group.

(a) Net assets value

As at 31 December 2008, the audited consolidated net assets value of the Group amounted to approximately HK\$735 million and the audited net assets value (before deduction of the Sale Shareholder's Loan) of the CCT Industrial Group amounted to approximately HK\$346 million. Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix III(1) to this circular which illustrates the effect of the Transaction on the financial position of the Group, on the basis of the assumptions as stated in Appendix III(1), the total assets of the Enlarged Group would be increased by approximately HK\$272 million, the total liabilities of the Enlarged Group would be decreased by approximately HK\$27 million and the pro forma net assets value of the Enlarged Group would be increased by approximately HK\$299 million. The increase in the net assets value of the Enlarged Group is primarily due to the inclusion of the book value of the net assets (before deduction of the Sale Shareholder's Loan) of the CCT Industrial Group less the pro forma adjustment of additional depreciation and amortisation charges on the factory complex leased by the Group to the CCT Industrial Group for the prior periods.

(b) Loss

Upon Completion, the post-acquisition financial results of the CCT Industrial Group will be consolidated into the accounts of the Group.

The audited consolidated loss of the Group and the CCT Industrial Group for the year ended 31 December 2008 amounted to approximately HK\$317 million and HK\$110 million, respectively. Based on the unaudited pro forma consolidated income statement of the Enlarged Group as set out in Appendix

LETTER FROM THE BOARD

III(2) to this circular which illustrates the effect of the Transaction on the results of the Group, on the basis of the assumptions as stated in Appendix III(2), the consolidated loss of the Enlarged Group for the year ended 31 December 2008 would be increased by approximately HK\$118 million to approximately HK\$435 million due to the inclusion of the consolidated loss of the CCT Industrial Group and the additional depreciation and amortisation charges on the “property, plant and equipment” and the “prepaid land lease payments” reclassified from the investment properties of the Group after Completion.

BUSINESS PROSPECTS OF THE ENLARGED GROUP

Trend of business of the Enlarged Group

The Group is principally engaged in the manufacture and sale of telecom and electronic products. Upon Completion, the Enlarged Group will integrate with the business of the CCT Industrial Group and will also be engaged in the manufacture of the Components. During 2008, the results of the Enlarged Group were adversely affected by: (i) the financial turmoil, originated from the housing and financial market in the US which has dampened global consumers demand and resulted in a drop of sales orders of the Enlarged Group; (ii) the high production costs (especially in the first half of 2008) due to high material costs, surging labour costs and appreciation of Renminbi against US dollar; and (iii) the Discontinuation which resulted in the exceptional costs of HK\$191 million due to losses arising from impairment of under-utilised fixed assets and intangible assets and restructuring costs.

The rippling effect from the financial crisis will continue to impact the world economy in 2009 and will continue to affect global consumer demand. The Enlarged Group's turnover for 2009 is expected to be adversely affected by the Discontinuation. However, it is expected that the loss in turnover from the US Customer will be partially offset by the expected growth in sales to the Enlarged Group's customers in Europe and the Asia Pacific regions.

Against such uncertain and adverse conditions, the Enlarged Group has taken decisive actions towards cost optimisation. The Enlarged Group has streamlined and restructured its operations, consolidated its manufacturing operations, undergone capacity review and taken necessary actions in each location. In order to combat the adverse business environment, the Enlarged Group has implemented a number of initiatives which include re-engineering of its products, and costs reduction and controls in order to improve the Enlarged Group's competitiveness and efficiency. Additional initiatives like (i) exploring new markets and expanding its sales to Europe, the Middle East, the Asia Pacific Region, and other countries outside North America; (ii) trimming down costs and overheads relating to non-performing business units; (iii) stringent control on capital expenditures and employee recruitments; and (iv) a salary reduction plan for senior management have been implemented. These measures have shown positive effect and as a result, the gross margin of the Enlarged Group has improved from that in 2008.

Trading and financial prospects of the Enlarged Group

Although the Enlarged Group incurred losses in 2008, the financial position of the Enlarged Group remains healthy and solid. The Enlarged Group does not have any net borrowings and its gearing ratio is maintained at a low level of 19.9% as at 31 December 2008. In view of the Enlarged Group's current

LETTER FROM THE BOARD

level of cash and bank balances, funds to be generated internally from its operations and the unutilised banking facilities available, the Board believes that the Enlarged Group will have sufficient resources to meet its debt repayment and weather out the financial storm.

The Board expects that the outlook of the manufacturing industry to remain uncertain and challenging for 2009. However, the Board expects that the financial crisis will eventually settle down and the world economy will start to recover and at such time, the global demand for telecom and electronic products will gain back its momentum. Although the Discontinuation is expected to have an adverse impact on the Enlarged Group's turnover in 2009, as the business with the US Customer was loss-making in 2008, the Discontinuation has enabled the Enlarged Group to eliminate the loss-making US business and this is expected to have a positive impact on the Enlarged Group's performance in 2009. Although the exceptional loss and costs associated with the Discontinuation posted a short-term adverse impact on the Enlarged Group's results for 2008, they will improve the cost structure and efficiency of the Enlarged Group in 2009.

The Board believes that the strategy adopted by the Enlarged Group to diversify its customer base and mitigate market risk is a sound strategy and this will enable the Enlarged Group to explore new markets and reduce its reliance on any single market. The Board also expects that the various measures and initiatives taken by the Group to reduce costs and to improve its productivity and efficiency will enable the Enlarged Group to gain its competitive edge and will continue to show positive impact on the performance of the Enlarged Group.

With the experienced management team, strong research and development capability and sound financial fundamentals of the Enlarged Group, the Board believes that the Enlarged Group is capable of overcoming the external pressures and challenges amid the more uncertain global economic environment and the Enlarged Group will revive its manufacturing businesses in the future.

LISTING RULES IMPLICATIONS

Major transaction and connected transaction for CCT Tech

As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Transaction exceed 25% but not more than 100% for CCT Tech, the Transaction constitutes a major acquisition for CCT Tech under the Listing Rules. As at the Latest Practicable Date, CCT Telecom is the ultimate controlling shareholder of CCT Tech and indirectly held 33,026,391,124 CCT Tech Existing Shares (representing approximately 50.49% of the total issued share capital of CCT Tech) through its indirect wholly-owned subsidiaries including Jade Assets Company Limited which held 29,326,391,124 CCT Tech Existing Shares, Expert Success which held 2,350,000,000 CCT Tech Existing Shares and CCT Assets which held 1,350,000,000 CCT Tech Existing Shares, representing approximately 44.83%, 3.59% and 2.07% respectively of the total issued share capital of CCT Tech as at the Latest Practicable Date. As CCT Telecom is a substantial shareholder and therefore a connected person of CCT Tech, the Transaction also constitutes a connected transaction for CCT Tech under the Listing Rules.

The Agreement and the transactions contemplated thereunder are therefore subject to the approval of the Independent Shareholders by way of poll at the SGM. CCT Telecom's indirect wholly-owned subsidiaries, namely, Jade Assets Company Limited, Expert Success and CCT Assets which held, as at the Latest Practicable Date, 29,326,391,124 CCT Tech Existing Shares, 2,350,000,000 CCT Tech Existing Shares and 1,350,000,000 CCT Tech Existing Shares respectively, through which they

LETTER FROM THE BOARD

controlled the voting rights of their respective shares, will abstain from voting in respect of the resolution(s) to approve the Agreement and the Transaction at the SGM. CCT Telecom's associate, Mr. Mak Shiu Tong, Clement who is an executive Director, the chairman and the chief executive officer of CCT Tech and controls more than one-third of the shareholding of CCT Telecom, and who held 120,000,000 CCT Tech Existing Shares as at the Latest Practicable Date, through which he controlled the voting rights in respect of these shares, will also abstain from voting in respect of the resolution to approve the Agreement and the Transaction at the SGM.

SGM

A notice convening the SGM to be held at 2208, 22/F., St. George's Building, 2 Ice House Street, Central, Hong Kong on Monday, 29 June 2009 at 9:15 a.m. is set out on pages 181 to 188 of this circular. At the SGM, a special resolution and an ordinary resolution will be proposed and, if thought fit, passed to approve the proposed Capital Reorganisation including the creation of a new class of the Convertible Preference Shares of CCT Tech, the Agreement, the Transaction, the allotment and issue of the Convertible Preference Shares and the allotment and issue of the Conversion Shares arising from the conversion of the Convertible Preference Shares.

A form of proxy for use by the Shareholders at the SGM is enclosed herein. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event, not later than 48 hours before the time appointed for holding the SGM or any adjourned meeting (as the case may be). Such form of proxy for use at the SGM is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cct-tech.com.hk). Completion and return of the form of proxy will not preclude you from attending and voting at the SGM in person should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, voting at the SGM will be conducted by way of poll. The chairman of the SGM will therefore demand a poll on each of the resolutions put forward at the SGM pursuant to bye-law 70 of the bye-laws of the Company. As no Shareholder has a material interest in the Capital Reorganisation, no Shareholder is required to abstain from voting in respect of the special resolution to approve the Capital Reorganisation at the SGM. CCT Telecom, the controlling shareholder of CCT Tech, holding through its indirect subsidiaries, Jade Assets Company Limited, Expert Success and CCT Assets holding 29,326,391,124 CCT Tech Existing Shares, 2,350,000,000 CCT Tech Existing Shares and 1,350,000,000 CCT Tech Existing Shares respectively as at the Latest Practicable Date, and its associate, Mr. Mak Shiu Tong, Clement holding 120,000,000 CCT Tech Existing Shares as at the Latest Practicable Date, will abstain from voting in respect of the ordinary resolution to approve the Agreement, the Transaction, the allotment and issue of the Convertible Preference Shares and the allotment and issue of the Conversion Shares at the SGM. An announcement on the poll voting results of the SGM will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cct-tech.com.hk) after the SGM.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on pages 27 to 28 of this circular which contains its recommendation to the Independent Shareholders on the terms of the Agreement and the Transaction; (ii) the letter of advice from First Shanghai as set out on pages 29 to 40 of this circular containing its advice to the Independent Board Committee and the Independent Shareholders regarding the Transaction.

The Directors are of the view that the Agreement and Transaction are in the usual and ordinary course of business of the Group; and that the terms of the Agreement and the Transaction are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interest of the Shareholders as a whole. As the Capital Reorganisation is proposed to facilitate the issue of the Convertible Preference Shares and the Conversion Shares pursuant to the Agreement, the Board is also of the view that the proposed Capital Reorganisation is fair and reasonable and is in the interest of the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the special resolution proposed at the SGM to approve the Capital Reorganisation and also recommend the Independent Shareholders to vote in favour of the ordinary resolution proposed at the SGM to approve the Agreement, the Transaction, the allotment and issue of the Convertible Preference Shares and the allotment and issue of the Conversion Shares arising from the conversion of the Convertible Preference Shares.

ADDITIONAL INFORMATION

Your attention is drawn to further information contained in the appendices and the notice of the SGM, which form part of this circular.

Yours faithfully,
For and on behalf of the Board of
CCT TECH INTERNATIONAL LIMITED
Mak Shiu Tong, Clement
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

COTI TECH INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00261)

Independent non-executive Directors:

Lau Ho Kit, Ivan

Chow Siu Ngor

Registered office:

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

*Head office and principal place
of business in Hong Kong:*

2208, 22/F.

St. George's Building

2 Ice House Street, Central

Hong Kong

5 June 2009

To the Independent Shareholders

Dear Sir or Madam,

MAJOR ACQUISITION AND CONNECTED TRANSACTION

We refer to the circular issued by the Company to its Shareholders dated 5 June 2009 (the “Circular”), in which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter will have the same meanings as given to them in the section headed “Definitions” of the Circular.

We have been appointed by the Board as the Independent Board Committee to consider the Agreement and the Transaction. First Shanghai has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transaction.

We wish to draw your attention to the letter from the Board as set out on page 7 to 26 of the Circular and the letter of advice from the First Shanghai as set out on pages 29 to 40 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered, amongst other matters, the factors and reasons considered by, and the opinion of First Shanghai as stated in its letter of advice, we consider that the terms of the Agreement and the Transaction are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve, among others, the Agreement, the Transaction, the allotment and issue of the Convertible Preference Shares and the allotment and issue of the Conversion Shares arising from the conversion of the Convertible Preference Shares to be proposed at the SGM.

Yours faithfully,
The Independent Board Committee of
CCT TECH INTERNATIONAL LIMITED
Lau Ho Kit, Ivan Chow Siu Ngor
Independent non-executive Directors

LETTER FROM FIRST SHANGHAI

The following is the text of a letter received from First Shanghai setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Transaction for inclusion in this circular.



FIRST SHANGHAI CAPITAL LIMITED

19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

5 June 2009

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

MAJOR ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Transaction, details of which are set out in the circular of the Company dated 5 June 2009 (the “Circular”) to the Shareholders of which this letter forms a part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

The Transaction constitutes a major transaction of the Company under the Listing Rules. As CCT Telecom is the ultimate controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. Accordingly, the Transaction also constitutes a connected transaction of the Company under the Listing Rules and is subject to the approval of the Independent Shareholders by way of poll at the SGM.

Since Mr. Chen Li is independent non-executive director of both the Company and CCT Telecom, an Independent Board Committee, comprising the other two independent non-executive Directors, namely Mr. Lau Ho Kit, Ivan and Mr. Chow Siu Ngor, has been formed to advise the Independent Shareholders on the Transaction. We, First Shanghai Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

In putting forth our opinion and recommendation, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the Directors and the Group, and have assumed that all such information and representations made or referred to in the Circular and provided to us by the Directors and the Group were true at the time they were made and continued to be true up to the time of the holding of the SGM. We have also assumed that all statements

LETTER FROM FIRST SHANGHAI

of belief, opinion and intention made in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the Group and have been advised that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the Group nor have we conducted any form of investigation into the business, affairs or future prospects of the Group and CCT Telecom.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have considered the following principal factors and reasons:

1. Background to and reasons for the Transaction

The Group is principally engaged in the design, manufacture and sale of telecom and electronic products. Its controlling Shareholder, CCT Telecom, is engaged in (i) manufacture and sale of Components through the CCT Industrial Group in addition to (ii) manufacture and sale of telecom and electronic products through the Group; (iii) manufacture and sale of infant and child products; (iv) securities business; (v) property development and holding; and (vi) the forestry resources business through CCT Resources Holdings Limited (whose shares are listed on the GEM board of the Stock Exchange). As set out in the letter from the Board to the Circular, most of the Components manufactured by the CCT Industrial Group are sold to the Group for the production of telecom and electronic products.

After Completion, the Group will focus on the manufacture and sale of telecom and electronic products and the Components. Accordingly, the management of the Group and the CCT Telecom Remaining Group can focus on the respective businesses focus of the two groups, which will enhance the management and operational efficiency as well as business development of the two groups. In addition to the reduction of continuing connected transactions between the Group and CCT Telecom, the Transaction also provides an opportunity for the Group to integrate the Components Business of the CCT Industrial Group with the telecom and electronic products business of the Group which will enable the Group to focus on its operation of telecom and electronic products and to realize further economies of scale by resources integration and allocation, and to further streamline the business of the Group so as to improve the competitiveness of the Group within the industry. In addition, the Transaction also enables the Group to enhance its capital base by issue of the Convertible Preference Shares and to build up a clearer corporate identity which will allow the investors to appraise and assess the potential, performance and value of the Group.

Having considered that the Transaction will provide the Group with clearer corporate identity, increase in capital base, improvement in management and operational efficiency and integrating the Components Business with the telecom and electronic products business of the Group to realize further economies of scales, we concur with the Board's view that the Transaction is in the interest of the Company and the Shareholders as a whole.

LETTER FROM FIRST SHANGHAI

2. Business and financial information of the CCT Industrial Group

(i) *Business of the CCT Industrial Group*

The CCT Industrial Group is principally engaged in (i) manufacture and sale of Components; and (ii) plastic mould making and secondary operation of plastic products such as spraying, silk-screening & UV printing, hot-stamping, laser marking, and ultrasonic welding. Most of the Components are sold to the Group for the production of telecom and electronic products. Some of the Components are sold to independent third parties.

(ii) *Financial information of the CCT Industrial Group*

Consolidated income statement for the three years ended 31 December 2008

Set out below is a summary of the audited results of the CCT Industrial Group for the three years ended 31 December 2008 as extracted from the accountants' report on the CCT Industrial Group set out in Appendix II to the Circular:

	Year ended 31 December		
	2006	2007	2008
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue	613	525	446
Gross profit/(loss)	50	27	(14)
(Loss) before tax	(93)	(8)	(110)
Tax	<u>(5)</u>	<u>(2)</u>	<u>(—)</u>
(Loss) for the year	<u><u>(98)</u></u>	<u><u>(10)</u></u>	<u><u>(110)</u></u>

The CCT Industrial Group incurred a net loss of approximately HK\$98 million for the year ended 31 December 2006, caused by the one-off loss of approximately HK\$101 million incurred by CCT Industrial in a group restructuring to streamline the operations of the CCT Industrial Group. Excluding the one-off restructuring loss, the CCT Industrial Group would have a profit of approximately HK\$3 million in 2006.

The revenue of the CCT Industrial Group for the year ended 31 December 2007 decreased by approximately 14.4% to approximately HK\$525 million which was mainly attributable to the decrease in orders from the Group whose sales were affected by slowdown of the US economy. Due to the increase in the cost of materials and components in 2007, the gross profit of the CCT Industrial Group decreased by approximately 46.0% to approximately HK\$27 million for the year ended 31 December 2007. As a result of the above factors and the increase in staff costs and appreciation of the Renminbi in 2007, the CCT Industrial Group reported a loss of approximately HK\$10 million for the year ended 31 December 2007.

LETTER FROM FIRST SHANGHAI

The turnover of the CCT Industrial Group further decreased by approximately 15.0% to approximately HK\$446 million for the year ended 31 December 2008 which was also attributable to the decrease in orders from the Group as affected by financial turmoil. As a result of the continuous high production and staff cost as well as the appreciation of Renminbi, the CCT Industrial Group recorded a gross loss of approximately HK\$14 million and operating loss of approximately HK\$45 million for the year ended 31 December 2008. The CCT Industrial Group also recorded an exceptional impairment loss of fixed asset of approximately HK\$65 million for the year ended 31 December 2008 due to the discontinuation of the retail telephony business in North America by the largest single customer of the Group which resulted in the impairment loss of certain under-utilised fixed assets of the CCT Industrial Group. As a result of the above factors, the CCT Industrial Group incurred a loss of approximately HK\$110 million for the year ended 31 December 2008.

Consolidated balance sheet

The following is a summary of the audited balance sheet of the CCT Industrial Group as at 31 December 2008 as extracted from the accountants' report on the CCT Industrial Group set out in Appendix II to the Circular:

	31 December 2008
	<i>HK\$'million (audited)</i>
Non-current assets	262
Current assets	<u>165</u>
Total assets	427
Current liabilities	(80)
Non-current liabilities	<u>(395)</u>
Total liabilities	(475)
Net deficit	(48)

Among the assets of the CCT Industrial Group, the property, plant and machinery and trade receivables relating to the Components Business amounted to approximately HK\$119 million and HK\$121 million respectively, representing approximately 27.9% and 28.3% of the total assets of the CCT Industrial Group as at 31 December 2008 respectively. We are advised that included in the trade receivable of the CCT Industrial Group, an amount of approximately HK\$108 was due from the Group which demonstrated that most of the revenue of the CCT Industrial Group was derived from sales to the Group. The remaining major asset of the CCT Industrial Group is the prepaid land lease payment for the vacant Land with a site area of approximately 450,000 square metres adjacent to the factory complex of the Group located in the Huiyang City, Guangdong Province, the PRC with a book value of approximately

LETTER FROM FIRST SHANGHAI

HK\$142 million, representing approximately 33.3% of the total assets of the CCT Industrial Group, as at 31 December 2008. As set out in the letter from the Board to the Circular, the Land was acquired by the CCT Telecom Group in 2000 at a cost of HK\$160 million.

We are advised that all of the current liabilities of the CCT Industrial Group relate to the Components Business of the Group. The external borrowings of the CCT Industrial Group are not significant. The amount due to the ultimate holding Company which represents the Sale Shareholder's Loan is the only major liability of the CCT Industrial Group and amounted to approximately HK\$394 million, representing approximately 82.9% of the total liabilities of the CCT Industrial Group, as at 31 December 2008. We are advised that the Sale Shareholder's Loan was injected by CCT Telecom to finance mainly the Land and other capital expenditure of the CCT Industrial Group. The Sale Shareholder's Loan is interest-free and has no fixed repayment terms. It is actually a loan capital provided by CCT Telecom Group to the CCT Industrial Group.

3. Evaluation of the Consideration

Pursuant to the terms of the Agreement, CCT Telecom has agreed to sell the Sale Shares and assign the Sale Shareholder's Loan to the Company or its designated nominee at the Consideration of HK\$346,311,000 at Completion. As set out in the letter from the Board to the Circular, the Consideration of approximately HK\$346 million for the Sale Shares and the Sale Shareholder's Loan was determined after arm's length negotiation between the parties to the Transaction and was determined based on net total of: (i) the unaudited consolidated net deficit in the amount of approximately HK\$48 million of the CCT Industrial Group as at 31 December 2008; and (ii) the Sale Shareholder's Loan of approximately HK\$394 million as at 31 December 2008 and taking into account the following factors:

- (a) current market environment,
- (b) current financial position and historical financial performance of the CCT Industrial Group, and
- (c) potential income generation of the CCT Industrial Group.

The Consideration also represents a discount of approximately 11.1% to the valuation (the "Valuation") of the CCT Industrial Group of approximately HK\$389 million as appraised by the independent valuer, Grant Sherman, (the "Valuer") as at 31 March 2009. The valuation reports in relation to the CCT Industrial Group and the Land are set out in Appendix IV and Appendix V to the Circular respectively.

We noted that the Consideration represents the adjusted net asset value (the "Adjusted NAV") of approximately HK\$346 million as at 31 December 2008, calculated by adding back the Sale Shareholder's Loan of approximately HK\$394 million to be assigned to the Company upon Completion to its net deficit of approximately HK\$48 million as at 31 December 2008 on a dollar-to-dollar basis. In assessing the fairness of the Consideration, given the loss making and net deficit position of the CCT Industrial Group, we consider that the price to earnings and price to book multiples may not be appropriate to evaluate the Consideration in the present case.

LETTER FROM FIRST SHANGHAI

We have also compared the Consideration to the Valuation as appraised by the independent Valuer as at 31 March 2009. We have reviewed and discussed with the Valuer the methodology of, and basis and assumptions adopted for, the valuations of the CCT Industrial Group and the Land as contained in the valuation reports as set out in Appendix IV and Appendix V to the Circular respectively. The Valuer has adopted different valuation approach in appraising the value of the CCT Industrial Group by separating the Land from and the other assets and liabilities (the “Core Operating Assets”) of the CCT Industrial Group. The Valuer has adopted comparison approach and cost approach to value the Land and the Core Operating Assets respectively which, in our opinion, is a normal approach in establishing the value of the Land and the Core Operating Assets given the loss making and net deficit position of the CCT Industrial Group. In assessing the market value of the Land, the Valuer has made reference to the actual sales of comparable properties and made adjustment for certain various. During our discussions with the Valuer, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal assumptions used in arriving at the valuation of the CCT Industrial Group and the Land.

Having considered that the Consideration represents the Adjusted NAV and a discount of approximately 11.1% to the Valuation as appraised by the independent Valuer, we are of the view that the Consideration is fair and reasonable. In addition, pursuant to the terms of the Agreement, CCT Telecom has warranted that since 31 December 2008, there will not be material adverse change to the financial position or condition, assets or liabilities of the CCT Industrial Group.

4. Settlement method of the Consideration

Pursuant to the Agreement, the Consideration of HK\$346,311,000 will be satisfied by the issue of 3,463,110,000 Convertible Preference Shares credited as fully paid at HK\$0.10 each to Expert Success and CCT Assets, both of them are indirect wholly-owned subsidiaries of CCT Telecom, in equal portion. Upon full conversion of the Convertible Preference Shares, a total of 3,463,110,000 CCT Tech Ordinary Shares will be issued, subject to adjustment, which represent (i) approximately 52.9% of the total issued CCT Tech Ordinary Shares immediately after the Capital Reorganisation becoming effective but before Completion; and (ii) approximately 34.6% of the total issued share capital of CCT Tech as enlarged by the Conversion Shares to be issued upon full conversion of the Convertible Preference Shares.

(i) *Principle terms of the Convertible Preference Shares*

As set out in the letter from the Board to the Circular, the Convertible Preference Shares are convertible into Shares and issued on a one on one basis (subject to adjustment). A summary of the principle terms of the Convertible Preference Shares is set out below:

Issue price	: HK\$0.10 per Convertible Preference Share
Conversion Ratio	: Each Convertible Preference Share carries the right to convert into one CCT Tech Ordinary Share (subject to adjustment only in the event of an alteration to the nominal value of the CCT Tech Ordinary Shares as a result of consolidation or subdivision of the CCT Tech Ordinary Shares and not otherwise).

LETTER FROM FIRST SHANGHAI

- Dividend : Holders of Convertible Preference Share are not entitled to any dividend payment or any distribution (including bonus issue).
- Conversion : Holders shall have the right to convert, in whole or in part, during the Conversion Period, each Convertible Preference Share into one CCT Tech Ordinary Share at the Conversion Ratio provided that the public float of the CCT Tech Ordinary Shares shall not be less than 25% or the minimum percentage as set out in the Listing Rules from time to time, immediately following the exercise of such conversion right.
- Conversion Period : Perpetual as from the date of issue.
- Transferability : Convertible Preference Shares are freely transferable from the date of issue.
- Voting Right : Holders of Convertible Preference Shares shall be entitled to receive notices of and attend any shareholders' meeting of the Company but shall not be entitled to vote at any shareholders' meeting of the Company by reason only of being holders of Convertible Preference Shares save where the resolutions in question relate to the dissolution or winding up of the Company or variation or abrogation of the rights attaching to the Convertible Preference Shares in which cases the holders of the Convertible Preference Shares will have the same voting rights as those attaching to the CCT Tech Ordinary Shares on an as-converted basis.
- Ranking : Rank in priority to the CCT Tech Ordinary Shares as to a return of capital on a winding up or otherwise up to the aggregate of the amounts paid up or credited as paid up on all outstanding Convertible Preference Shares. The Conversion Shares shall rank *pari passu* in all respect with all other CCT Tech Ordinary Shares in issue.
- Redemption : Without prejudice to the power of the Company to purchase its shares in accordance with the bye-laws of the Company, the Convertible Preference Shares are non-redeemable.
- Listing : No listing of the Convertible Preference Shares will be sought on the Stock Exchange or on any other stock exchanges. Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares which may fall to be issued upon the exercise of the conversion rights attaching to the Convertible Preference Shares.

LETTER FROM FIRST SHANGHAI

(ii) *Analysis of the issue price of the Convertible Preference Shares*

Comparison of the issue price of the Convertible Preference Shares with market price

The issue price of the Convertible Preference Shares of HK\$0.10:

- (i) equals to the adjusted closing price of approximately HK\$0.10 per CCT Tech Ordinary Share, based on the closing price of HK\$0.01 per CCT Tech Existing Share on the Last Trading Date and adjusted for the effect of the Capital Reorganisation;
- (ii) equals to the adjusted average of the closing price of approximately HK\$0.10 per CCT Tech Ordinary Share, based on the average of the closing prices of approximately HK\$0.01 per CCT Tech Existing Share for the 5 trading days up to and including the Lasting Trading Date and adjusted for the effect of the Capital Reorganisation;
- (iii) equals to the adjusted average of the closing price of approximately HK\$0.10 per CCT Tech Ordinary Share, based on the average of the closing prices of approximately HK\$0.01 per CCT Tech Existing Share for the 10 trading days up to and including the Lasting Trading Date and adjusted for the effect of the Capital Reorganisation;
- (iv) equals to the adjusted average of the closing price of approximately HK\$0.10 per CCT Tech Ordinary Share, based on the average of the closing prices of approximately HK\$0.01 per CCT Tech Existing Share for the 30 trading days up to and including the Lasting Trading Date and adjusted for the effect of the Capital Reorganisation; and
- (v) represents a discount of approximately 16.7% to the adjusted closing price of HK\$0.12 per CCT Tech Ordinary Share on the Latest Practicable Date, based on the closing price of 0.012 per CCT Tech Existing Share on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation.

The issue price of the Convertible Preference Shares also represents a discount of approximately 9.1% to the audited consolidated net asset value of approximately HK\$0.11 per CCT Tech Existing Share as at 31 December 2008, as adjusted for the effect of the Capital Reorganisation.

LETTER FROM FIRST SHANGHAI

Comparison with other issues of non-redeemable convertible preference shares

In assessing the reasonableness of the terms of the Convertible Preference Shares, we have identified, to the best of our knowledge, issue of non-redeemable convertible preference shares by companies listed on the Stock Exchange (the “CPS Comparables”) during the period from May 2008 and up to the date of the Agreement. Details of the CPS Comparables are summarized below:

Company name	Stock code	Date of announcement	Principal amount (HK\$ million)	Dividend rate	Premium/ (discount) of the conversion price over/to the closing price of the shares as at the last trading day %	Premium/ (discount) of the conversion price over/to the average closing price of the shares as at the last 10 trading days %
Wah Sang Gas Holdings Limited	8035	29 May 2008	130	—	(95.31)	(95.89)
Ocean Grand Chemicals Holdings Limited	2882	9 Jul 2008	150	5%	(77.42)	(77.42)
China Railway Logistics Limited	8089	19 Aug 2008	20	—	(44.50)	(41.37)
Enric Energy Equipment Holdings Limited	3899	10 Sep 2008 and 20 April 2009	3,047	—	10.70	9.89
Chaoyue Group Limited	147	20 Oct 2008	575	—	99.00	32.00
Minmetals Land Limited	230	7 Nov 2008	1,608	—	23.26	39.47
United Power Investment Limited	674	13 Feb 2009	158	—	8.91	7.11
Bright Prosperous Holdings Limited	726	10 March 2009	1,514	—	(57.03)	(29.40)
iMerchants Limited	8009	5 May 2009	588	—	(13.04)	0.00
Maximum					99.00	39.47
Minimum					(95.31)	(95.89)
Median					(13.04)	0
The Company			346	—	0	0

Sources: website of the Stock Exchange (www.hkex.com.hk)

We noted from the above table that the issue price of the CPS Comparables ranged (i) from a discount of approximately 95.31% to a premium of approximately 99.00%, with a median of a discount of approximately 13.04% over the respective closing prices of their shares at the last trading days prior to the release of the relevant announcement; and (ii) from a discount of approximately 95.89% to a premium of approximately 39.47%, with a median of 0% over the respective average of the closing prices of their shares for the last 10 trading days up to the date of the last trading days. The issue price of the Convertible Preference Shares which equivalent to the adjusted closing price at the Last Trading Day and the average of the adjusted closing prices per CCT Tech Ordinary Shares for the last 10 trading days based on the average of the closing prices of the CCT Tech Existing Share for the last 10 trading days as adjusted for the effect of the Capital Reorganisation falls within the range of the CPS Comparables.

LETTER FROM FIRST SHANGHAI

Dividend rate

Pursuant to the terms of the Agreement, unless in the event of winding up of the Company, holders of the Convertible Preference Shares are not entitled to any dividend payment or any distribution before conversion, which is also in line with most of the CPS Comparables.

Having considered that (i) the Consideration represents the Adjusted NAV of the CCT Industrial Group and a discount to the Valuation of the CCT Industrial Group as appraised by the independent Valuer; (ii) the Consideration is financed entirely by the issue of the non-redeemable Convertible Preference Shares at nil dividend rate which will not require any cash outflow from the Company; and (iii) the issue price of the Convertible Preference Shares (a) equal to the adjusted closing price at the Last Trading Day and the adjusted average of the closing prices for the last 10 trading days up to and including the Last Trading Day per CCT Tech Ordinary Share; and (b) represents a discount to the audited consolidated net asset value of CCT Tech Ordinary Share as at 31 December 2008 as adjusted for the effect of the Capital Reorganisation and a discount to the adjusted closing price at the Latest Practicable Date, we are of the view that the Consideration, including the terms of the Convertible Preference Shares, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. Financial effects of the Transaction on the Group

After Completion, the CCT Industrial Group will become wholly-owned subsidiaries of the Company and their respective results, assets and liabilities will be consolidated into the consolidated financial statements of the Group.

(i) Loss

Based on the unaudited pro forma financial information of the Enlarged Group as contained in Appendix III to the Circular, assuming the Transaction had taken place on 1 January 2008, the unaudited pro forma net loss after taxation of the Group for the year ended 31 December 2008 will increase by approximately 37.2% to approximately HK\$435 million which is mainly attributable to the net loss of the CCT Industrial Group and the pro forma adjustment of additional depreciation and amortisation charges on the prepaid land lease payments and property, plant and equipment reclassified from the investment properties of the Group as a result of the Completion.

(ii) Net asset value

Based on the unaudited pro forma financial information of the Enlarged Group as contained in Appendix III to the Circular, assuming the Proposed Transaction had taken place as at 31 December 2008, the unaudited pro forma consolidated net assets of the Group will increase by approximately 40.7% to approximately HK\$1,034 million which is mainly attributable to the net effect of the net deficit of the CCT Industrial Group, the consolidation of the Sale Shareholder's Loan and the pro forma adjustment of additional depreciation and amortisation charges on the factory complex leased by the Group to the CCT Industrial Group for the prior periods. The unaudited pro forma total bank and other borrowings of the

LETTER FROM FIRST SHANGHAI

Group will increase slightly from approximately HK\$265 million to approximately HK\$269 million. However, the gearing ratio of the Group would decrease from approximately 26.5% to 20.6% as a result of the enlarged capital base of the Enlarged Group after the issue of the Convertible Preference Shares.

(iii) *Cash flow*

As the Transaction is financed entirely by the non-redeemable Convertible Preference Shares, the Transaction will not result in cash outflow of the Enlarged Group. Accordingly, the Transaction is not expected to have any effect on the overall cash flow and liquidity position of the Enlarged Group.

6. Dilution in shareholding

Set out below is a summary of the shareholding of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Capital Reorganisation becoming effective; (iii) immediately after the Capital Reorganisation becoming effective and the Completion but before any conversion of the Convertible Preference Shares; and (iv) immediately after the Capital Reorganisation becoming effective and the Completion and full conversion of the Convertible Preference Shares.

Shareholders	As at the Latest Practicable Date		Immediately after the Capital Reorganisation becoming effective		Immediately after the Capital Reorganisation becoming effective and the Completion but before any conversion of the Convertible Preference Shares		Immediately after the Capital Reorganisation becoming effective and the Completion and full conversion of the Convertible Preference Shares	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Jade Assets Company Limited <i>(note)</i>	29,326,391,124	44.83	2,932,639,112	44.83	2,932,639,112	44.83	2,932,639,112	29.31
Expert Success <i>(note)</i>	2,350,000,000	3.59	235,000,000	3.59	235,000,000	3.59	1,966,555,000	19.66
CCT Assets <i>(note)</i>	1,350,000,000	2.07	135,000,000	2.07	135,000,000	2.07	1,866,555,000	18.66
CCT Telecom Total	33,026,391,124	50.49	3,302,639,112	50.49	3,302,639,112	50.49	6,765,749,112	67.63
Directors	168,000,000	0.26	16,800,000	0.26	16,800,000	0.26	16,800,000	0.17
Public	32,219,602,866	49.25	3,221,960,287	49.25	3,221,960,287	49.25	3,221,960,287	32.20
Total	65,413,993,990	100.00	6,541,399,399	100.00	6,541,399,399	100.00	10,004,509,399	100.00

Note: Each of Jade Assets Company Limited, Expert Success and CCT Assets is a indirect wholly-owned subsidiary of CCT Telecom

As shown in the above table, immediately after Capital Reorganisation becoming effective and the Completion, 3,221,960,287 Shares will be held by public Shareholders, representing approximately 49.25% of the issued share capital the Company. Upon full exercise of the conversion rights attaching to the Convertible Preference Shares, such corresponding shareholding will be diluted to approximately 32.20%. As the issue of the Convertible Preference Shares will

LETTER FROM FIRST SHANGHAI

enable the Group to complete the Transaction without any cash outlay and will enlarge the capital base of the Group upon conversion of the Convertible Preference Shares, we are of the view that the potential dilution on the shareholding of the Independent Shareholders is acceptable.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that the Agreement is on normal commercial terms, the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Agreement is in the interest of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise, and we ourselves advise, the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Agreement, the Transaction, the allotment and issue of the Convertible Preference Shares to Expert Success and CCT Assets and the allotment and issue of the Conversion Shares arising from the conversion of the Convertible Preference Shares.

Yours faithfully,

For and on behalf of

First Shanghai Capital Limited

Helen Zee

Managing Director

Fanny Lee

Executive Director

(1) FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated income statement and the financial position for the year ended 31 December 2006 as extracted from the annual report of the Group for the year ended 31 December 2006, and that for the years ended 31 December 2007 and 2008 as extracted from the annual report of the Group for the year ended 31 December 2008.

No extraordinary items or exceptional items were recorded for each of the three years ended 31 December 2008. No qualified opinion or modified audit opinion had been issued by CCT Tech's auditor, Ernst & Young, for each of the three years ended 31 December 2008.

Results of the Group

	For the year ended 31 December		
	2006	2007	2008
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
REVENUE	3,858	3,343	2,758
Cost of sales	<u>(3,579)</u>	<u>(3,306)</u>	<u>(2,781)</u>
Gross profit/(loss)	279	37	(23)
Other income and gains	83	25	36
Selling and distribution costs	(53)	(44)	(36)
Administrative expenses	(138)	(153)	(149)
Other expenses	(22)	(40)	(8)
Finance costs	<u>(33)</u>	<u>(14)</u>	<u>(9)</u>
	116	(189)	(189)
Costs in connection with the Distribution and restructuring, net	<u>—</u>	<u>—</u>	<u>(126)</u>
PROFIT/(LOSS) BEFORE TAX	116	(189)	(315)
Tax	<u>(16)</u>	<u>(12)</u>	<u>(2)</u>
PROFIT/(LOSS) FOR THE YEAR/PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	<u>100</u>	<u>(201)</u>	<u>(317)</u>
EARNING/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Basic (<i>HK cents</i>)	<u>0.21</u>	<u>(0.31)</u>	<u>(0.48)</u>
Diluted (<i>HK cents</i>)	<u>0.16</u>	<u>N/A</u>	<u>N/A</u>
Dividend per share	<u>—</u>	<u>—</u>	<u>—</u>

Financial position of the Group

	Assets and liabilities of the CCT Tech Group as at 31 December		
	2006	2007	2008
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Total assets	2,435	2,330	1,777
Total liabilities	<u>(1,253)</u>	<u>(1,279)</u>	<u>(1,042)</u>
Total net assets	<u>1,182</u>	<u>1,051</u>	<u>735</u>

(2) AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

The information set out below is extracted from the audited financial statements of the Group as contained in the annual report of CCT Tech for the year ended 31 December 2008.

Consolidated Income Statement

Year ended 31 December 2008

		2008	2007
	<i>Notes</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
REVENUE	5	2,758	3,343
Cost of sales		<u>(2,781)</u>	<u>(3,306)</u>
Gross profit/(loss)		(23)	37
Other income and gains		36	25
Selling and distribution costs		(36)	(44)
Administrative expenses		(149)	(153)
Other expenses		(8)	(40)
Finance costs	8	<u>(9)</u>	<u>(14)</u>
		(189)	(189)
Costs in connection with the Discontinuation and restructuring, net	6	<u>(126)</u>	<u>—</u>
LOSS BEFORE TAX	7	(315)	(189)
Tax	11	<u>(2)</u>	<u>(12)</u>
LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	12	<u><u>(317)</u></u>	<u><u>(201)</u></u>
DIVIDENDS	13	<u><u>—</u></u>	<u><u>—</u></u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic		<u><u>(HK 0.48 cents)</u></u>	<u><u>(HK 0.31 cents)</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

Consolidated Balance Sheet*31 December 2008*

		2008	2007
	<i>Notes</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
NON-CURRENT ASSETS			
Property, plant and equipment	15	449	569
Investment properties	16	178	178
Prepaid land lease payments	17	47	48
Goodwill	18	22	22
Other intangible assets	19	—	25
Total non-current assets		<u>696</u>	<u>842</u>
CURRENT ASSETS			
Inventories	21	106	186
Trade and bills receivables	22	402	689
Prepayments, deposits and other receivables	23	32	24
Financial assets at fair value through profit or loss	24	—	28
Pledged time deposits	25	86	85
Cash and cash equivalents	25	<u>455</u>	<u>476</u>
Total current assets		<u>1,081</u>	<u>1,488</u>
CURRENT LIABILITIES			
Trade and bills payables	26	610	875
Tax payable		9	12
Other payables and accruals	27	156	168
Interest-bearing bank and other borrowings	28	<u>265</u>	<u>189</u>
Total current liabilities		<u>1,040</u>	<u>1,244</u>
NET CURRENT ASSETS		<u>41</u>	<u>244</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>737</u></u>	<u><u>1,086</u></u>

		2008	2007
	<i>Notes</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, secured	28	—	31
Deferred tax liabilities	30	<u>2</u>	<u>4</u>
Total non-current liabilities		<u>2</u>	<u>35</u>
Net assets		<u><u>735</u></u>	<u><u>1,051</u></u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	31	654	654
Reserves	33(a)	<u>81</u>	<u>397</u>
Total equity		<u><u>735</u></u>	<u><u>1,051</u></u>

Consolidated Statement of Changes in Equity*Year ended 31 December 2008*

	<i>Note</i>	Attributable to equity holders of the parent					Accumulated losses <i>HK\$ million</i>	Total <i>HK\$ million</i>
		Issued capital <i>HK\$ million</i>	Share premium account <i>HK\$ million</i>	Capital reserve <i>HK\$ million</i>	Share option reserve <i>HK\$ million</i>	Exchange fluctuation reserve <i>HK\$ million</i>		
At 1 January 2007		644	182	733	—	—	(377)	1,182
Equity-settled share option arrangement	32	—	—	—	12	—	—	12
Issue of new shares upon exercise of share options	32	10	56	—	(8)	—	—	58
Loss for the year		—	—	—	—	—	(201)	(201)
At 31 December 2007 and 1 January 2008		654	238*	733*	4*	—	(578)*	1,051
Exchange realignment		—	—	—	—	1	—	1
Loss for the year		—	—	—	—	—	(317)	(317)
At 31 December 2008		<u>654</u>	<u>238*</u>	<u>733*</u>	<u>4*</u>	<u>1*</u>	<u>(895)*</u>	<u>735</u>

* These reserve accounts comprise the consolidated reserves of HK\$81 million (2007: HK\$397 million) in the consolidated balance sheet.

Consolidated Cash Flow Statement*Year ended 31 December 2008*

		2008	2007
	<i>Notes</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(315)	(189)
Adjustments for:			
Interest on bank and other borrowings	8	9	14
Bank interest income	5	(6)	(15)
Depreciation	7	92	96
Equity-settled share option expense		—	12
Recognition of prepaid land lease payments	7	1	2
Amortisation of other intangible assets	7	24	35
Impairment of items of property, plant and equipment	6	60	—
Impairment of deferred development costs	6	22	—
Net impairment of trade receivables	7	48	22
Write-off of other receivables	7	—	6
Write-off of deferred development costs	7	6	12
Write-off of items of property, plant and equipment	7	2	—
Provision for slow-moving and obsolete inventories	7	17	14
Fair value gain on financial assets at fair value through profit or loss	7	—	(1)
Gain on disposal of financial assets at fair value through profit or loss	7	(1)	—
Loss on disposal of items of property, plant and equipment	7	<u>1</u>	<u>—</u>
		(40)	8
Decrease/(increase) in inventories		63	(9)
Decrease in trade and bills receivables		239	111
Increase in prepayments, deposits and other receivables		(8)	(5)
Increase/(decrease) in trade and bills payables, other payables and accruals		<u>(277)</u>	<u>4</u>
Cash generated from/(used in) operations		(23)	109
Interest received		6	15
Interest paid		(9)	(14)
Hong Kong profits tax paid		(3)	(2)
PRC tax paid		<u>(4)</u>	<u>(5)</u>
Net cash inflow/(outflow) from operating activities		<u>(33)</u>	<u>103</u>

		2008	2007
	<i>Notes</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Net cash inflow/(outflow) from operating activities		(33)	103
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(35)	(110)
Additions to other intangible assets		(27)	(35)
Purchases of financial assets at fair value through profit or loss		—	(27)
Proceeds from disposal of financial assets at fair value through profit or loss		29	—
Increase in pledged time deposits		<u>(1)</u>	<u>(2)</u>
Net cash outflow from investing activities		<u>(34)</u>	<u>(174)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new shares upon exercise of share options	32	—	58
New bank loans		112	116
New trust receipts loans, net		50	19
Repayment of bank loans		(117)	(115)
Capital element of finance lease rental payments		<u>—</u>	<u>(1)</u>
Net cash inflow from financing activities		<u>45</u>	<u>77</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(22)	6
Cash and cash equivalents at beginning of year		476	470
Effect of foreign exchange rate changes, net		<u>1</u>	<u>—</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>455</u></u>	<u><u>476</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	297	383
Non-pledged time deposits with original maturity of less than three months when acquired	25	<u>158</u>	<u>93</u>
		<u><u>455</u></u>	<u><u>476</u></u>

Balance Sheet*31 December 2008*

		2008	2007
	<i>Notes</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
NON-CURRENT ASSETS			
Interests in subsidiaries	20	<u>683</u>	<u>636</u>
CURRENT ASSETS			
Prepayments	23	1	1
Financial assets at fair value through profit or loss	24	—	28
Cash and cash equivalents	25	<u>16</u>	<u>67</u>
Total current assets		<u>17</u>	<u>96</u>
CURRENT LIABILITIES			
Other payables and accruals	27	<u>1</u>	<u>29</u>
Total current liabilities		<u>1</u>	<u>29</u>
NET CURRENT ASSETS		<u>16</u>	<u>67</u>
Net assets		<u><u>699</u></u>	<u><u>703</u></u>
EQUITY			
Issued capital	31	654	654
Reserves	33(b)	<u>45</u>	<u>49</u>
Total equity		<u><u>699</u></u>	<u><u>703</u></u>

Notes to Financial Statements*31 December 2008***1. CORPORATE INFORMATION**

During the year, the Group was principally involved in the manufacture and sale of telecom and electronic products, accessories and components. In the opinion of the directors, the parent of the Company is Jade Assets Company Limited, which is incorporated in the British Virgin Islands with limited liability. The ultimate holding company of the Company is CCT Telecom Holdings Limited (“CCT Telecom”), which is incorporated in the Cayman Islands and continued in Bermuda with limited liability and is listed on The Stock Exchange of Hong Kong Limited.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 investment properties and financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest million (HK\$ million) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year’s financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> and HKFRS 7 <i>Financial Instruments: Disclosures — Reclassification of Financial Assets</i>
HK(IFRIC)-Int 11	<i>HKFRS 2 — Group and Treasury Share Transactions</i>
HK(IFRIC)-Int 12	<i>Service Concession Arrangements</i>
HK(IFRIC)-Int 14	<i>HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 HKFRS 2 — Group and Treasury Share Transactions

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 Service Concession Arrangements

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for the obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards ²
HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> ¹
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment — Vesting Conditions and Cancellations</i> ¹
HKFRS 3 (Revised)	<i>Business Combinations</i> ²
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments</i> ¹
HKFRS 8	<i>Operating Segments</i> ¹
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i> ¹
HKAS 23 (Revised)	<i>Borrowing Costs</i> ¹

HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ²
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation</i> ¹
HKAS 39 Amendment	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i> ²
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement — Embedded Derivatives</i> ³
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i> ³
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i> ¹
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i> ⁴
HK(IFRIC)-Int 17	<i>Distribution of Non-cash Assets to Owners</i> ²
HK(IFRIC)-Int 18	<i>Transfer of Assets from Customers</i> ⁵

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 October 2008

⁵ Effective for transfers of assets received on or after 1 July 2009

* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 7 Amendments, HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and HKAS 23 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

The HKFRS 7 Amendments require enhanced disclosure about fair value measurement and liquidity risk. The Group expects to adopt the HKFRS 7 Amendments from 1 January 2009.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt HKAS 1 (Revised) from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional provisions in the revised standard, the Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity 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 income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impairment asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but 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 such an impairment loss is credited to the income statement in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write-off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%–6%
Plant and machinery	10%–20%
Tools, moulds and equipment	10%–20%
Furniture and office equipment	10%–20%
Motor vehicles	15%–30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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 during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Leases

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 property, plant and equipment, 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 income statement 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 income statement 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 income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Deferred development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less 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.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss or loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on

acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "Finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

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 income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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, 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 credits 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 credits 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 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 deductible temporary differences associated with investments in subsidiaries, 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 reassessed at each balance sheet date and 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.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes model, further details of which are given in note 32 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement 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 benefit 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 vests fully, the ongoing contributions payable by the Group are reduced by the relevant amount of the forfeited employer contributions.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a percentage of the payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company’s functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and their income statements are translated into Hong

Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into 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 into 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 that are readily convertible into known amounts of cash, which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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) rental income, on a time proportion basis over the lease terms; and
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was HK\$22 million (2007: HK\$22 million). More details are given in note 18.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Development costs are capitalised in accordance with the accounting policy for deferred development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. An impairment loss of HK\$22 million (2007: Nil) was recognised during the year because management determines that it is uncertain whether the deferred development costs capitalised could generate future economic benefit for the Group.

An impairment loss of HK\$60 million (2007: Nil) was recognised for items of property, plant and equipment during the year because management determines that certain items of property, plant and equipment could not generate future economic benefit for the Group. Further details are given in note 15 to the financial statements.

Estimation of fair value of investment properties

The fair value of the Group's investment properties is assessed by management based on the property valuation performed by independent qualified valuers on the basis of depreciated replacement cost. The valuation is based on an estimate of the market value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. There are no deferred tax assets relating to recognised tax losses at 31 December 2008 (2007: Nil). The amount of unrecognised tax losses at 31 December 2008 was HK\$77 million (2007: HK\$40 million). Further details are contained in note 30 to the financial statements.

Costs in connection with the Discontinuation and restructuring

Costs in connection with the Discontinuation and restructuring are recognised for all cost, provision and impairment losses in connection with the Discontinuation and restructuring. Determining the amount to be recognised requires significant management judgement and requires management to make assumptions regarding the expected future cash generation of the Group's assets. Total costs of HK\$126 million (2007: Nil), was recognised during the year. Further details are contained in note 6 to the financial statements.

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 and electronic products segment engages in the manufacture and sale of telecom and electronic products and accessories; and
- (b) the corporate and others segment comprises corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the final locations where the Group's products were sold to customers, and assets are attributed to the segments based on the location of the assets.

(a) Business segments

The following table presents revenue and loss for the Group's business segments for the years ended 31 December 2008 and 2007.

Group

	Telecom and electronic products		Corporate and others		Total	
	2008	2007	2008	2007	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Segment revenue:						
Sales to external customers	2,752	3,328	—	—	2,752	3,328
Other revenue	<u>35</u>	<u>24</u>	<u>1</u>	<u>1</u>	<u>36</u>	<u>25</u>
Total	<u>2,787</u>	<u>3,352</u>	<u>1</u>	<u>1</u>	<u>2,788</u>	<u>3,353</u>
Segment results	<u>(308)</u>	<u>(168)</u>	<u>(4)</u>	<u>(22)</u>	(312)	(190)
Interest income					6	15
Finance costs					<u>(9)</u>	<u>(14)</u>
Loss before tax					(315)	(189)
Tax					<u>(2)</u>	<u>(12)</u>
Loss for the year					<u>(317)</u>	<u>(201)</u>

No analysis of the assets and liabilities and other segment information regarding the Group's business segments for the two years ended 31 December 2008 has been presented as over 90% of the Group's revenue is derived from the telecom and electronic products segment.

(b) Geographical segments

The following table presents revenue 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 the assets and capital expenditure by geographical segment is presented.

Group

	North America		Asia Pacific		Europe		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Segment revenue:								
Sales to external customers	1,234	1,802	388	412	1,130	1,114	2,752	3,328
Other revenue	<u>—</u>	<u>—</u>	<u>36</u>	<u>25</u>	<u>—</u>	<u>—</u>	<u>36</u>	<u>25</u>
Total	<u>1,234</u>	<u>1,802</u>	<u>424</u>	<u>437</u>	<u>1,130</u>	<u>1,114</u>	<u>2,788</u>	<u>3,353</u>

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and interest income.

Revenue from the following activities has been included in turnover:

	Group	
	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>
Manufacture and sale of telecom and electronic products	2,752	3,328
Bank interest income	<u>6</u>	<u>15</u>
	<u>2,758</u>	<u>3,343</u>

6. COSTS IN CONNECTION WITH THE DISCONTINUATION AND RESTRUCTURING, NET

During the year, the holding company of a distribution company in the United States of America (the "US Customer") announced its decision to exit with immediate effect its retail telephony activities in North America which were then carried on by the US Customer ("the Discontinuation"). The US Customer is the largest single customer of the Group for the year. As a result of the Discontinuation, certain production facilities of the Group become under utilised. In order to improve its competitiveness, the Group had implemented measures to streamline and restructure its operations. Details of the Discontinuation and restructuring are set out in the announcements of the Company dated 6 November 2008 and 15 January 2009.

The costs incurred and accrued as at 31 December 2008 in connection with the Discontinuation and restructuring are summarised below:

		2008
	<i>Notes</i>	<i>HK\$ million</i>
Impairment of items of property, plant and equipment	15	60
Impairment of deferred development costs	19	22
Redundancy costs and severance payments		27
Other related losses		<u>17</u>
		<u>126</u>

7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

		Group	
		2008	2007
	Notes	HK\$ million	HK\$ million
Cost of inventories sold		2,781	3,306
Depreciation	15	92	97
Less: Amount capitalised in deferred development costs		—	(1)
		<u>92</u>	<u>96</u>
Recognition of prepaid land lease payments	17	1	2
Minimum lease payments under operating leases in respect of land and buildings		14	15
Research and development costs:			
Deferred expenditure amortised*	19	24	35
Current year expenditure		<u>87</u>	<u>76</u>
		<u>111</u>	<u>111</u>
Auditors' remuneration		2	3
Employee benefits expense (excluding directors' remuneration — note 9):			
Wages and salaries		353	376
Equity-settled share option expense		—	8
Pension scheme contributions*****		1	4
Less: Amount capitalised in deferred development costs		<u>(9)</u>	<u>(21)</u>
		<u>345</u>	<u>367</u>
Provision for slow-moving and obsolete inventories*		17	14
Loss on disposal of items of property, plant and equipment**		1	—
Net impairment of trade receivables**	22	48	22
Write-off of items of property, plant and equipment**	15	2	—
Impairment of items of property, plant and equipment*****	15	60	—
Write-off of other receivables**		—	6
Write-off of deferred development costs**	19	6	12
Impairment of deferred development costs*****	19	22	—
Foreign exchange differences, net		10	3
Gain on disposal of financial assets at fair value through profit or loss***		(1)	—
Fair value gain on financial assets at fair value through profit or loss***		—	(1)
Gross rental income***	38(a)(ii)	<u>(6)</u>	<u>(6)</u>

* Included in "Cost of sales" on the face of the consolidated income statement.

** Included in "Other expenses" on the face of the consolidated income statement.

*** Included in "Other income and gains" on the face of the consolidated income statement.

**** Included in "Costs in connection with the Discontinuation and restructuring, net" on the face of the income statement.

***** 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.

8. FINANCE COSTS

	Group	
	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>
Interest on bank and other borrowings wholly repayable within five years	<u>9</u>	<u>14</u>

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>
Fees:		
Executive directors	—	—
Independent non-executive directors	<u>1</u>	<u>1</u>
	<u>1</u>	<u>1</u>
Executive directors' other emoluments:		
Salaries, allowances and benefits in kind	7	7
Performance related bonuses*	4	9
Equity-settled share option expense	—	4
Pension scheme contributions	<u>—</u>	<u>—</u>
	<u>11</u>	<u>20</u>
	<u>12</u>	<u>21</u>

* Certain executive directors of the Company are entitled to bonus payments which are determined with reference to the performance of the Group's operations.

During the prior year, certain directors were granted share options, in respect of their services to the Group under the share option scheme of the Company. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the prior year is included in the above directors' remuneration disclosures. As at 31 December 2007, all the share options have been either exercised or have lapsed.

During the year, no share options were granted to the directors in respect of their services to the Group.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Chow Siu Ngor	240	240
Lau Ho Kit, Ivan	240	240
Chen Li	<u>240</u>	<u>240</u>
	<u>720</u>	<u>720</u>

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

(b) Executive directors

	Salaries, allowances and benefits in kind <i>HK\$ million</i>	Performance related bonuses <i>HK\$ million</i>	Employee share option benefits <i>HK\$ million</i>	Pension scheme contributions <i>HK\$ million</i>	Total remuneration <i>HK\$ million</i>
2008					
Mak Shiu Tong, Clement ("Mr. Mak") (<i>Note 1</i>)	3	4	—	—	7
Tam Ngai Hung, Terry	1	—	—	—	1
Cheng Yuk Ching, Flora	1	—	—	—	1
William Donald Putt	—	—	—	—	—
Li Man To, Feynman*	2	—	—	—	2
	<u>7</u>	<u>4</u>	<u>—</u>	<u>—</u>	<u>11</u>

* Mr. Li Man To, Feynman resigned as an executive director on 3 December 2008 but he continues to serve as managing director of the operating subsidiaries of the Company.

	Salaries, allowances and benefits in kind <i>HK\$ million</i>	Performance related bonuses <i>HK\$ million</i>	Employee share option benefits <i>HK\$ million</i>	Pension scheme contributions <i>HK\$ million</i>	Total remuneration <i>HK\$ million</i>
2007					
Mak Shiu Tong, Clement ("Mr. Mak") (<i>Note 1</i>)	3	4	1	—	8
Tam Ngai Hung, Terry (<i>Note 2</i>)	1	2	1	—	4
Cheng Yuk Ching, Flora (<i>Note 2</i>)	1	2	1	—	4
William Donald Putt	—	—	—	—	—
Li Man To, Feynman (<i>Note 2</i>)	2	1	1	—	4
	<u>7</u>	<u>9</u>	<u>4</u>	<u>—</u>	<u>20</u>

Notes:

- (1) The performance related bonuses paid to Mr. Mak during the years ended 31 December 2007 and 31 December 2008 were determined based on the Group's operating performance for the prior financial years ended 31 December 2006 and 31 December 2007, respectively.
- (2) The performance related bonuses paid to Mr. Tam Ngai Hung, Terry, Ms. Cheng Yuk Ching, Flora and Mr. Li Man To, Feynman during the year ended 31 December 2007 were determined based on the Group's operating performance for the financial year ended 31 December 2006.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2007: four) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2007: one) non-director, highest paid employee for the year are as follows:

	Group	
	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>
Salaries, allowances and benefits in kind	<u>1</u>	<u>2</u>

The remuneration of the non-director, highest paid employee for the year fell within the band of HK\$1,000,001 to HK\$1,500,000 (2007: the band of HK\$1,500,001 to HK\$2,000,000).

In the prior year, the non-director, highest paid employee was granted share options, in respect of his services to the Group under the share option scheme of the Company. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the prior year is included in the above five highest paid employees' disclosures. As at 31 December 2007, all the share options lapsed.

No share options were granted to the non-director, highest paid employee in respect of his services to the Group during the current year.

11. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year. Prior year's Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during that year. 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.

	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>
Group:		
Current — Hong Kong:		
Charge for the year	—	4
Underprovision/(overprovision) in prior years	1	(1)
Current — Elsewhere:		
Charge for the year	1	7
Underprovision in prior years	2	—
Deferred (<i>note 30</i>)	<u>(2)</u>	<u>2</u>
Total tax charge for the year	<u>2</u>	<u>12</u>

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the locations in which the Company and the majority of its subsidiaries 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 — 2008

	Hong Kong		PRC, excluding Hong Kong		Total	
	<i>HK\$ million</i>	<i>%</i>	<i>HK\$ million</i>	<i>%</i>	<i>HK\$ million</i>	<i>%</i>
Loss before tax	<u>(76.1)</u>		<u>(239.3)</u>		<u>(315.4)</u>	
Tax at the statutory tax rate	(12.5)	16.5	(59.7)	25.0	(72.2)	22.9
Adjustments in respect of current tax of previous periods	0.8	(1.1)	2.1	(0.9)	2.9	(0.9)
Income not subject to tax	(1.0)	1.3	—	—	(1.0)	0.3
Expenses not deductible for tax	3.1	(4.1)	33.8	(14.1)	36.9	(11.7)
Tax losses utilised from previous periods	(0.3)	0.4	—	—	(0.3)	0.1
Tax losses not recognised	<u>8.8</u>	<u>(11.6)</u>	<u>26.5</u>	<u>(11.1)</u>	<u>35.3</u>	<u>(11.2)</u>
Tax charge at the Group's effective rate	<u>(1.1)</u>	<u>1.4</u>	<u>2.7</u>	<u>(1.1)</u>	<u>1.6</u>	<u>(0.5)</u>

Group — 2007

	Hong Kong		PRC, excluding Hong Kong		Total	
	<i>HK\$ million</i>	<i>%</i>	<i>HK\$ million</i>	<i>%</i>	<i>HK\$ million</i>	<i>%</i>
Profit/(Loss) before tax	<u>18.8</u>		<u>(207.7)</u>		<u>(188.9)</u>	
Tax at the statutory tax rate	3.3	17.5	(68.5)	33.0	(65.2)	34.5
Lower tax rate for specific provinces or local authority	—	—	3.6	(1.7)	3.6	(1.9)
Adjustments in respect of current tax of previous periods	(0.8)	(4.2)	—	—	(0.8)	0.4
Tax exemption	—	—	(3.3)	1.6	(3.3)	1.7
Income not subject to tax	(2.1)	(11.2)	(1.4)	0.7	(3.5)	1.9
Expenses not deductible for tax	3.7	19.7	11.9	(5.8)	15.6	(8.3)
Tax losses utilised from previous periods	(3.4)	(18.1)	—	—	(3.4)	1.8
Tax losses not recognised	<u>4.2</u>	<u>22.4</u>	<u>65.2</u>	<u>(31.4)</u>	<u>69.4</u>	<u>(36.7)</u>
Tax charge at the Group's effective rate	<u>4.9</u>	<u>26.1</u>	<u>7.5</u>	<u>(3.6)</u>	<u>12.4</u>	<u>(6.6)</u>

In late February 2008, CCT Telecom received a letter from the Hong Kong Inland Revenue Department (the “IRD”) in respect of a review on the tax affairs of CCT Telecom and its subsidiaries, including the Group, for the past years, and protective tax assessments in the aggregate amount of HK\$30 million for the year of assessment 2001/2002 were issued by the IRD to certain subsidiaries of the Company. Subsequent to the balance sheet date, in March 2009, protective tax assessments in the aggregate amount of HK\$45 million for the year of assessment 2002/2003 were issued by the IRD to certain subsidiaries of the Company. Objection has been lodged by those subsidiaries against the protective tax assessments. The directors of the Company believe that there are valid grounds to contest the protective tax assessments. In view that the tax review by the IRD is only at the initial stage, there is still uncertainty about the outcome of the case. Up to the date of approval of these financial statements, the directors of the Company consider that adequate tax provision has been made in the financial statements.

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated loss attributable to equity holders of the parent for the year ended 31 December 2008 included a loss of HK\$4 million (2007: HK\$18 million) which has been dealt with in the financial statements of the Company (note 33(b)).

13. DIVIDENDS

No dividends have been paid or declared by the Company for the year ended 31 December 2008 (2007: Nil).

14. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount for the year is based on the loss for the year attributable to ordinary equity holders of the parent of HK\$317 million (2007: HK\$201 million) and the weighted average number of 65,413,993,990 (2007: 64,946,100,839) ordinary shares in issue during the year.

A diluted loss per share amount for the year ended 31 December 2008 has not been disclosed as no diluting events existed during the year.

As the exercise price of the outstanding share options during the prior year was higher than the average market price of the Company's shares during the prior year, the outstanding share options during the prior year had no dilutive effect on the basic loss per share for the prior year.

15. PROPERTY, PLANT AND EQUIPMENT**Group**

	Buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
31 December 2008							
At 31 December 2007 and at 1 January 2008:							
Cost	392	343	186	94	19	53	1,087
Accumulated depreciation	(105)	(199)	(130)	(71)	(13)	—	(518)
Net carrying amount	<u>287</u>	<u>144</u>	<u>56</u>	<u>23</u>	<u>6</u>	<u>53</u>	<u>569</u>
At 1 January 2008, net of accumulated depreciation	287	144	56	23	6	53	569
Additions	11	14	3	4	1	2	35
Disposal	—	—	(1)	—	—	—	(1)
Write-off	—	(2)	—	—	—	—	(2)
Impairment	(16)	(27)	(12)	(4)	(1)	—	(60)
Depreciation provided during the year	(25)	(36)	(21)	(7)	(3)	—	(92)
Transfer	<u>50</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(50)</u>	<u>—</u>

	Buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
31 December 2007							
At 31 December 2006 and at 1 January 2007:							
Cost	379	310	167	87	17	17	977
Accumulated depreciation	(81)	(162)	(106)	(62)	(10)	—	(421)
Net carrying amount	<u>298</u>	<u>148</u>	<u>61</u>	<u>25</u>	<u>7</u>	<u>17</u>	<u>556</u>
At 1 January 2007, net of accumulated depreciation	298	148	61	25	7	17	556
Additions	6	33	19	7	2	43	110
Depreciation provided during the year	(24)	(37)	(24)	(9)	(3)	—	(97)
Transfer	<u>7</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(7)</u>	<u>—</u>
At 31 December 2007, net of accumulated depreciation	<u>287</u>	<u>144</u>	<u>56</u>	<u>23</u>	<u>6</u>	<u>53</u>	<u>569</u>
At 31 December 2007:							
Cost	392	343	186	94	19	53	1,087
Accumulated depreciation	(105)	(199)	(130)	(71)	(13)	—	(518)
Net carrying amount	<u>287</u>	<u>144</u>	<u>56</u>	<u>23</u>	<u>6</u>	<u>53</u>	<u>569</u>

As at 31 December 2008, no fixed assets of the Group was held under finance lease contract. The net book value of fixed assets of the Group held under finance leases included in the total amounts of motor vehicles as at 31 December 2007, amounted to approximately HK\$2 million.

At 31 December 2008, certain of the Group's buildings with a net book value of approximately HK\$249 million (2007: HK\$270 million) were pledged to secure certain bank loans granted to the Group (note 28(a)(i)).

An impairment of HK\$60 million (2007: Nil) was recognised for certain items of property, plant and equipment because certain production facilities and fixed assets of the Group were under-utilised as a result of the Discontinuation (note 6).

16. INVESTMENT PROPERTIES

	Group	2007
	<i>2008</i>	<i>2007</i>
	<i>HK\$ million</i>	<i>HK\$ million</i>
Carrying amount at 1 January and 31 December	<u>178</u>	<u>178</u>

The Group's investment properties are situated in the PRC and are held under medium term leases.

The Group's investment properties were revalued on 31 December 2008 by Grant Sherman Appraisal Limited, independent professionally qualified valuers, using a depreciated replacement cost approach. The investment properties are leased to an indirectly wholly-owned subsidiary of CCT Telecom under operating leases, further summary details of which are included in note 36(a) and note 38(a)(ii) to the financial statements.

At 31 December 2008, the Group's investment properties were pledged to secure certain bank loans granted to the Group (note 28(a)(ii)).

Further particulars of the Group's investment properties are as follows:

Location	Use	Tenure	Attributable interest of the Group
A factory complex with a total gross floor area of approximately 67,000 square metres located at Sanhan Development District, Danshui Town, Huiyang City, Guangdong Province, PRC	Industrial	Medium term lease	100%

17. PREPAID LAND LEASE PAYMENTS

	Group	
	2008	2007
	HK\$ million	HK\$ million
Carrying amount at 1 January	49	51
Recognised during the year	<u>(1)</u>	<u>(2)</u>
Carrying amount at 31 December	48	49
Current portion included in prepayments, deposits and other receivables	<u>(1)</u>	<u>(1)</u>
Non-current portion	<u><u>47</u></u>	<u><u>48</u></u>

The leasehold land is held under a medium term lease and is situated in the PRC.

At 31 December 2008 and 2007, the entire leasehold land was pledged as security for the bank loans granted to the Group (note 28(a)(iii)).

18. GOODWILL

The amount of the goodwill capitalised as an asset and recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, is as follows:

Group	HK\$ million
31 December 2008	
At 1 January 2008 and 31 December 2008:	
Cost	23
Accumulated impairment	<u>(1)</u>
Net carrying amount	<u><u>22</u></u>
31 December 2007	
At 1 January 2007 and 31 December 2007:	
Cost	23
Accumulated impairment	<u>(1)</u>
Net carrying amount	<u><u>22</u></u>

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the telecom products cash-generating unit. For the purpose of impairment testing, the recoverable amount of goodwill is determined based on a value-in-use calculation. The value-in-use calculation uses cash flow projections based on financial budgets covering a period of five years approved by management. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budget. Key assumptions include the expected growth in revenues and gross margins, timing of future capital expenditures, long term growth rates and selection of discount rates. Management prepares the financial budgets reflecting actual and prior year performance and market development expectations. Judgement is required to determine the key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections. The discount rate applied to the cash flow projections is 11.7%.

19. OTHER INTANGIBLE ASSETS**Group**

	Deferred development costs <i>HK\$ million</i>
31 December 2008	
Cost at 1 January 2008, net of accumulated amortisation	25
Additions — internal development	27
Impairment during the year (<i>note 6 and note 7</i>)	(22)
Write-off (<i>note 7</i>)	(6)
Amortisation provided during the year (<i>note 7</i>)	(24)
	<u>—</u>
At 31 December 2008	<u>—</u>
At 31 December 2008:	
Cost	52
Accumulated amortisation and impairment	(52)
	<u>—</u>
Net carrying amount	<u>—</u>
	Deferred development costs <i>HK\$ million</i>
31 December 2007	
Cost at 1 January 2007, net of accumulated amortisation	36
Additions — internal development	36
Write-off (<i>note 7</i>)	(12)
Amortisation provided during the year (<i>note 7</i>)	(35)
	<u>25</u>
At 31 December 2007	<u>25</u>
At 31 December 2007:	
Cost	82
Accumulated amortisation	(57)
	<u>25</u>
Net carrying amount	<u>25</u>

An impairment loss of HK\$22 million (2007: Nil) was recognised during the year because management determines that it is uncertain whether the deferred development costs could generate further economic benefits for the Group.

20. INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>
Unlisted shares, at cost	256	256
Loans to subsidiaries	427	380
	<u>683</u>	<u>636</u>

The amounts advanced to the subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

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		Principal activities
			Company Direct	Indirect	
CCT Marketing Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary	—	100	Trading of telecom products
CCT Tech (HK) Limited (formerly known as CCT Telecom (HK) Limited)	Hong Kong	HK\$2,600,000 Ordinary	—	100	Sourcing of telecom products, raw materials and components
CCT Tech Advanced Products Limited	Hong Kong	HK\$2 Ordinary	—	100	Research and development on telecom and electronic products
Huiyang CCT Telecommunications Products Co., Ltd.	People's Republic of China	HK\$120,000,000 Registered^	—	100	Manufacture of telecom products
Dongguan Eswire Electronics Co., Ltd.	People's Republic of China	HK\$68,000,000 Registered^	—	100	Manufacture of telecom products
Dongguan CCT Digital Products Company Limited	People's Republic of China	HK\$7,000,000 Registered^	—	100	Manufacture of electronic products
CCT Tech (Chao Yang) Company Limited	People's Republic of China	US\$6,950,000 Registered^	—	100	Manufacture of telecom and electronic products

^ Registered as wholly-foreign-owned enterprises under the PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, 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, result in particulars of excessive length.

21. INVENTORIES

	Group	
	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>
Raw materials	27	40
Work in progress	28	47
Finished goods	51	99
	<u>106</u>	<u>186</u>

22. TRADE AND BILLS RECEIVABLES

	Group	
	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>
Trade and bills receivables	457	717
Impairment	(55)	(28)
	<u>402</u>	<u>689</u>

The Group's trading terms with its customers are mainly on credit with an average credit period of 30 to 90 days, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. At the balance sheet date, the Group has certain concentration of credit risk as 34% (2007: 60%) and 88% (2007: 88%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

Trade and bills receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group			
	2008		2007	
	Balance	Percentage	Balance	Percentage
	<i>HK\$ million</i>		<i>HK\$ million</i>	
Current to 30 days	136	34	203	29
31 to 60 days	112	28	210	30
61 to 90 days	139	34	198	29
Over 90 days	15	4	78	12
	<u>402</u>	<u>100</u>	<u>689</u>	<u>100</u>

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>
At 1 January	28	14
Net impairment losses recognised (<i>note 7</i>)	48	22
Amount written off as uncollectible	(21)	(8)
At 31 December	<u>55</u>	<u>28</u>

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK\$55 million (2007: HK\$28 million) with a carrying amount of HK\$290 million (2007: HK\$586 million). The individually impaired trade receivables relate to customers that were in default and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

Included in the Group's trade receivables is an amount due from a subsidiary of CCT Telecom of HK\$21 million (2007: HK\$15 million), which is repayable on similar credit terms to those offered to the major customers of the Group.

An analysis of trade and bills receivables that were past due but not impaired is as follows:

	Group	
	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>
Neither past due nor impaired	345	524
Past due but not impaired		
— within 6 months	57	158
— 7 to 12 months	—	7
	<u>402</u>	<u>689</u>

Receivables that were neither past due nor impaired relate to a number of diversified customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group.

Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Prepayments	3	3	1	1
Deposits and other receivables	<u>29</u>	<u>21</u>	<u>—</u>	<u>—</u>
	<u>32</u>	<u>24</u>	<u>1</u>	<u>1</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2008	2007	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Equity-linked notes	<u>—</u>	<u>28</u>	<u>—</u>	<u>28</u>

The above equity-linked notes at 31 December 2007 were classified as held for trading.

25. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2008	2007	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Cash and bank balances	297	383	3	30
Time deposits	<u>244</u>	<u>178</u>	<u>13</u>	<u>37</u>
	541	561	16	67
Less: Time deposits pledged for bank borrowings (<i>note 28(a)(iv)</i>)	<u>(86)</u>	<u>(85)</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents	<u>455</u>	<u>476</u>	<u>16</u>	<u>67</u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$19 million (2007: HK\$8 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.

Cash at banks earns interest at floating rates based on daily bank deposit rate. Short term time deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

26. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group			
	2008		2007	
	Balance	Percentage	Balance	Percentage
	<i>HK\$ million</i>		<i>HK\$ million</i>	
Current to 30 days	111	18	191	22
31 to 60 days	82	14	237	27
61 to 90 days	159	26	182	21
Over 90 days	<u>258</u>	<u>42</u>	<u>265</u>	<u>30</u>
	<u>610</u>	<u>100</u>	<u>875</u>	<u>100</u>

Included in the trade and bills payables are trade payables of HK\$108 million (2007: HK\$111 million) due to Neptune Holding Limited (“Neptune”) and Electronic Sales Limited (“ESL”), being wholly-owned subsidiaries of CCT Telecom, which are unsecured, interest-free and are repayable within 90 days from the invoice date.

The trade payables are non-interest-bearing and have an average term of 90 to 120 days.

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	2008	2007
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Other payables	24	57	—	27
Accruals	132	111	1	2
	<u>156</u>	<u>168</u>	<u>1</u>	<u>29</u>

Other payables are non-interest-bearing and have an average term of three months.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2008			2007		
	Effective interest rate (%)	Maturity	HK\$ million	Effective interest rate (%)	Maturity	HK\$ million
Current						
Finance lease payables (note 29)			—	2.50–2.75	2008	—
Bank loans — unsecured	1.69–6.25	2009	104	6.00–7.00	2008	26
Bank loans — secured	1.25–6.97	2009	161	4.85–7.25	2008	163
			<u>265</u>			<u>189</u>
Non-current						
Bank loans — secured			—	5.25–6.25	2010	31
			<u>265</u>			<u>220</u>

	Group	
	2008	2007
	HK\$ million	HK\$ million
Analysed into:		
Bank loans repayable:		
Within one year or on demand	265	189
In the second year	—	19
In the third to fifth years, inclusive	<u>—</u>	<u>12</u>
	<u>265</u>	<u>220</u>

Notes:

(a) Certain of the Group's bank loans are secured by:

- (i) the pledge of the Group's buildings situated in the PRC, which had an aggregate carrying value at the balance sheet date of approximately HK\$249 million (2007: HK\$270 million) (note 15);
- (ii) the pledge of the Group's investment properties situated in the PRC, which had an aggregate carrying value at the balance sheet date of approximately HK\$178 million (2007: HK\$178 million) (note 16);
- (iii) the pledge of the Group's leasehold land situated in the PRC, which had an aggregate carrying value at the balance sheet date of approximately HK\$48 million (2007: HK\$49 million) (note 17); and

- (iv) the pledge of certain of the Group's time deposits amounting to HK\$86 million (2007: HK\$85 million) (note 25).
- (b) The Group's bank and other borrowings with carrying amounts of HK\$94 million (2007: Nil), and HK\$171 million (2007: HK\$213 million) are denominated in Hong Kong dollars, and United States dollars ("US\$"), respectively. At 31 December 2008, no bank borrowing of the Group is denominated in RMB (2007: HK\$7 million).

The carrying amounts of the Group's borrowings approximate to their fair values.

As at 31 December 2008, approximately HK\$81 million bank borrowings repayable over one year were classified as current liabilities in accordance with the relevant accounting standards. The classification was resulted from an insignificant non-compliance of a financial covenant related to the amount of shareholders' fund under certain facilities agreements entered into by the Group with one of its bankers, which has been made known to the banker by the Group.

29. FINANCE LEASE PAYABLES

The Group leased certain of its motor vehicles for business use in prior years. These leases were classified as finance leases and have remaining lease terms of one year as at 31 December 2007.

At the balance sheet date, the total future minimum lease payments under finance leases and their present value were as follows:

Group

	Minimum lease payments 2008 <i>HK\$ million</i>	Minimum lease payments 2007 <i>HK\$ million</i>	Present value of minimum lease payments 2008 <i>HK\$ million</i>	Present value of minimum lease payments 2007 <i>HK\$ million</i>
Amounts payable:				
Within one year	—	—	—	—
Total minimum finance lease payments	—	—	—	—
Future finance charges	—	—		
Total net finance lease payables	—	—		
Portion classified as current liabilities (<i>note 28</i>)	—	—		
Non-current portion	—	—		

30. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	Depreciation allowance in excess of related depreciation	
	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>
Gross deferred tax liabilities at 1 January	4	4
Deferred tax credited to the income statement during the year (<i>note 11</i>)	(2)	—
Gross deferred tax liabilities at 31 December	<u>2</u>	<u>4</u>

Deferred tax assets

Group

	Losses available for offsetting against future taxable profit	
	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>
Gross deferred tax assets at 1 January	—	2
Deferred tax charged to the income statement during the year (<i>note 11</i>)	—	(2)
Gross deferred tax assets at 31 December	<u>—</u>	<u>—</u>

The Group has tax losses arising in Hong Kong of HK\$77 million (2007: HK\$40 million) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK\$114 million (2007: HK\$9 million) that will expire in one to five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2008, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China as these subsidiaries incurred losses during the year.

31. SHARE CAPITAL**Shares**

	Company	
	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>
Authorised:		
120,000,000,000 (2007: 120,000,000,000) ordinary shares of HK\$0.01 each	<u>1,200</u>	<u>1,200</u>
Issued and fully paid:		
65,413,993,990 (2007: 65,413,993,990) ordinary shares of HK\$0.01 each	<u>654</u>	<u>654</u>

A summary of the transactions involving the Company's issued ordinary share capital during the prior year was as follows:

	Number of ordinary shares of HK\$0.01 each in issue	Issued capital <i>HK\$ million</i>
At 1 January 2007	64,366,993,990	644
Issue of new shares upon exercise of share options	1,047,000,000	10
At 31 December 2007, 1 January 2008 and 31 December 2008	65,413,993,990	654

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 32 to the financial statements.

32. SHARE OPTION SCHEME

The current Share Option Scheme was effective on 7 November 2002. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period of 10 years from the date of its adoption. As at 31 December 2008, there were no share options outstanding under the Share Option Scheme. No share options has been granted, exercised, cancelled and has lapsed under the Share Option Scheme during the year.

The purpose of the Share Option Scheme is to provide incentives and rewards to the eligible participants who contribute to the success of the operations of the Group. Eligible participants of the 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, in the opinion of the Board, will contribute or has contributed to the Group.

Pursuant to the Share Option Scheme, the maximum number of Shares in respect of which share options may be granted under the Share Option Scheme is such number of Shares, when aggregated with the Shares subject to any other share option scheme(s) of the Company, must not exceed 10% of the issued share capital of the Company upon the listing of the Shares on the Stock Exchange or 30% of the issued share capital of the Company from time to time.

The maximum number of Shares issuable upon exercise of the share options granted under the 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 in issue as at the date of grant. Any further grant of the share options in excess of this 1% limit shall be subject to the issue of a circular by the Company (and if required, the holding company) and the Shareholders' approval (and if required, the approval of the shareholders of the holding 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 INEDs of the Company (and if required, the approval of the INEDs of the holding company), excluding the INED(s) of the Company and the holding company who is/are the

grantee(s) of the share options. In addition, any share option granted to a substantial Shareholder or an INED of the Company, or to any of their respective associates, in excess of 0.1% of the Shares in issue as at the date of grant or with an aggregate value (based on the closing price of the Shares as at the date of grant) in excess of HK\$5 million, within any 12-month period, is subject to the issue of a circular by the Company (and if required, the holding company) and the Shareholders' approval (and if required, the approval of the shareholders of the holding company) in advance at a general meeting.

The offer of a grant of the share options may be accepted within 28 days from the date of 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 Share Option Scheme, whichever is earlier.

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 Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Shares.

	2007	
	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	—	—
Granted during the year	0.055	1,550,000
Exercised during the year	0.055	(1,047,000)
Expired during the year	0.055	(503,000)
At 31 December	—	—

The weighted average share price at the date of exercise for share options exercised during the prior year was HK\$0.073.

The fair value of the share options granted during the prior year was HK\$12 million (HK\$0.0077 each) of which the Group recognised a share option expense of HK\$12 million during the year ended 31 December 2007.

The fair value of equity-settled share options granted during the prior year was estimated as at the date of grant, using the Black-Scholes model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

	2007
Dividend yield (%)	—
Expected volatility (%)	74.83
Historical volatility (%)	74.83
Risk-free interest rate (%)	3.89
Expected life of share options (year)	0.25
Weighted average share price (HK\$)	0.055

The expected life of the share options is based on the directors' estimation and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 1,047,000,000 share options exercised during the prior year resulted in the issue of 1,047,000,000 ordinary shares of the Company and new share capital of HK\$10 million and share premium of HK\$48 million (before issue expenses), as further detailed in note 31 to the financial statements.

All the remaining share options expired and no share options were outstanding as at 31 December 2007.

33. 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 41 of the financial statements.

(b) Company

		Special reserve	Share premium account	Share option reserve	Accumulated losses	Total
	<i>Notes</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
At 1 January 2007		(56)	182	—	(119)	7
Equity-settled share option arrangement	32	—	—	12	—	12
Issue of new shares upon exercise of share options	32	—	56	(8)	—	48
Loss for the year	12	—	—	—	(18)	(18)
At 31 December 2007 and 1 January 2008		(56)	238	4	(137)	49
Loss for the year	12	—	—	—	(4)	(4)
At 31 December 2008		<u>(56)</u>	<u>238</u>	<u>4</u>	<u>(141)</u>	<u>45</u>

34. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	<u>960</u>	<u>892</u>

As at 31 December 2008, the banking facilities granted to the subsidiaries subject to corporate guarantees given to the banks by the Company were utilised to the extent of approximately HK\$305 million (2007: HK\$322 million).

35. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group, are included in note 28(a) to the financial statements.

36. OPERATING LEASE COMMITMENTS**(a) As lessor**

The Group leases its investment properties (note 16 to the financial statements) under operating lease arrangements with leases negotiated for terms of three years.

At 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>
Within one year	6	6
In the second to fifth years, inclusive	<u>12</u>	<u>—</u>
	<u>18</u>	<u>6</u>

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 December 2008, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2008	2007	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Within one year	7	3	3	—
In the second to fifth years, inclusive	<u>9</u>	<u>1</u>	<u>6</u>	<u>—</u>
	<u>16</u>	<u>4</u>	<u>9</u>	<u>—</u>

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>
Contracted, but not provided for:		
Construction in progress	2	13
Purchases of plant and machinery and equipment	<u>—</u>	<u>3</u>
	<u>2</u>	<u>16</u>

At the balance sheet date, the Company had no significant commitments.

38. RELATED PARTY TRANSACTIONS

- (a) In addition to those detailed elsewhere in these financial statements, during the current year, the Group had the following transactions with CCT Telecom and its subsidiaries other than the Group (the “CCT Telecom Remaining Group”):

		2008	2007
	Notes	HK\$ million	HK\$ million
Fellow subsidiaries:			
Purchase of components	(i)	420	484
Factory rental income	(ii)	6	6
Factory rental expenses	(iii)	6	6
Office rental expenses	(iv)	3	3
Sale of consumer electronic products	(v)	40	60
Ultimate holding company:			
Management information system service fee	(vi)	4	4

Notes:

- (i) The Company and CCT Telecom entered into a manufacturing agreement dated 9 November 2006, pursuant to which CCT Telecom agree to manufacture through the CCT Telecom Remaining Group certain power supply components, transformers, plastic casings and components and toolings for the production of telecom and electronics products for the Group.

The purchase prices were determined based on the direct material costs plus a mark-up of no more than 150%.

- (ii) The factory rental income was charged to Shine Best Developments Limited (“Shine Best”), an indirectly wholly-owned subsidiary of CCT Telecom, by CCT Enterprise Limited (“CCT Ent”), an indirectly wholly-owned subsidiary of the Company, for the provision of a 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 5 December 2005.
- (iii) The factory rental expenses were charged to the Group by the CCT Telecom Remaining Group, for the provision of factory spaces in Dongguan, the PRC, at rates determined in accordance with the terms and conditions set out in a tenancy agreement entered into between the Company and CCT Telecom on 9 November 2006.
- (iv) The office rental expenses were charged to CCT Tech (HK) Limited (“CCT HK”) and CCT R&D Limited (“CCT R&D”), all being indirectly wholly-owned subsidiaries of the Company, by Goldbay Investments Limited (“Goldbay”), an indirectly wholly-owned subsidiary of CCT Telecom, for the provision of office spaces in Hong Kong, at rates determined in accordance with the terms and conditions set out in the tenancy agreements entered into between CCT HK and Goldbay on 12 October 2006 and between CCT R&D and Goldbay on 12 October 2006.
- (v) The consumer electronic products were sold to the CCT Telecom Remaining Group by the Group and the selling prices were determined based on the direct material costs of the products plus a mark-up of up to 120% of such direct material costs pursuant to a consumer electronic products manufacturing agreement entered into between the Company and CCT Telecom on 14 July 2006.
- (vi) The management information system service fee was charged to CCT Telecom 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 CCT Telecom and CCT HK on 5 December 2005.

The above related party transactions also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

- (b) Outstanding balances with related parties:

Details of Group's balances with its fellow subsidiaries at the balance sheet date are disclosed in notes 22 and 26 to the financial statements.

- (c) Compensation of key management personnel of the Group:

	2008 <i>HK\$ million</i>	2007 <i>HK\$ million</i>
Short term employee benefits	18	28
Post-employment benefits	<u>—</u>	<u>—</u>
Total compensation paid to key management personnel	<u><u>18</u></u>	<u><u>28</u></u>

Further details of directors' emoluments are included in note 9 to the financial statements.

39. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the financial assets at fair value through profit or loss as disclosed in note 24 to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2007 and 2008, are loans and receivables, and financial liabilities at amortised cost, respectively.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's borrowings with floating interest rates. The Group operates at a low gearing ratio and as the market rates are stable and are maintained at low level, the Group's interest rate risk is not significant.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings).

	Group	
	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax <i>HK\$ million</i>
2008		
US\$	100	2
US\$	(100)	(2)
HK\$	100	1
HK\$	(100)	(1)
2007		
US\$	100	2
US\$	(100)	(2)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by or expenditure of operating units in currencies other than the units' functional currency. During the year, the Group did not use any financial instruments for hedging purposes.

The following table demonstrates the sensitivity to a reasonably possible change in Euro, US\$ and RMB exchange rates, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities).

	Group	
	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in loss before tax <i>HK\$ million</i>
2008		
If US\$ strengthens against RMB	3.90	1
If US\$ weakens against RMB	(3.90)	(1)
If Euro strengthens against HKD	20.17	(3)
If Euro weakens against HKD	(20.17)	3
2007		
If US\$ strengthens against RMB	6.222	4
If US\$ weakens against RMB	(6.222)	(4)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentration of credit risk is managed by counterparty.

There is no significant concentration of credit risk in relation to the Group's financial assets, other than trade receivables. Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, other interest-bearing loans and finance leases. In addition, banking facilities have been put in place for contingency purposes.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments as at the balance sheet date.

As at 31 December 2008

	Group		
	Within one year or on demand <i>HK\$ million</i>	In the second year <i>HK\$ million</i>	Total <i>HK\$ million</i>
Trade and bills payables	610	—	610
Other payables	24	—	24
Interest-bearing bank and other borrowings	270	—	270
	<u>904</u>	<u>—</u>	<u>904</u>

As at 31 December 2007

	Group		
	Within one year or on demand <i>HK\$ million</i>	In the second year <i>HK\$ million</i>	Total <i>HK\$ million</i>
Trade and bills payables	875	—	875
Other payables	57	—	57
Interest-bearing bank and other borrowings	201	32	233
	<u>1,133</u>	<u>32</u>	<u>1,165</u>

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 31 December 2007.

The Group monitors capital using a gearing ratio, which is total borrowings divided by total capital plus total borrowings. The Group includes interest-bearing bank and other borrowings in the total borrowings. Capital includes equity attributable to the equity holders of the parent.

	Group	
	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>
Interest-bearing bank and other borrowings	265	220
Total borrowings	265	220
Total capital	735	1,051
Total capital and borrowings	1,000	1,271
Gearing ratio	26.5%	17.3%

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2009.

(3) MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

(a) Management discussion and analysis of the Group for the year ended 31 December 2006

During the year under review, the Group was principally engaged in the manufacturing and sale of telecom and hi-tech electronic products which accounted for 100% of the turnover of the Group.

During the year under review, the Group faced various adverse factors including: (i) reduction in average selling price of certain products due to market competition; (ii) increase in the cost of certain materials and components; (iii) rising costs of salaries and wages due to shortage of labor in its PRC factories; and (iv) appreciation of the Renminbi. The net profit of the Group decreased by 11.5% from HK\$113 million in the financial year of 2005 to HK\$100 million in the financial year of 2006.

Capital structure and gearing ratio

The Group's gearing ratio, calculated on the basis of the Group's total borrowings over total capital employed (equity plus total borrowings), substantially improved from 67% in 2005 to 15% as at 31 December 2006 as a result of the increase in shareholders' equity due to the full conversion of all the convertible notes and the carried forward of the net profit during the year. After taking into account the cash on hand, the Group did not have any net borrowings and in fact had a positive net cash balance.

The Group's outstanding bank borrowings amounted to approximately HK\$200 million as at 31 December 2006. Among the total outstanding bank borrowings of HK\$200 million, HK\$29 million was repayable within the second year. The balance of HK\$171 million was arranged on a short-term basis for ordinary business operations and was repayable within one year.

Following the full conversion of all the outstanding convertible notes of the Company by CCT Telecom in May 2006, there were no more convertible notes outstanding as at 31 December 2006.

Acquisition of certain assets of the Group was financed by way of finance leases and the total outstanding finance lease payable of the Group amounted to approximately HK\$1 million as at 31 December 2006.

As at 31 December 2006, the maturity profile of the bank and other borrowings of the Group falling due within one year and in the second year amounted to HK\$172 million and HK\$29 million, respectively. There is no material effect of seasonality on the Group's borrowing requirements.

Liquidity and financial resources

The current ratio of the Group as at 31 December 2006 was maintained at a healthy level of 130%. As at 31 December 2006, the Group's cash balance was HK\$553 million, of which 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 strong cash balance plus the strong cash flow generated from the Group's operations and funds available from the bank facilities provided sufficient cash resources to the Group to cover all cash requirements, including working capital and capital expenditure needs.

Capital commitments

As at 31 December 2006, the outstanding capital commitment contracted by the Group but not yet provided for in the accounts amounted to approximately HK\$33 million, which was mainly related to the capital expenditure for the Group's production facilities in the PRC. The capital commitment would 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, the Group's receipts were denominated mainly in US dollars, with some in Hong Kong dollars and the Euro. Payments were made mainly in Hong Kong dollars, US dollars and Renminbi and some made in Euros. Cash was generally placed in short-term deposits denominated in Hong Kong dollars and US dollars. The Group's borrowings were principally made on a floating rate basis.

The objective of the Group's treasury policies is to minimise risks and exposures due to the fluctuations in foreign currency exchange rates and interest rates. The Group did not have any significant interest rate risk in 2006, as both the borrowings of the Group and the interest rates remained at low levels. In terms of foreign exchange exposures, the Group is principally exposed to two major currencies, namely the US dollar in terms of receipts and the Renminbi in terms of the production costs (including mainly wages and overhead) in the PRC. For US

dollar exposure, since the Hong Kong dollar remains pegged to the US dollar, the exchange fluctuation is not expected to be significant. In addition, as most of the Group's purchases are also made in US dollars, which are to be paid out of our sales receipts in US dollars, the management considers that the foreign exchange exposure risk for the US dollar is not material.

To hedge against Renminbi exposure, the Group entered into forward exchange contracts with banks in China to cover a significant part of the Group's Renminbi risk for the period up to mid 2006. The Company also entered into non-deliverable forward contracts with CCT Telecom for the six months ended 31 December 2006, which partially hedged the Group's exposure to Renminbi appreciation during the second half of year 2006. The Group does not speculate in currencies and forward contracts were only entered, where appropriate, to hedge some of the Group's foreign currency exposure.

Acquisitions and disposals of material subsidiaries and associates

The Group did not acquire or dispose of any material subsidiaries and associates during the year ended 31 December 2006.

Significant investment

The Group did not hold any significant investment as at 31 December 2006.

Pledge of assets

As at 31 December 2006, certain of the Group's assets with net book value of HK\$516 million and time deposits of approximately HK\$83 million were pledged to secure general banking facilities granted to the Group.

Contingent liabilities

As at 31 December 2006, corporate guarantees of HK\$754 million were given by the Company to banks in connection with facilities granted to subsidiaries of the Company, of which approximately HK\$327 million were utilised.

As at 31 December 2006, the Group had contingent liability in respect of possible future long service payments to employees amounted to approximately HK\$0.3 million. Save as aforesaid, the Group did not have any other significant contingent liabilities as at 31 December 2006.

Employees and remuneration policy

The total number of employees of the Group as at 31 December 2006 was 14,380. 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. During the year, there were no outstanding share options (31 December 2005: Nil) issued by the Company as at 31 December 2006.

(b) Management discussion and analysis of the Group for the year ended 31 December 2007

During the year under review, the Group was principally in the manufacturing and sale of telecom and hi-tech electronic products which accounted for 100% of the turnover of the Group.

Turnover of the Group for the year ended 31 December 2007 amounted to HK\$3,343 million which represents a decrease of approximately 13.3% as compared to the corresponding financial year of 2006. The decrease in turnover was caused mainly by slowdown of the US economy, reduction of average selling prices of products and delay of certain shipments due to shortage of labour in the Group's Guangdong factories.

The Group reported a loss of HK\$201 million for the year ended 31 December 2007, as compared to a profit of HK\$100 million in 2006. The loss for the year ended 31 December 2007 was mainly due to the decrease of turnover and gross margin attributable to a combination of factors including the weakening of the US economy, reduction of average selling prices, high material prices, shortage of labour and rise in wages for workers in the Group's Guangdong factories, and appreciation of Renminbi.

Capital structure and gearing ratio

The Group's gearing ratio, calculated on the basis of the Group's total borrowings over total capital employed (equity plus total borrowings), increased from 15% as at 31 December 2006 to approximately 17% as at 31 December 2007 as a result of additional bank loans raised to finance capital expenditure and working capital of the Group's manufacturing operations. After taking into account the cash on hand, the Group did not have any net borrowings and in fact had a positive net cash balance (net of borrowings) of approximately HK\$341 million.

The Group's outstanding bank borrowings amounted to approximately HK\$220 million as at 31 December 2007, of which HK\$31 million was repayable within the second year. The balance of HK\$189 million was arranged on a short-term basis for ordinary business operations and was repayable within one year. As at 31 December 2007, there was no the finance lease payable as the finance lease payable brought forward from 2006 had been repaid.

As at 31 December 2007, the maturity profile of the bank and other borrowings of the Group falling due within one year and in the second to the fifth year amounted to HK\$189 million and HK\$31 million, respectively. There is no material effect of seasonality on the Group's borrowing requirements.

Liquidity and financial resources

The current ratio of the Group as at 31 December 2007 was maintained at a healthy level of 119.6%. Although the Group incurred a loss in 2007, the Group's cash balance increased from HK\$553 million as at 31 December 2006 to HK\$561 million as at 31 December 2007, of which HK\$85 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 ample

cash balance plus the strong cash flow generated from the Group's operations and funds available from the bank facilities provided sufficient cash resources to the Group to cover all its cash requirements, including working capital and capital expenditure needs.

Capital commitments

As at 31 December 2007, the outstanding capital commitment contracted by the Group but not yet provided for in the accounts amounted to approximately HK\$16 million, which was mainly related to the capital expenditure in relation to the Group's production facilities in the PRC. The capital commitment would be funded partly by internal resources and partly by bank borrowings.

Treasure 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, the Group's receipts were mainly denominated in US dollars, with some in Hong Kong dollars and the Euro. Payments were mainly made in Hong Kong dollars, US dollars and Renminbi and some made in Euros. Cash was generally placed in short-term deposits denominated in Hong Kong dollars and US dollars. The Group's borrowings were principally made on a floating rate basis.

The objective of the Group's treasury policies is to minimise risks and exposures due to the fluctuations in foreign currency exchange rates and interest rates. The Group did not have any significant interest rate risk in 2007 as both the borrowings of the Group and the interest rates remained at low level. In terms of foreign exchange exposures, the Group is principally exposed to two major currencies, namely the US dollar in terms of receipts and the Renminbi in terms of the production costs (including mainly wages and overheads) in the PRC. For US dollar exposure, since the Hong Kong dollar remains pegged to the US dollar, the exchange fluctuation is not expected to be significant. In addition, as most of the Group's purchases are also made in US dollars, which are to be paid out of our sales receipts in US dollars, the management considers that the foreign exchange exposure risk for the US dollar is not material.

For Renminbi exposure, as the wages and overheads of the Group's factories in the PRC were paid in Renminbi, the Group's production costs in the PRC rose in 2007 due to appreciation of Renminbi. The Group had explored ways and methods to hedge appreciation of Renminbi but the Group could not find any effective way to hedge RMB appreciation in 2007.

Acquisitions and disposals of material subsidiaries and associates

The Group did not acquire or dispose of any material subsidiaries and associates during the year ended 31 December 2007.

Significant investment

The Group did not hold any significant investment as at 31 December 2007.

Pledge of assets

As at 31 December 2007, certain of the Group's assets with net book value of HK\$497 million and time deposits of approximately HK\$85 million were pledged to secure general banking facilities granted to the Group.

Contingent liabilities

As at 31 December 2007, corporate guarantees of HK\$892 million were given by the Company to banks in connection with facilities granted to subsidiaries of the Company, of which approximately HK\$322 million were utilised.

Employees and remuneration policy

The total number of employees of the Group as at 31 December 2007 was 12,919. 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. During the year, there were no outstanding share options granted by the Company as at 31 December 2007.

(c) Management discussion and analysis for the year ended 31 December 2008

During the year under review, the Group continued to focus on the manufacturing and sale of telecom and hi-tech electronic products as its core business which accounted for 100% of the turnover of the Group.

Turnover of the Group for the year ended 31 December 2008 amounted to HK\$2,758 million which represents a decrease of approximately 17.5% as compared to the corresponding period in 2007. The drop in the turnover of the Group is primarily due to the contraction of global consumption as affected by the financial tsunami.

The loss of the Group for the year ended 31 December 2008, including the exceptional costs and charges of HK\$126 million associated with the Discontinuation, was approximately HK\$317 million, represented an increase of 57.7% as compared to a loss of HK\$201 million in the previous financial year of 2007. The exceptional costs and charges mainly represent impairment loss on certain under-utilized fixed assets and intangible assets due to the Discontinuation and the restructuring costs relating to the business with the US Customer. Excluding the exceptional costs and charges associated with the Discontinuation, the Group reported an operation loss before taxation of approximately HK\$189 million for the year ended 31 December 2008, same as 2007. The operating loss (excluding the exceptional costs and charges) of the Group's business was due to the decrease in sales volume and high production costs especially in the first half of 2008.

The loss of the Group before the exceptional costs and charges in the second half of 2008 was approximately HK\$68 million, representing a decrease in loss of approximately HK\$55 million or 44.7% as compared to the loss of HK\$123 million in the first half of 2008. The significant improvement in the operating result in the second half signals a positive sign of the Group's efforts in reviving its manufacturing business.

Capital structure and gearing ratio

The Group's gearing ratio, calculated on the basis of the Group's total borrowings over total capital employed (equity plus total borrowings), increased from 17.3% as at 31 December 2007 to approximately 26.5% as at 31 December 2008 as a result of new bank loans raised by the Group and the decrease in equity due to the loss of 2008. Although the gearing ratio increased, it is still maintained at a low level.

After taking into account the cash on hand, the Group did not have any net borrowings and in fact had a positive net cash balance (net of borrowings) of approximately HK\$276 million. As at 31 December 2008, the maturity profile of the bank and other borrowings of the Group falling due within one year and in the second to the fifth year amounted to HK\$184 million and HK\$81 million respectively (31 December 2007: HK\$189 million and HK\$31 million respectively). All the Group's bank borrowings were borrowed to finance the ordinary business of the Group. There is no material effect of seasonality on the Group's borrowing requirements.

Liquidity and financial resources

The current ratio of the Group changed from 119.6% as at 31 December 2007 to 103.9% as at 31 December 2008, reflecting a healthy liquidity position during the financial turmoil. The slight decrease in the current ratio is partly due to the re-classification of certain bank borrowings to current liability.

Although the Group incurred substantial loss in 2008 (most of which was attributable to non-cash loss), the Group's cash balance was only slightly reduced from HK\$561 million as at 31 December 2007 to HK\$541 million as at 31 December 2008, of which HK\$86 million was pledged for general banking facilities. Almost all of the Group's cash was placed on deposits with licensed banks in Hong Kong.

In view of the Group's current level of cash and bank balances, funds generated internally from operations and the unutilized banking facilities available, the Board is confident that the Group will have sufficient resources to meet its debt repayment and finance its operations during the financial turmoil.

Capital commitments

As at 31 December 2008, the capital commitment of the Group was approximately HK\$2 million. The capital commitment will be funded partly by internal resources and partly by bank borrowings.

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, the Group's receipts were denominated mainly in US dollars, with some in Hong Kong dollars and the Euro. Payments were made mainly in Hong Kong dollars, US dollars and Renminbi and some made in Euros. Cash was generally placed in short-term deposits denominated in Hong Kong dollars and US dollars. 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 due to the fluctuations in foreign currency exchange rates and interest rates. The Group did not have any significant interest rate risk in 2008 as both the borrowings of the Group and the interest rates remained at low levels. In terms of foreign exchange exposures, the Group is principally exposed to two major currencies, namely the US dollar in terms of receipts and the Renminbi in terms of the production costs (including mainly wages and overheads) in the PRC. For US dollar exposure, since the Hong Kong dollar remains pegged to the US dollar, the exchange fluctuation is not expected to be significant. In addition, as most of the Group's purchases are also made in US dollars, which are to be paid out of the Group's sales receipts in US dollars, the management considers that the foreign exchange exposure risk for the US dollar is not material.

For Renminbi exposure, the Group's production costs in the PRC increased in 2008 due to appreciation of Renminbi. The Group will continue to explore ways and methods to hedge future appreciation of Renminbi and will only consider entering into any forward contracts at appropriate costs and pricing.

Acquisition and disposals of material subsidiaries and associates

The Group did not acquire or dispose of any material subsidiaries and associates during the year of 2008.

Significant investment

The Group did not hold any significant investment as at 31 December 2008.

Pledge of assets

As at 31 December 2008, certain of the Group's assets with net book value of HK\$475 million and time deposits of approximately HK\$86 million were pledged to secure general banking facilities granted to the Group.

Contingent liabilities

As at 31 December 2008, corporate guarantees of HK\$960 million were given by the Company to banks in connection with facilities granted to subsidiaries of the Company, of which approximately HK\$305 million (31 December 2007: HK\$322 million) were utilised.

Employees and remuneration policy

The total number of employees of the Group as at 31 December 2008 was 7,892. 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. During the year, there were no outstanding share options issued by the Company as at 31 December 2008.

(4) STATEMENT OF INDEBTEDNESS

As at the close of business on 30 April 2009 (being the latest practicable date for ascertaining information regarding this indebtedness statement), the Enlarged Group had outstanding borrowings of approximately HK\$199 million. The borrowings comprised secured bank loans of approximately HK\$81 million, unsecured bank loans of approximately HK\$115 million and obligations under finance lease contracts of approximately HK\$3 million. The Enlarged Group's borrowings were secured by (i) the fixed charges over certain leasehold land and buildings held by the Enlarged Group with aggregate net book values of approximately HK\$414 million as at 30 April 2009; and (ii) certain fixed deposits of the Enlarged Group of approximately HK\$92 million as at 30 April 2009.

Save as aforesaid, and apart from intra-group liabilities, the Enlarged Group did not have any bank loans, bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures or other loan capital, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 30 April 2009.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the rates of the exchange prevailing at the close of business on 30 April 2009.

(5) WORKING CAPITAL

The Directors are of the opinion that the Enlarged Group will, following the Completion and taking into account of the present internal financial resources available to the Enlarged Group including internally generated cash flows and other credit facilities available, have sufficient working capital for its present requirements in next 12 months from the date of this circular.

(1) ACCOUNTANTS' REPORT OF THE CCT INDUSTRIAL GROUP

The following is the text of an accountants' report on CCT Industrial Products Holdings Limited, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

5 June 2009

The Directors
CCT Tech International Limited

Dear Sirs,

We set out below our report on the financial information including the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the three years ended 31 December 2006, 2007 and 2008 (the “Relevant Periods”) and the consolidated and company balance sheets as at 31 December 2006, 2007 and 2008 and the notes thereto (the “Financial Information”) of CCT Industrial Products Holdings Limited (“CCT Industrial”) and its subsidiaries (hereinafter collectively referred to as the “CCT Industrial Group”), prepared on the basis set out in Section II below, for inclusion in the circular (the “Circular”) of CCT Tech International Limited (“CCT Tech”) dated 5 June 2009 in connection with the proposed capital reorganisation, major acquisition and connected transaction of CCT Tech.

CCT Industrial was incorporated in the British Virgin Islands with limited liability on 19 February 1997. The principal activity of CCT Industrial is investment holding and the principal activities of the CCT Industrial Group are set out below. CCT Industrial and its subsidiaries have adopted 31 December as their financial year end date.

At the date of this report, CCT Industrial had indirect interests in the following principal subsidiaries (all of which are private companies or, if incorporated outside Hong Kong, have characteristics substantially similar to those of a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Notes	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to CCT Industrial		Principal activities
				Direct	Indirect	
Electronic Sales Limited	(1)	Hong Kong 2 June 1972	HK\$5,948,000 Ordinary	—	100	Sale of power supply components
Neptune Holding Limited	(1)	Hong Kong 7 February 1992	HK\$10,000,000 Non-voting* class “A” shares HK\$1,000,000 Voting class “B” shares	—	100	Trading of plastic casings and parts
東莞易訊電子製品有限公司 (Dongguan Electronic Sales Products Co., Ltd.) [#]	(2)	The People’s Republic of China (the “PRC”) 5 February 2001 [^]	HK\$27,842,781 Registered	—	100	Manufacture of adaptors
東莞中建塑膠產品有限公司 (Dongguan CCT Plastic Products Co., Ltd.) [#]	(2)	PRC 25 June 2002 [^]	HK\$17,500,000 Registered	—	100	Manufacture of plastic casings and parts
惠陽中建塑膠產品有限公司 (Huiyang CCT Plastic Products Co., Ltd.) [#]	(3)	PRC 18 January 1999 [^]	HK\$48,600,000 Registered	—	100	Manufacture of plastic casings and parts
中建(朝陽)塑膠產品有限公司 (CCT (Chaoyang) Plastic Products Co., Ltd.) [#]	(4)	PRC 11 July 2006 [^]	US\$11,577,000 Registered	—	100	Manufacture of plastic casings and parts

* The non-voting shares carry no rights to dividends and no rights to vote at general meetings.

[^] Registered as wholly-foreign-owned enterprises under the PRC law.

[#] For identification purposes only.

Notes:

- (1) The financial statements of these companies for the years ended 31 December 2006, 2007 and 2008 were audited by Ernst & Young, Certified Public Accountants registered in Hong Kong.
- (2) The financial statements of these companies for the years ended 31 December 2006, 2007 and 2008 were audited by Dongguan City Diligent Certified Public Accountants Limited Company (東莞市德正會計師事務所有限公司), Certified Public Accountants registered in the PRC.

- (3) The financial statements of this company for the years ended 31 December 2006, 2007 and 2008 were audited by Huizhou Rongde Certified Public Accountants (惠州榮德會計師事務所), Certified Public Accountants registered in the PRC.
- (4) The financial statements of this company for the years ended 31 December 2007 and 2008 were audited by Chaoyang Longxin Certified Public Accountants Co. Ltd (朝陽龍信會計師事務所有限公司), Certified Public Accountants registered in the PRC. No audited financial statements were issued for the period ended 31 December 2006.

The above table lists the subsidiaries of CCT Industrial which, in the opinion of the directors of CCT Industrial (the “Directors”), principally affected the results for the Relevant Periods or formed a substantial portion of the net assets of the CCT Industrial Group at each balance sheet date of the Relevant Periods. To give details of other subsidiaries would result in particulars of excessive length.

No audited financial statements have been prepared for CCT Industrial since the date of its incorporation as there is no statutory requirement for CCT Industrial to prepare audited financial statements. The statutory financial statements or management accounts of the subsidiaries now comprising the CCT Industrial Group were prepared in accordance with the relevant accounting principles applicable to these companies in their respective jurisdictions.

For the purpose of this report, the Directors have prepared the consolidated management accounts (the “HKFRS Consolidated Management Accounts”) of the CCT Industrial Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The Financial Information set out in this report has been prepared based on the HKFRS Consolidated Management Accounts.

The Directors are responsible for the Financial Information which gives a true and fair view, and for the contents of the Circular in which this report is included. In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates made are prudent and reasonable, and that the reasons for any significant departure from applicable accounting standards are stated. It is our responsibility to form an independent opinion on the Financial Information for the Relevant Periods and to report our opinion solely to you.

Procedures performed in respect of the Financial Information for the Relevant Periods

For the purpose of this report, we have carried out an independent audit on the Financial Information in accordance with Hong Kong Standards on Auditing issued by the HKICPA, and such additional procedures as are necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA. No adjustments were considered necessary to adjust the HKFRS Consolidated Management Accounts to conform to the Financial Information for the Relevant Periods.

Opinion in respect of the Financial Information for the Relevant Periods

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of CCT Industrial and the CCT Industrial Group as at 31 December 2006, 2007 and 2008 and of the results and cash flows of the CCT Industrial Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION

(a) Consolidated income statements

	<i>Notes</i>	Year ended 31 December		
		2006	2007	2008
		<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
REVENUE	5	613	525	446
Cost of sales		<u>(563)</u>	<u>(498)</u>	<u>(460)</u>
Gross profit/(loss)		50	27	(14)
Other income and gains	5	4	3	4
Selling and distribution costs		(4)	(1)	(1)
General and administrative expenses		(41)	(36)	(33)
Other expenses		(101)	—	—
Finance costs	8	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>
		(93)	(8)	(45)
Costs in connection with the Discontinuation and restructuring	6	<u>—</u>	<u>—</u>	<u>(65)</u>
LOSS BEFORE TAX	7	(93)	(8)	(110)
Tax	11	<u>(5)</u>	<u>(2)</u>	<u>—</u>
LOSS FOR THE YEAR				
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	12	<u>(98)</u>	<u>(10)</u>	<u>(110)</u>
DIVIDEND	13	<u>—</u>	<u>—</u>	<u>105</u>

APPENDIX II FINANCIAL INFORMATION OF THE CCT INDUSTRIAL GROUP

(b) Consolidated balance sheets

		As at 31 December		
		2006	2007	2008
	<i>Notes</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
NON-CURRENT ASSETS				
Property, plant and equipment	15	96	180	119
Prepaid land lease payments	16	149	145	142
Deferred tax assets	27	1	1	1
Prepayments for acquisition of property, plant and equipment		<u>17</u>	<u>6</u>	<u>—</u>
Total non-current assets		<u>263</u>	<u>332</u>	<u>262</u>
CURRENT ASSETS				
Inventories	18	34	27	17
Trade receivables	19	129	123	121
Prepayments, deposits and other receivables	20	4	6	7
Cash and cash equivalents	21	<u>12</u>	<u>34</u>	<u>20</u>
Total current assets		<u>179</u>	<u>190</u>	<u>165</u>
CURRENT LIABILITIES				
Trade payables	22	75	73	44
Tax payable		10	11	12
Other payables and accruals	23	18	36	21
Interest-bearing bank and other borrowings	25	<u>6</u>	<u>3</u>	<u>3</u>
Total current liabilities		<u>109</u>	<u>123</u>	<u>80</u>
NET CURRENT ASSETS		<u>70</u>	<u>67</u>	<u>85</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>333</u>	<u>399</u>	<u>347</u>

		As at 31 December		
		2006	2007	2008
	Notes	HK\$ million	HK\$ million	HK\$ million
NON-CURRENT LIABILITIES				
Due to the ultimate holding company	24	178	241	394
Interest-bearing bank and other borrowings	25	<u>—</u>	<u>4</u>	<u>1</u>
Total non-current liabilities		<u>178</u>	<u>245</u>	<u>395</u>
Net assets/(liabilities)		<u>155</u>	<u>154</u>	<u>(48)</u>
EQUITY/(DEFICIENCY IN ASSETS)				
Equity attributable to equity holders of the parent				
Issued capital	28	—	—	—
Reserves	29(a)	<u>155</u>	<u>154</u>	<u>(48)</u>
Total equity/(deficiency in assets)		<u>155</u>	<u>154</u>	<u>(48)</u>

(c) Consolidated statements of changes in equity

	Note	Attributable to equity holders of the parent				Total HK\$ million
		Issued capital HK\$ million	Revaluation reserve HK\$ million	Exchange fluctuation reserve HK\$ million	Retained profits/ (accumulated losses) HK\$ million	
At 1 January 2006		—	4	2	246	252
Exchange realignment		—	—	3	—	3
Total income and expense recognised directly in equity		—	—	3	—	3
Loss for the year		—	—	—	(98)	(98)
Total income and expense for the year		—	—	3	(98)	(95)
Realisation of revaluation reserve upon disposal of an investment		—	(2)	—	2	—
Disposal of subsidiaries		—	(2)	—	—	(2)
At 31 December 2006 and 1 January 2007		—	—*	5*	150*	155
Exchange realignment		—	—	9	—	9
Total income and expense recognised directly in equity		—	—	9	—	9
Loss for the year		—	—	—	(10)	(10)
Total income and expense for the year		—	—	9	(10)	(1)
At 31 December 2007 and 1 January 2008		—	—*	14*	140*	154
Exchange realignment		—	—	13	—	13
Total income and expense recognised directly in equity		—	—	13	—	13
Loss for the year		—	—	—	(110)	(110)
Total income and expense for the year		—	—	13	(110)	(97)
Interim dividend	13	—	—	—	(105)	(105)
At 31 December 2008		—	—*	27*	(75)*	(48)

* These reserve accounts comprise the consolidated reserves in the consolidated balance sheets as at 31 December 2006, 2007 and 2008.

APPENDIX II FINANCIAL INFORMATION OF THE CCT INDUSTRIAL GROUP

(d) Consolidated cash flow statements

		Year ended 31 December		
		2006	2007	2008
	<i>Notes</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
CASH FLOWS FROM				
OPERATING ACTIVITIES				
Loss before tax		(93)	(8)	(110)
Adjustments for:				
Depreciation	7	13	12	22
Finance costs	8	1	1	1
Recognition of prepaid land lease payments	7	4	4	3
Impairment of items of property, plant and equipment	7	—	—	65
Provision for slow-moving and obsolete inventories	7	2	4	3
Loss on disposal of subsidiaries	7	101	—	—
Gain on disposal of available-for-sale financial assets	7	<u>(2)</u>	<u>—</u>	<u>—</u>
		26	13	(16)
Decrease/(increase) in inventories		(13)	3	7
Decrease in trade receivables		62	6	2
Decrease/(increase) in prepayments, deposits and other receivables		1	(2)	(1)
Increase/(decrease) in trade payables, other payables and accruals		<u>(23)</u>	<u>16</u>	<u>(44)</u>
Cash generated from/(used in) operations		53	36	(52)
Interest paid		(1)	(1)	(1)
PRC profits tax refunded/(paid)		<u>(1)</u>	<u>(1)</u>	<u>1</u>
Net cash inflow/(outflow) from operating activities		<u>51</u>	<u>34</u>	<u>(52)</u>

	<i>Note</i>	Year ended 31 December		
		2006	2007	2008
		<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(15)	(84)	(14)
Additions to prepaid land lease payments		(10)	—	—
Proceeds from disposal of items of property, plant and equipment		—	3	—
Proceeds from disposal of available-for-sale financial assets		7	—	—
Disposal of subsidiaries	30	(16)	—	—
Decrease/(increase) in prepayments for acquisition of property, plant and equipment		(7)	11	6
Net cash outflow from investing activities		(41)	(70)	(8)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase/(decrease) in an amount due to the ultimate holding company		(20)	63	153
New bank loans		4	—	—
Repayment of bank loans		—	(4)	—
Capital element of finance lease rental payments		(3)	(5)	(3)
Dividend paid		—	—	(105)
Net cash inflow/(outflow) from financing activities		(19)	54	45

	<i>Note</i>	Year ended 31 December		
		2006	2007	2008
		<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(9)	18	(15)
Cash and cash equivalents at beginning of year		21	12	34
Effect of foreign exchange rate changes, net		<u>—</u>	<u>4</u>	<u>1</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>12</u>	<u>34</u>	<u>20</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	21	<u>12</u>	<u>34</u>	<u>20</u>

(e) Balance sheets

	<i>Notes</i>	As at 31 December		
		2006	2007	2008
		<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
NON-CURRENT ASSETS				
Interests in subsidiaries	17	<u>205</u>	<u>277</u>	<u>394</u>
CURRENT LIABILITY				
Due to a subsidiary	17	<u>26</u>	<u>35</u>	<u>17</u>
TOTAL ASSETS LESS CURRENT LIABILITY		<u>179</u>	<u>242</u>	<u>377</u>
NON-CURRENT LIABILITIES				
Due to the ultimate holding company	24	<u>178</u>	<u>241</u>	<u>394</u>
Net assets/(liabilities)		<u>1</u>	<u>1</u>	<u>(17)</u>
EQUITY/(DEFICIENCY IN ASSETS)				
Issued capital	28	<u>—</u>	<u>—</u>	<u>—</u>
Reserves	29(b)	<u>1</u>	<u>1</u>	<u>(17)</u>
Total equity/(deficiency in assets)		<u>1</u>	<u>1</u>	<u>(17)</u>

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The registered office of CCT Industrial is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and the principal place of business is located at 2208, 22/F, St. George's Building, 2 Ice House Street, Central, Hong Kong.

During the Relevant Periods, the CCT Industrial Group is principally engaged in the manufacture and sale of plastic casing, plastic components, linear mode power supplies, switching mode power supplies, transformers, adaptors, and other electronic components (the "Components Business").

In the opinion of the Directors, the holding company and the ultimate holding company of CCT Industrial is CCT Telecom Holdings Limited ("CCT Telecom"), which is incorporated with limited liability in the Cayman Islands and continues in Bermuda and listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2.1 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Statements ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. It has been prepared under the historical cost convention. The Financial Information is presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest million (HK\$ million) except when otherwise indicated.

Basis of consolidation

The Financial Information includes the financial statements of CCT Industrial and its subsidiaries for the Relevant Periods. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the CCT Industrial Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and intercompany balances within the CCT Industrial Group are eliminated on consolidation.

The HKICPA has issued a number of new and revised HKFRSs which are effective for the accounting periods beginning on 1 January 2006, 1 January 2007 and 1 January 2008. For the purpose of preparing and presenting the Financial Information, the CCT Industrial Group has early adopted these new and revised HKFRSs throughout the Relevant Periods.

The CCT Industrial Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards ²
HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> ¹
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment — Vesting Conditions and Cancellations</i> ¹
HKFRS 3 (Revised)	<i>Business Combinations</i> ²
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments</i> ¹
HKFRS 8	<i>Operating Segments</i> ¹
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i> ¹
HKAS 23 (Revised)	<i>Borrowing Costs</i> ¹
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ²
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation</i> ¹
HKAS 39 Amendment	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i> ²

HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement — Embedded Derivatives</i> ³
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i> ³
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i> ¹
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i> ⁴
HK(IFRIC)-Int 17	<i>Distribution of Non-cash Assets to Owners</i> ²
HK(IFRIC)-Int 18	<i>Transfer of Assets from Customers</i> ⁵

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

- ¹ Effective for annual periods beginning on or after 1 January 2009
- ² Effective for annual periods beginning on or after 1 July 2009
- ³ Effective for annual periods beginning on or after 1 July 2008
- ⁴ Effective for annual periods beginning on or after 1 October 2008
- ⁵ Effective for transfers of assets from customers received on or after 1 July 2009
- * *Improvements to HKFRSs* contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The CCT Industrial Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 7 Amendments, HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and HKAS 23 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the CCT Industrial Group's results of operations and financial position.

2.2 BASIS OF PRESENTATION

As at 31 December 2008, the CCT Industrial Group has deficiency in assets of HK\$48 million. CCT Telecom has undertaken not to demand repayment of the amount of HK\$394 million due by the CCT Industrial Group until such time as the CCT Industrial Group is in a position to repay such amount without impairing its liquidity position. The Directors are of the opinion that the CCT Industrial Group has sufficient working capital for its present requirements. Accordingly, the Financial Information has been prepared on a going concern basis.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies CCT Industrial controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in CCT Industrial's income statement to the extent of dividends received and receivable. CCT Industrial's interests in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but 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 such impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the CCT Industrial Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the CCT Industrial Group; (ii) has an interest in the CCT Industrial Group that gives it significant influence over the CCT Industrial Group; or (iii) has joint control over the CCT Industrial Group;
- (b) the party is an associate;
- (c) the party is a member of the key management personnel of the CCT Industrial Group or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (c); or
- (e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Plant and machinery	10%–20%
Tools, moulds and equipment	20%
Furniture and office equipment	20%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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 during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the CCT Industrial 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 property, plant and equipment, 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 income statement 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 CCT Industrial Group is the lessor, assets leased by the CCT Industrial Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the CCT Industrial Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The CCT Industrial Group assesses whether a contract contains an embedded derivative when the CCT Industrial Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The CCT Industrial Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the CCT Industrial Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The CCT Industrial Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the CCT Industrial Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the CCT Industrial Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the CCT Industrial Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the CCT Industrial Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the CCT Industrial Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the CCT Industrial Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the CCT Industrial Group’s continuing involvement is the amount of the transferred asset that the CCT Industrial Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the CCT Industrial Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, an amount due to an associate, and deferred service fees received in advance are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within “finance costs” in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Cash and cash equivalents

For the purpose of the consolidated cash flow statements, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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 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 and associates, 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 credits 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 credits 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 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 deductible temporary differences associated with investments in subsidiaries and associates, 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 reassessed at each balance sheet date and 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.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the CCT Industrial Group and when the revenue can be measured reliably, on the following bases:

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the CCT Industrial Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (ii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Other employee benefits***Pension schemes***

The CCT Industrial Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement 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 CCT Industrial Group in an independently administered fund. The CCT Industrial Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the CCT Industrial Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Foreign currencies

The Financial Information is presented in Hong Kong dollars, which is CCT Industrial’s functional and presentation currency. Each entity in the CCT Industrial Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain subsidiaries established in Mainland China are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of CCT Industrial at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity as the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries established in Mainland China are translated into 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 into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of non-financial assets (other than goodwill)

The CCT Industrial Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

An impairment loss of HK\$65 million was recognised for items of property, plant and equipment during the year ended 31 December 2008. Determining the amount to be recognised requires significant management judgement and requires management to make assumptions regarding the expected future cash generation of the CCT Industrial Group. Further details are given in note 15 to the financial statements.

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.

(a) Business segment

The CCT Industrial Group's business segment is only the Components Business which represents a strategic business unit that offers products and services which are subject to the same risks and returns. Therefore, no business segment analysis is presented.

(b) Geographical segments

In determining the CCT Industrial Group's geographical segments, revenues are attributed to the segments based on the locations of customers, and assets are attributed to the segments based on the location of the assets.

Over 90% of revenue for the CCT Industrial Group's geographical segments for the years ended 31 December 2006, 2007 and 2008 are from the Mainland of the People's Republic of China (the "PRC"). Accordingly, no analysis of the revenue by geographical segment is presented.

Over 90% of the CCT Industrial Group's assets are located in the PRC, including Hong Kong. Accordingly, no analysis of the assets and capital expenditure by geographical segment is presented.

5. REVENUE AND OTHER INCOME AND GAINS

Revenue, which is also the CCT Industrial Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the Relevant Periods.

An analysis of revenue, other income and gains is as follows:

	Year ended 31 December		
	2006	2007	2008
	HK\$ million	HK\$ million	HK\$ million
Revenue			
Sale of goods	<u>613</u>	<u>525</u>	<u>446</u>
Other income and gains			
Sale of scrap	1	1	2
Gain on disposal of available-for-sale financial assets	2	—	—
Others	<u>1</u>	<u>2</u>	<u>2</u>
	<u>4</u>	<u>3</u>	<u>4</u>

6. COSTS IN CONNECTION WITH THE DISCONTINUATION AND RESTRUCTURING

During the year ended 31 December 2008, the holding company of a distribution company in the United States of America (the "U.S. Customer") announced its decision to exit with immediate effect its retail telephony activities in North America which were then carried on by the U.S. Customer (the "Discontinuation"). The U.S. Customer is the largest single customer of the CCT Tech group which, in turn, is the CCT Industrial Group's single largest customer for that year. As a result of the Discontinuation, certain production facilities of the CCT Industrial Group become under utilised. In order to improve its competitiveness, the CCT Industrial Group had implemented measures to streamline and restructure its operations.

The costs incurred and accrued as at 31 December 2008 in connection with the Discontinuation and restructuring are summarised below:

	2008
	HK\$ million
Impairment of items of property, plant and equipment (<i>note 15</i>)	<u>65</u>

7. LOSS BEFORE TAX

The CCT Industrial Group's loss before tax is arrived at after charging/(crediting):

	<i>Notes</i>	Year ended 31 December		
		2006	2007	2008
		<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Staff costs (excluding directors' remuneration (note 9)):				
Salaries and related staff costs		52	64	81
Pension scheme contributions		—	—	—
		<u>52</u>	<u>64</u>	<u>81</u>
Cost of inventories sold*		563	498	460
Recognition of prepaid land lease payments	16	4	4	3
Auditors' remuneration		0.4	0.4	0.5
Depreciation	15	13	12	22
Minimum lease payments under operating leases in respect of land and buildings		8	9	9
Impairment of items of property, plant and equipment***	15	—	—	65
Provision for slow-moving and obsolete inventories*		2	4	3
Loss on disposal of subsidiaries**	30	101	—	—
Foreign exchange differences, net		1	1	1
Gain on disposal of available-for-sale financial assets		<u>(2)</u>	<u>—</u>	<u>—</u>

* Included in "Cost of sales" on the face of the consolidated income statements.

** Included in "Other expenses" on the face of the consolidated income statements.

*** Included in "Costs in connection with the Discontinuation and restructuring" on the face of the consolidated income statements.

8. FINANCE COSTS

CCT Industrial Group

	Year ended 31 December		
	2006	2007	2008
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Interest on bank and other borrowings wholly repayable within five years	<u>1</u>	<u>1</u>	<u>1</u>

APPENDIX II FINANCIAL INFORMATION OF THE CCT INDUSTRIAL GROUP

9. DIRECTORS' REMUNERATION

Directors' remuneration for the Relevant Periods, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

CCT Industrial Group

	Year ended 31 December		
	2006	2007	2008
	HK\$ million	HK\$ million	HK\$ million
Fees	—	—	—
Other emoluments:			
Salaries, housing allowances, other allowances and benefits in kind	3	—	—
Pension scheme contributions	—	—	—
	<u>3</u>	<u>—</u>	<u>—</u>
	Salaries, housing allowances, other allowances and benefits in kind	Pension scheme contributions	Total remuneration
	Fees		
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
2006			
Mak Shiu Tong, Clement	—	2	—
Cheng Yuk Ching, Flora	—	1	—
	<u>—</u>	<u>3</u>	<u>—</u>
2007			
Mak Shiu Tong, Clement	—	—	—
Cheng Yuk Ching, Flora	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
2008			
Mak Shiu Tong, Clement	—	—	—
Cheng Yuk Ching, Flora	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2006, 2007 and 2008.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year ended 31 December 2006 included two directors, details of whose remuneration are set out in note 9 above. No director was included in the five highest paid employees for the years ended 31 December 2007 and 2008. Details of the remuneration of the three, five and five highest paid employees who are not directors of CCT Industrial, for the years ended 31 December 2006, 2007 and 2008, respectively, are as follows:

CCT Industrial Group

	Year ended 31 December		
	2006	2007	2008
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Salaries, housing allowances, other allowances and benefits in kind	2	2	2
Pension scheme contributions	—	—	—
	<u>2</u>	<u>2</u>	<u>2</u>

The remuneration of each of the highest paid employees who are not directors of CCT Industrial for the Relevant Periods fell within the range from Nil to HK\$1,000,000.

11. TAX

No provision for Hong Kong profits tax has been made as the CCT Industrial Group either did not generate any assessable profits arising in Hong Kong or had available tax losses brought forward from prior years to offset the assessable profits generated during the Relevant Periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the CCT Industrial Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Year ended 31 December		
	2006	2007	2008
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
CCT Industrial Group:			
Current — Hong Kong:			
Charge for the year	1	—	—
Current — Mainland China:			
Charge for the year	<u>4</u>	<u>2</u>	<u>—</u>
Total tax charge for the year	<u>5</u>	<u>2</u>	<u>—</u>

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the jurisdictions in which CCT Industrial and its subsidiaries 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:

CCT Industrial Group — Year ended 31 December 2006

	Hong Kong		Mainland China		Total	
	<i>HK\$</i>		<i>HK\$</i>		<i>HK\$</i>	
	<i>million</i>	%	<i>million</i>	%	<i>million</i>	%
Loss before tax	<u>(85.8)</u>		<u>(6.7)</u>		<u>(92.5)</u>	
Tax at the applicable tax rates	(15.0)	17.5	(2.2)	33.0	(17.2)	18.6
Lower tax rates for specific provinces or local authority	—	—	0.4	(6.0)	0.4	(0.4)
Adjustments in respect of current tax of previous periods	(0.1)	0.1	—	—	(0.1)	0.1
Income not subject to tax	(1.2)	1.4	(38.0)	567.1	(39.2)	42.3
Expenses not deductible for tax	<u>17.6</u>	<u>(20.5)</u>	<u>43.1</u>	<u>(643.4)</u>	<u>60.7</u>	<u>(65.6)</u>
Tax charge at the CCT Industrial Group's effective rate	<u>1.3</u>	<u>(1.5)</u>	<u>3.3</u>	<u>(49.3)</u>	<u>4.6</u>	<u>(5.0)</u>

CCT Industrial Group — Year ended 31 December 2007

	Hong Kong		Mainland China		Total	
	<i>HK\$</i>		<i>HK\$</i>		<i>HK\$</i>	
	<i>million</i>	%	<i>million</i>	%	<i>million</i>	%
Loss before tax	<u>(1.9)</u>		<u>(6.5)</u>		<u>(8.4)</u>	
Tax at the applicable tax rates	(0.3)	17.5	(2.2)	33.0	(2.5)	29.8
Lower tax rates for specific provinces or local authority	—	—	(0.5)	7.7	(0.5)	6.0
Income not subject to tax	(0.2)	10.5	—	—	(0.2)	2.4
Expenses not deductible for tax	—	—	5.9	(89.9)	5.9	(70.3)
Tax losses utilised from previous periods	—	—	(0.6)	9.2	(0.6)	7.1
Tax losses not recognised	0.4	(22.7)	1.5	(23.1)	1.9	(22.6)
Tax exemption	<u>—</u>	<u>—</u>	<u>(2.4)</u>	<u>36.9</u>	<u>(2.4)</u>	<u>28.6</u>
Tax charge at the CCT Industrial Group's effective rate	<u>(0.1)</u>	<u>5.3</u>	<u>1.7</u>	<u>(26.2)</u>	<u>1.6</u>	<u>19.0</u>

CCT Industrial Group — Year ended 31 December 2008

	Hong Kong		Mainland China		Total	
	HK\$		HK\$		HK\$	
	million	%	million	%	million	%
Loss before tax	<u>(1.7)</u>		<u>(108.0)</u>		<u>(109.7)</u>	
Tax at the applicable tax rates	(0.3)	16.5	(27.0)	25.0	(27.3)	24.8
Expenses not deductible for tax	—	—	20.7	(19.2)	20.7	(18.8)
Tax losses not recognised	<u>0.3</u>	<u>(16.5)</u>	<u>6.5</u>	<u>(6.0)</u>	<u>6.8</u>	<u>(6.2)</u>
Tax charge at the CCT Industrial Group's effective rate	<u>—</u>	<u>—</u>	<u>0.2</u>	<u>(0.2)</u>	<u>0.2</u>	<u>(0.2)</u>

In late February 2008, CCT Telecom received a letter from the Hong Kong Inland Revenue Department (the “IRD”) in respect of a review on the tax affairs of CCT Telecom and its subsidiaries, including certain members of the CCT Industrial Group, for the past years, and protective tax assessments in the aggregate amount of HK\$4 million for the year of assessment 2001/2002 were issued by the IRD to a subsidiary of CCT Industrial. At 31 December 2008, tax reserve certificates of HK\$4 million had been purchased for the protective tax assessment raised for the year of assessment 2001/2002. Subsequent to 31 December 2008, in March 2009, protective tax assessments in the aggregate amount of HK\$6 million for the year of assessment 2002/2003 were issued by the IRD to a subsidiary of CCT Industrial and CCT Industrial. Objection has been lodged by these companies against the protective tax assessments. The directors of CCT Industrial believe that there are valid grounds to contest the protective tax assessments. In view that the tax review by the IRD is only at the initial stage, there is still uncertainty about the outcome of the case. Up to the date of this report, the Directors consider that adequate tax provision has been made in the Financial Information.

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated loss attributable to equity holders of the parent for the years ended 31 December 2006, 2007 and 2008 includes loss of HK\$60 million, nil and profit of HK\$87 million, respectively, which have been dealt with in the financial statements of CCT Industrial (note 29(b)).

13. DIVIDEND

	Year ended 31 December		
	2006	2007	2008
	HK\$ million	HK\$ million	HK\$ million
Interim dividend (2008: HK\$105,000,000 per ordinary share)	<u>—</u>	<u>—</u>	<u>105</u>

14. LOSS PER SHARE

Loss per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful as CCT Industrial is a wholly-owned subsidiary of CCT Telecom during the Relevant Periods.

15. PROPERTY, PLANT AND EQUIPMENT

CCT Industrial Group

	Buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
At 1 January 2006, net of accumulated depreciation	34	67	4	5	1	—	111
Additions	—	13	—	—	2	—	15
Depreciation provided during the year	(2)	(7)	(1)	(2)	(1)	—	(13)
Disposal of subsidiaries (<i>note 30</i>)	(8)	(9)	(2)	—	(1)	—	(20)
Exchange realignment	—	3	—	—	—	—	3
At 31 December 2006 and 1 January 2007, net of accumulated depreciation	24	67	1	3	1	—	96
Additions	—	57	1	21	2	13	94
Disposals	—	(2)	—	—	(1)	—	(3)
Depreciation provided during the year	(1)	(9)	—	(2)	—	—	(12)
Exchange realignment	—	4	—	1	—	—	5
At 31 December 2007 and 1 January 2008, net of accumulated depreciation	23	117	2	23	2	13	180
Additions	6	7	—	1	—	—	14
Impairment	(10)	(44)	(1)	(10)	—	—	(65)
Depreciation provided during the year	(2)	(14)	—	(5)	(1)	—	(22)
Transfer	14	—	—	—	—	(14)	—
Exchange realignment	1	8	—	2	—	1	12
At 31 December 2008, net of accumulated depreciation and impairment	<u>32</u>	<u>74</u>	<u>1</u>	<u>11</u>	<u>1</u>	<u>—</u>	<u>119</u>

	Buildings	Plant and machinery	Tools, moulds and equipment	Furniture and office equipment	Motor vehicles	Construction in progress	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
At 31 December 2006:							
Cost	27	139	5	11	3	—	185
Accumulated depreciation	(3)	(72)	(4)	(8)	(2)	—	(89)
Net carrying amount	<u>24</u>	<u>67</u>	<u>1</u>	<u>3</u>	<u>1</u>	<u>—</u>	<u>96</u>
At 31 December 2007:							
Cost	28	202	7	33	4	13	287
Accumulated depreciation	(5)	(85)	(5)	(10)	(2)	—	(107)
Net carrying amount	<u>23</u>	<u>117</u>	<u>2</u>	<u>23</u>	<u>2</u>	<u>13</u>	<u>180</u>
At 31 December 2008:							
Cost	48	223	8	36	4	—	319
Accumulated depreciation and impairment	(16)	(149)	(7)	(25)	(3)	—	(200)
Net carrying amount	<u>32</u>	<u>74</u>	<u>1</u>	<u>11</u>	<u>1</u>	<u>—</u>	<u>119</u>

The CCT Industrial Group's buildings included above are held under the medium term leases.

The net book values of the property, plant and equipment of the CCT Industrial Group held under finance leases as at 31 December 2006, 2007 and 2008 included in the total amounts of plant and machinery amounted to approximately HK\$8 million, HK\$10 million and HK\$9 million, respectively, and those included in the total amounts of motor vehicles amounted to nil, HK\$1 million and HK\$1 million, respectively.

During the year ended 31 December 2008, an impairment of HK\$65 million was recognised for certain property, plant and equipment because certain production facilities and fixed assets of the CCT Industrial Group were under-utilised as a result of the Discontinuation (note 6). The impairment loss is estimated based on the recoverable amount of the cash generating unit. The recoverable amount of the cash generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections is 11.7%.

16. PREPAID LAND LEASE PAYMENTS

CCT Industrial Group

	2006	2007	2008
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Carrying amount at 1 January	147	153	149
Additions	10	—	—
Recognised during the year	<u>(4)</u>	<u>(4)</u>	<u>(3)</u>
Carrying amount at 31 December	153	149	146
Current portion included in prepayments, deposits and other receivables	<u>(4)</u>	<u>(4)</u>	<u>(4)</u>
Non-current portion	<u>149</u>	<u>145</u>	<u>142</u>

The leasehold land is held under a long term lease and is situated in the PRC.

17. INTERESTS IN SUBSIDIARIES

CCT Industrial

	As at 31 December		
	2006	2007	2008
	HK\$ million	HK\$ million	HK\$ million
Unlisted shares, at cost	79	79	79
Due from a subsidiary	126	198	333
	205	277	412
Impairment	—	—	(18)
	205	277	394

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from/to subsidiaries approximate to their fair values.

18. INVENTORIES

CCT Industrial Group

	As at 31 December		
	2006	2007	2008
	HK\$ million	HK\$ million	HK\$ million
Raw materials	26	17	8
Work in progress	3	4	3
Finished goods	5	6	6
	34	27	17

19. TRADE RECEIVABLES

CCT Industrial Group

	As at 31 December		
	2006	2007	2008
	HK\$ million	HK\$ million	HK\$ million
Trade receivables	129	123	121

The CCT Industrial Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The CCT Industrial Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. At 31 December 2006, 2007 and 2008, the CCT Industrial Group has certain concentration of credit risk as 88%, 91% and 90% of the CCT Industrial Group's trade receivables were due from its largest customer, respectively, and 100% of the CCT Industrial Group's trade receivables were due from its five largest customers.

Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

CCT Industrial Group

	As at 31 December					
	2006		2007		2008	
	Balance <i>HK\$ million</i>	Percentage	Balance <i>HK\$ million</i>	Percentage	Balance <i>HK\$ million</i>	Percentage
Current to 30 days	30	23	38	31	21	17
31 to 60 days	31	24	40	32	21	18
61 to 90 days	34	27	40	33	41	34
Over 90 days	34	26	5	4	38	31
	<u>129</u>	<u>100</u>	<u>123</u>	<u>100</u>	<u>121</u>	<u>100</u>

There is no significant impairment in respect of the trade receivables of the CCT industrial Group for the years ended 31 December 2006, 2007 and 2008.

As at 31 December 2006, 2007 and 2008, included in the CCT Industrial Group's trade receivables are amounts due from subsidiaries of CCT Tech of HK\$127 million, HK\$111 million and HK\$108 million, respectively, which are repayable on similar credit terms to those offered to the major customers of the CCT Industrial Group.

An analysis of trade and bills receivables that were past due but not impaired is as follows:

CCT Industrial Group

	As at 31 December		
	2006 <i>HK\$ million</i>	2007 <i>HK\$ million</i>	2008 <i>HK\$ million</i>
Neither past due nor impaired			
Past due but not impaired	125	121	113
— Within 6 months	4	2	6
— 7 to 12 months	<u>—</u>	<u>—</u>	<u>2</u>
	<u>129</u>	<u>123</u>	<u>121</u>

Receivables that were neither past due nor impaired relate to a number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the CCT Industrial Group. Based on past experience, the directors of CCT Industrial are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The CCT Industrial Group does not hold any collateral or other credit enhancements over these balances.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**CCT Industrial Group**

	As at 31 December		
	2006	2007	2008
	HK\$ million	HK\$ million	HK\$ million
Prepayments	4	4	4
Deposits and other receivables	—	2	3
	<u>4</u>	<u>6</u>	<u>7</u>

None of the above is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. CASH AND CASH EQUIVALENTS**CCT Industrial Group**

	As at 31 December		
	2006	2007	2008
	HK\$ million	HK\$ million	HK\$ million
Cash and bank balances	<u>12</u>	<u>34</u>	<u>20</u>

At 31 December 2006, 2007 and 2008, the cash and bank balances of the CCT Industrial Group denominated in Renminbi (“RMB”) amounted to HK\$4 million, HK\$5 million and HK\$10 million, respectively. 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 CCT Industrial Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one and two weeks depending on the immediate cash requirements of the CCT Industrial Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

22. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

CCT Industrial Group

	As at 31 December					
	2006		2007		2008	
	Balance	Percentage	Balance	Percentage	Balance	Percentage
	HK\$ million		HK\$ million		HK\$ million	
Current to 30 days	21	28	25	34	8	18
31 to 60 days	22	29	21	29	9	20
61 to 90 days	16	21	11	15	12	27
Over 90 days	<u>16</u>	<u>22</u>	<u>16</u>	<u>22</u>	<u>15</u>	<u>35</u>
	<u>75</u>	<u>100</u>	<u>73</u>	<u>100</u>	<u>44</u>	<u>100</u>

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

APPENDIX II FINANCIAL INFORMATION OF THE CCT INDUSTRIAL GROUP

23. OTHER PAYABLES AND ACCRUALS

CCT Industrial Group

	As at 31 December		
	2006 HK\$ million	2007 HK\$ million	2008 HK\$ million
Other payables	4	23	12
Accruals	14	13	9
	<u>18</u>	<u>36</u>	<u>21</u>

Other payables are non-interest-bearing and have an average term of three months.

24. DUE TO THE ULTIMATE HOLDING COMPANY

CCT Industrial Group and CCT Industrial

	As at 31 December		
	2006 HK\$ million	2007 HK\$ million	2008 HK\$ million
Due to the ultimate holding company	<u>178</u>	<u>241</u>	<u>394</u>

The amount due to the ultimate holding company is unsecured, interest-free and has no fixed terms of repayment. The ultimate holding company has undertaken not to demand repayment of the amount due by the CCT Industrial Group until such time as the CCT Industrial Group is in a position to repay such amount without impairing its liquidity position. Accordingly, the amount due to the ultimate holding company is classified as a non-current liability in the balance sheets.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

CCT Industrial Group

	2006			As at 31 December 2007			2008		
	Effective interest rate (%)	Maturity	HK\$ million	Effective interest rate (%)	Maturity	HK\$ million	Effective interest rate (%)	Maturity	HK\$ million
Current									
Finance lease payables (note 26)	2.50–5.75	2007	2	2.50–4.75	2008	3	3.25–4.25	2009	3
Bank loan — secured	6.01–6.03	2007	<u>4</u>			<u>—</u>			<u>—</u>
			<u>6</u>			<u>3</u>			<u>3</u>
Non-current									
Finance lease payables (note 26)			<u>—</u>	3.20–4.75	2010	<u>4</u>	3.25–4.25	2010	<u>1</u>
			<u>6</u>			<u>7</u>			<u>4</u>

CCT Industrial Group

	As at 31 December		
	2006	2007	2008
	HK\$ million	HK\$ million	HK\$ million
Analysed into:			
Bank loans repayable:			
Within one year or on demand	4	—	—
Other borrowings repayable:			
Within one year or on demand	2	3	3
In the second year	—	3	1
In the third to fifth years, inclusive	—	1	—
	2	7	4
	6	7	4

All the CCT Industrial Group's bank and other borrowings are denominated in Hong Kong dollars. The carrying amounts of the CCT Industrial Group's borrowings approximate to their fair values.

26. FINANCE LEASE PAYABLES

The CCT Industrial Group leases certain of its motor vehicles and machinery for business use. These leases are classified as finance leases and have remaining lease term of one to three years.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

CCT Industrial Group

	Minimum lease payments			Present values of minimum lease payments		
	As at 31 December			As at 31 December		
	2006	2007	2008	2006	2007	2008
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	million	million	million	million	million	million
Amounts payable:						
Within one year	2	3	3	2	3	3
In the second year	—	3	1	—	3	1
In the third to fifth years, inclusive	—	1	—	—	1	—
Total minimum finance lease payments	2	7	4	2	7	4
Future finance charges	—	—	—			
Total net finance lease payables	2	7	4			
Portion classified as current liabilities (note 25)	(2)	(3)	(3)			
Non-current portion (note 25)	—	4	1			

27. DEFERRED TAX

Deferred tax assets relate to tax losses available for offsetting against future taxable profits. There is no movement in deferred tax assets during the Relevant Periods.

As at 31 December 2006, 2007 and 2008, the CCT Industrial Group has tax losses arising in Hong Kong of nil, HK\$2 million and HK\$4 million, respectively, 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, and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the CCT Industrial Group, the applicable rate is 5%. The CCT Industrial Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2008, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the CCT Industrial Group's subsidiaries established in Mainland China as these subsidiaries incurred losses during the year.

There are no income tax consequences attaching to the payment of dividends by CCT Industrial to its shareholder.

28. SHARE CAPITAL**Shares**

	As at 31 December		
	2006	2007	2008
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Authorised:			
50,000 ordinary shares of US\$1 each	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Issued and fully paid:			
100 ordinary shares of US\$1 each	<u>780</u>	<u>780</u>	<u>780</u>

29. RESERVES**(a) CCT Industrial Group**

The amounts of the CCT Industrial Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity on page 105 of this report.

(b) CCT Industrial

	Retained profits/ (accumulated losses) <i>HK\$ million</i>
At 1 January 2006	61
Loss for the year	<u>(60)</u>
At 31 December 2006 and 1 January 2007	1
Loss for the year	<u>—</u>
At 31 December 2007 and 1 January 2008	1
Profit for the year	87
Interim dividend	<u>(105)</u>
At 31 December 2008	<u><u>(17)</u></u>

30. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2006, as a result of group restructuring, the CCT Industrial Group disposed of the 100% equity interest in Current Profits Limited (which was then a wholly-owned subsidiary of CCT Industrial) to a fellow subsidiary for a consideration of HK\$78,000. Current Profits Limited and its subsidiaries are principally engaged in the manufacture and sale of infant and child products.

	2006 <i>HK\$ million</i>
Net assets disposed of:	
Property, plant and equipment (<i>note 15</i>)	20
Available-for-sale financial assets	9
Trade receivables	14
Inventories	4
Prepayments and other receivables	54
Cash and bank balances	16
Trade payables	(9)
Other payables and accruals	(5)
Finance lease payables	<u>(2)</u>
	101
Loss on disposal of subsidiaries	<u><u>(101)</u></u>
	<u><u>—</u></u>

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

	2006 <i>HK\$ million</i>
Cash and bank balances disposed of	(16)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(16)

31. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

During the years ended 31 December 2006, 2007 and 2008, the CCT Industrial Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the finance leases of nil, HK\$10 million and nil, respectively.

32. CONTINGENT LIABILITIES

CCT Industrial and the CCT Industrial Group are currently under review by the IRD on their tax affairs for the past years. The directors of CCT Industrial believe that adequate tax provision has been made in prior years. Further details have been disclosed in note 11.

33. OPERATING LEASE COMMITMENTS

The CCT Industrial Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

At the balance sheet date, the CCT Industrial Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

CCT Industrial Group

	As at 31 December		
	2006	2007	2008
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Within one year	8	9	—
In the second to fifth years, inclusive	6	—	—
	<u>14</u>	<u>9</u>	<u>—</u>

In addition, at the balance sheet date, the CCT Industrial Group had total future minimum lease payments under non-cancellable operating leases with initial lease term of 50 years in respect of land on which certain of the CCT Industrial Group's buildings are situated falling due as follows:

CCT Industrial Group

	As at 31 December		
	2006	2007	2008
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Within one year	1	1	1
In the second to fifth years, inclusive	3	3	4
After five years	42	44	46
	<u>46</u>	<u>48</u>	<u>51</u>

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the CCT Industrial Group had the following commitments at the balance sheet date:

CCT Industrial Group

	As at 31 December		
	2006 HK\$ million	2007 HK\$ million	2008 HK\$ million
Contracted, but not provided for:			
Construction in progress	28	5	—
Purchases of plant and machinery and equipment	5	—	—
	<u>33</u>	<u>5</u>	<u>—</u>

At each of the balance sheet dates, CCT Industrial had no significant commitments.

35. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in the Financial Information, the CCT Industrial Group had the following transactions with related parties during the Relevant Periods:

CCT Industrial Group

	Notes	Year ended 31 December		
		2006 HK\$ million	2007 HK\$ million	2008 HK\$ million
Sale of goods to fellow subsidiaries	(i)	466	484	420
Factory rental expenses	(ii)	<u>6</u>	<u>6</u>	<u>6</u>

- (i) CCT Telecom and CCT Tech entered into a manufacturing agreement dated 9 November 2006, pursuant to which CCT Telecom agrees to manufacture through the CCT Industrial Group certain power supply components, transformers, plastic casings and components and toolings for the production of telecom and electronics products for CCT Tech.

The prices were determined based on the direct material costs plus a mark-up of no more than 150%.

- (ii) The factory rental expenses were charged to Shine Best Developments Limited (a wholly-owned subsidiary of CCT Industrial) by CCT Enterprises Limited (a wholly-owned subsidiary of CCT Tech), for the provision of factory spaces 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 Developments Limited and CCT Enterprises Limited on 5 December 2005.

- (b) Outstanding balances with related parties

Details of the CCT Industrial Group's amounts due from subsidiaries of CCT Tech and amount due to the ultimate holding company as at each of the balance sheet dates are included in notes 19 and 24 to the Financial Information, respectively.

- (c) Compensation of key management personnel of the CCT Industrial Group

CCT Industrial Group

	Year ended 31 December		
	2006	2007	2008
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Short term employee benefits	2	1	1
Post-employment benefits	—	—	—
Total compensation paid to key management personnel	<u>2</u>	<u>1</u>	<u>1</u>

Further details of directors' emoluments are included in note 9 to the Financial Information.

36. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of CCT Industrial and the CCT Industrial Group and as at 31 December 2006, 2007 and 2008, are loans and receivables and financial liabilities stated at amortised cost, respectively.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The CCT Industrial Group's principal financial instruments comprise bank loans, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the CCT Industrial Group's operations. The CCT Industrial Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the CCT Industrial Group's policy that no trading in financial instruments shall be undertaken.

The main risk arising from the CCT Industrial Group's financial instruments is liquidity risk. The board of directors of CCT Industrial reviews and agrees policies for managing this risk and it is summarised below.

Liquidity risk

The CCT Industrial Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, other interest-bearing loans and finance leases. In addition, banking facilities have been put in place for contingency purposes.

The table below summarises the maturity profile of the CCT Industrial Group's financial liabilities based on contractual undiscounted payments as at the balance sheet date.

CCT Industrial Group

	Within one year or on demand <i>HK\$ million</i>	In the second year <i>HK\$ million</i>	In the third to fifth years, inclusive <i>HK\$ million</i>	Total <i>HK\$ million</i>
As at 31 December 2006				
Interest-bearing bank and other borrowings	6	—	—	6
Trade payables	75	—	—	75
Other payables	4	—	—	4
	<u>85</u>	<u>—</u>	<u>—</u>	<u>85</u>
As at 31 December 2007				
Interest-bearing bank and other borrowings	3	3	1	7
Trade payables	73	—	—	73
Other payables	23	—	—	23
	<u>99</u>	<u>3</u>	<u>1</u>	<u>103</u>
As at 31 December 2008				
Interest-bearing bank and other borrowings	3	1	—	4
Trade payables	44	—	—	44
Other payables	12	—	—	12
	<u>59</u>	<u>1</u>	<u>—</u>	<u>60</u>

The ultimate holding company has undertaken not to demand repayment of the amount due by the CCT Industrial Group and CCT Industrial until such time as the CCT Industrial Group and CCT Industrial are in a position to repay such amount without impairing its liquidity position.

Capital management

The primary objective of the CCT Industrial Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The CCT Industrial Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the CCT Industrial Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The CCT Industrial Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2006, 31 December 2007 and 31 December 2008.

The CCT Industrial Group monitors capital using a gearing ratio, which is total borrowings divided by total capital plus total borrowings. The CCT Industrial Group includes interest-bearing bank and other borrowings and amount due to the ultimate holding company in the total borrowings. Capital includes equity attributable to equity holders of the parent.

CCT Industrial Group

	As at 31 December		
	2006	2007	2008
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Interest-bearing bank and other borrowings	6	7	4
Due to the ultimate holding company	<u>178</u>	<u>241</u>	<u>394</u>
Total borrowings	184	248	398
Total capital	<u>155</u>	<u>154</u>	<u>(48)</u>
Total capital and borrowings	<u>339</u>	<u>402</u>	<u>350</u>
Gearing ratio	<u>54%</u>	<u>62%</u>	<u>114%</u>

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the CCT Industrial Group and CCT Industrial in respect of any period subsequent to 31 December 2008.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(2) MANAGEMENT DISCUSSION AND ANALYSIS OF THE CCT INDUSTRIAL GROUP**(a) Management discussion and analysis of the CCT Industrial Group for the year ended 31 December 2006**

During 2006, the CCT Industrial Group was principally engaged in the Components Business and reported a turnover of HK\$613 million in 2006. Over 75% of the products of the CCT Industrial Group were sold to the CCT Tech Group for production of telecom and electronic products.

During 2006, the CCT Industrial Group faced various adverse factors including: (i) increase in the cost of materials and components; (ii) rising costs of salaries and wages due to shortage of labor in our PRC factories; and (iii) appreciation of the Renminbi. During 2006, the CCT Industrial Group incurred a one-off exceptional loss of approximately HK\$101 million on the disposal of its investment in Current Profits Limited to another wholly-owned subsidiary of CCT Telecom. The disposal was effected in a group restructuring to streamline the operations of the CCT Industrial Group. As a result, CCT Industrial Group reported loss of HK\$98 million in the financial year of 2006. Excluding the one-loss of HK\$101 million, the CCT Industrial Group in fact made a profit of HK\$3 million in 2006.

Capital structure and gearing ratio

The CCT industrial Group did not have significant external borrowings (excluding the amount due to the ultimate holding company) as at 31 December 2006. As at 31 December 2006, the total outstanding bank borrowings and finance lease payables of the CCT Industrial Group amounted to approximately HK\$4 million and approximately HK\$2 million respectively. The CCT Industrial Group's gearing ratio, calculated on the basis of the CCT Industrial Group's external borrowings (excluding the amount due to the ultimate holding company) over the total capital employed (the amount due to the ultimate holding company plus external borrowings), was 3.3% as at 31 December 2006. The gearing of the CCT Industrial Group was maintained at very low level as at 31 December 2006.

As at 31 December 2006, all of the external borrowings of the CCT Industrial Group were repayable within one year. There is no material effect of seasonality on the CCT Industrial Group's borrowing requirements.

Liquidity and financial resources

The current ratio of the CCT Industrial Group changed from 191% as at 31 December 2005 to 163% as at 31 December 2006, reflecting a healthy liquidity position. The CCT Industrial Group's cash balance amounted to 12 million as at 31 December 2006. Almost all of the Group's cash was placed on deposits with licensed banks in Hong Kong.

Given the level of cash and bank balances, funds generated internally from operations and the unutilized banking facilities available, the CCT Industrial Group had sufficient resources to meet its debt repayment and finance its operations in 2006.

Capital Commitments

As at 31 December 2006, the CCT Industrial Group did not have any significant capital commitments.

Treasury management

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

During the year, the CCT Industrial Group's receipts were denominated mainly in US dollars, with some in Hong Kong dollars. Payments were made mainly in Hong Kong dollars and Renminbi. Cash was generally placed in short-term deposits denominated in Hong Kong dollars and US dollars. The CCT Industrial Group's borrowings were principally made on a fixed rate basis.

The objective of the CCT Industrial Group's treasury policies is to minimize risks and exposures due to the fluctuations in foreign currency exchange rates and interest rates. The CCT Industrial Group did not have any significant interest rate risk in 2006 as both the external borrowings of the CCT Industrial Group and the interest rates remained at low levels.

In terms of foreign exchange exposures, the CCT Industrial Group is principally exposed to two major currencies, namely the US dollar in terms of receipts and the Renminbi in terms of the production costs (including mainly wages and overheads) in the PRC. For US dollar exposure, since the Hong Kong dollar remains pegged to the US dollar, the exchange fluctuation of the US dollar is not expected to be significant.

For Renminbi exposure, as the wages and overheads of the CCT Industrial's factories in the PRC were paid in Renminbi, the production costs in the PRC increased in 2006 due to appreciation of Renminbi. The CCT Industrial Group had explored ways and methods to hedge appreciation of Renminbi in 2006 and would only consider entering into any forward contracts at appropriate costs and pricing.

Acquisition and disposals of material subsidiaries and associates

The CCT industrial Group did not acquire or dispose of any material subsidiaries and associates during the year ended 31 December 2006.

Significant investment

The CCT Industrial Group did not hold any significant investment as at 31 December 2006.

Pledge of assets

As at 31 December 2006, the CCT Industrial Group did not have any pledge of assets.

Contingent liabilities

As at 31 December 2006, the CCT Industrial Group did not have any contingent liabilities.

Employees and remuneration policy

The total number of employees of the CCT Industrial Group as at 31 December 2006 was 2,885. 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.

(b) Management discussion and analysis of the CCT Industrial Group for the year ended 31 December 2007

During 2007, the CCT Industrial Group was principally engaged in the Components Business which accounted for 100% of its turnover. The turnover of the CCT Industrial Group dropped from HK\$613 million in 2006 to HK\$525 million in 2007, down 14.3%, due to decrease in orders from the CCT Tech Group whose sales were affected by slowdown of the US economy. Over 90% of the products of the CCT Industrial Group were sold to the CCT Tech Group for production of telecom and electronic products.

During 2007, the results of the CCT Industrial Group were adversely affected by (i) drop in orders from the CCT Tech Group due to decrease in the sales of the CCT Tech Group; (ii) increase in the cost of materials and components; (iii) increase in costs of salaries and wages due to shortage of labor in our PRC factories; and (iv) appreciation of the Renminbi. As a result, the CCT Industrial Group reported a loss of HK\$10 million in 2007.

Capital structure and gearing ratio

Excluding the amount due to the ultimate holding company, the CCT industrial Group did not have significant external borrowings as at 31 December 2007. The external borrowings of the CCT Industrial Group as at 31 December 2007 of approximately HK\$7 million represent finance lease payable. The CCT Industrial Group's gearing ratio, calculated on the basis of the CCT Industrial Group's external borrowings (excluding the amount due to the ultimate holding company) over the total capital employed (the amount due to the ultimate holding company plus external borrowings), was 2.8% as at 31 December 2007. The gearing of the CCT Industrial Group was maintained at very low level as at 31 December 2007.

As at 31 December 2007, the maturity profile of the external borrowings of the CCT Industrial Group falling due within one year and in the second to the fifth year amounted to HK\$3 million and HK\$4 million respectively. There is no material effect of seasonality on the CCT Industrial Group's borrowing requirements.

Liquidity and financial resources

The current ratio of the CCT Industrial Group changed from approximately 163% as at 31 December 2006 to approximately 154% as at 31 December 2007, reflecting a healthy liquidity position. Although a loss was incurred by the CCT Industrial Group in 2007, the CCT Industrial Group's cash balance increased from HK\$12 million as at 31 December 2006 to HK\$34 million as at 31 December 2007. Almost all of the Group's cash was placed on deposits with licensed banks in Hong Kong.

Given the significant level of cash and bank balances, funds generated internally from operations and the unutilized banking facilities available, the CCT Industrial Group has sufficient resources to meet its debt repayment and finance its operations.

Capital Commitments

As at 31 December 2007, the CCT Industrial Group did not have any significant capital commitments.

Treasury management

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

During 2007, the CCT Industrial Group's receipts were denominated mainly in US dollars, with some in Hong Kong dollars. Payments were made mainly in Hong Kong dollars and Renminbi. Cash was generally placed in short-term deposits denominated in Hong Kong dollars and US dollars. The CCT Industrial Group's borrowings were principally made on a fixed rate basis.

The objective of the CCT Industrial Group's treasury policies is to minimize risks and exposures due to the fluctuations in foreign currency exchange rates and interest rates. The CCT Industrial Group did not have any significant interest rate risk in 2007 as both the external borrowings of the CCT Industrial Group and the interest rates remained at low levels.

In terms of foreign exchange exposures, the CCT Industrial Group is principally exposed to two major currencies, namely the US dollar in terms of receipts and the Renminbi in terms of the production costs (including mainly wages and overheads) in the PRC. For US dollar exposure, since the Hong Kong dollar remains pegged to the US dollar, the exchange fluctuation of the US dollar is not expected to be significant.

For Renminbi exposure, the production costs of the CCT Industrial in the PRC increased in 2007 due to appreciation of Renminbi. The CCT Industrial Group had explored ways and methods to hedge future appreciation of Renminbi in 2007 and would only consider entering into any forward contracts at appropriate costs and pricing.

Acquisition and disposals of material subsidiaries and associates

The CCT industrial Group did not acquire or dispose of any material subsidiaries and associates during the year.

Significant investment

The CCT Industrial Group did not hold any significant investment as at 31 December 2007.

Pledge of assets

As at 31 December 2007, the CCT Industrial Group did not have any pledge of assets.

Contingent liabilities

As at 31 December 2007, the CCT Industrial Group did not have any contingent liabilities.

Employees and remuneration policy

The total number of employees of the CCT Industrial Group as at 31 December 2007 was 2,821. 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.

(c) Management discussion and analysis of the CCT Industrial Group for the year ended 31 December 2008

During 2008, the CCT Industrial Group continued to focus in the Components Business, which accounted for 100% of its turnover. The turnover of the CCT Industrial Group dropped from HK\$525 million in 2007 to HK\$446 million in 2008, down 15%, due to decrease in orders from the CCT Tech Group whose sales were affected by financial turmoil. Over 90% of the products of the CCT Industrial Group were sold to the CCT Tech Group for production of telecom and electronic products.

During the years of 2008, the CCT Industrial Group operated under adverse business difficult environment and its performance was adversely affected by uncontrollable outside factors including (i) high production costs due to high material costs of plastic resins (as a result of high petroleum price until September 2008) and metal, surge of labour costs in the Guangdong Province and appreciation of Renminbi against US dollar; (ii) the financial turmoil which has resulted in global economic downturn and drop in the sales orders of the CCT Tech Group which in turn lowered the production orders of the CCT Industrial Group; and (iii) exceptional impairment loss of fixed asset in the amount of approximately HK\$65 million in 2008 due to the discontinuation of the retail telephony business in North America by the largest single customer of the CCT Tech Group which resulted in under-utilization of certain fixed assets of the CCT Industrial Group. As a

result, the CCT Industrial Group posted a significant loss of HK\$110 million in 2008, ten times of the loss of HK\$10 million in 2007. Excluding the exceptional loss of HK\$65 million, the operating loss of the CCT Industrial Group in 2008 was HK\$45 million.

To combat the operation challenges, the CCT Industrial has taken various measures and actions to streamline and restructure production operations, to reduce costs and improve efficiency and productivity. Encouraging signs in the performance of the CCT Industrial have shown in the first few months of 2009 signaling that the CCT Industrial Group is on the right track to revive its Components Business.

Capital structure and gearing ratio

Excluding the amount due to the ultimate holding company, the CCT industrial Group did not have significant external borrowings as at 31 December 2008. The external borrowings of the CCT Industrial Group as at 31 December 2008 of approximately HK\$4 million represent finance lease payable. The CCT Industrial Group's gearing ratio, calculated on the basis of the CCT Industrial Group's external borrowings (excluding the amount due to the ultimate holding company) over the total capital employed (the amount due to the ultimate holding company plus external borrowings), was 1.0% as at 31 December 2008. The gearing of the CCT Industrial Group was maintained at very low level as at 31 December 2008.

As at 31 December 2008, the maturity profile of the external borrowings of the CCT Industrial Group falling due within one year and in the second to the fifth year amounted to HK\$3 million and HK\$1 million respectively. There is no material effect of seasonality on the Group's borrowing requirements.

The equity of the CCT Industrial Group changed from an equity of HK\$154 million as at 31 December 2007 to a net deficit of HK\$48 million due to (i) the net loss incurred by the CCT Industrial Group for 2008; (ii) interim dividend of HK\$105 million and (iii) an exchange reserve adjustment of HK\$15 million.

Liquidity and financial resources

The current ratio of the CCT Industrial Group changed from approximately 154% as at 31 December 2007 to approximately 206% as at 31 December 2008, reflecting a healthy liquidity position during the financial turmoil. The CCT Industrial Group's cash balance as at 31 December 2008 was HK\$20 million. Almost all of the Group's cash was placed on deposits with licensed banks in Hong Kong.

Given the level of cash and bank balances, funds generated internally from operations and the unutilized banking facilities available, the CCT Industrial Group has sufficient resources to meet its debt repayment and finance its operations during the financial turmoil.

Capital Commitments

As at 31 December 2008, the CCT Industrial Group did not have any significant capital commitments.

Treasury management

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

During the year, the CCT Industrial Group's receipts were denominated mainly in US dollars, with some in Hong Kong dollars. Payments were made mainly in Hong Kong dollars and Renminbi. Cash was generally placed in short-term deposits denominated in Hong Kong dollars and US dollars. The CCT Industrial Group's borrowings were principally made on a fixed rate basis.

The objective of the CCT Industrial Group's treasury policies is to minimize risks and exposures due to the fluctuations in foreign currency exchange rates and interest rates. The CCT Industrial Group did not have any significant interest rate risk in 2008 as both the borrowings of the CCT Industrial Group and the interest rates remained at low levels.

In terms of foreign exchange exposures, the CCT Industrial Group is principally exposed to two major currencies, namely the US dollar in terms of receipts and the Renminbi in terms of the production costs (including mainly wages and overheads) in China. For US dollar exposure, since the Hong Kong dollar remains pegged to the US dollar, the exchange fluctuation of the US dollar is not expected to be significant.

For Renminbi exposure, the production costs of the CCT Industrial Group in the PRC increased in 2008 due to appreciation of Renminbi. The CCT Industrial Group would continue to explore ways and methods to hedge future appreciation of Renminbi and would only consider entering into any forward contracts at appropriate costs and pricing.

Acquisition and disposals of material subsidiaries and associates

The CCT Industrial Group did not acquire or dispose of any material subsidiaries and associates during the year ended 31 December 2008.

Significant investment

The CCT Industrial Group did not hold any significant investment as at 31 December 2008.

Pledge of assets

As at 31 December 2008, the CCT Industrial Group did not have any pledge of assets.

Contingent liabilities

As at 31 December 2008, the CCT Industrial Group did not have any contingent liabilities.

Employees and remuneration policy

The total number of employees of the CCT Industrial Group as at 31 December 2008 was 2,382. 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.

Set out below is the letter from Ernst & Young, the auditors of CCT Tech, on the unaudited pro forma financial information of the Enlarged Group together with the unaudited pro forma financial information of the Enlarged Group in connection with the Transaction of the Company.



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

5 June 2009

The Directors
CCT Tech International Limited

Dear Sirs,

**CCT TECH INTERNATIONAL LIMITED (THE “COMPANY”) AND ITS SUBSIDIARIES
(THE “GROUP”)**

We report on the unaudited pro forma financial information of the Group (the “Unaudited Pro Forma Financial Information”) set out on pages 148 to 157 in Appendix III to the circular of the Company dated 5 June 2009 (the “Circular”) in connection with the proposed capital reorganisation, major acquisition and connected transaction of the Company, which has been prepared by the directors of the Company for illustrative purposes only, to provide information to the shareholders of the Company about how the Transaction (as defined in the Circular) and the Capital Reorganisation (as defined in the Circular) might have affected the financial information presented in respect of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 148 to 157 to the Circular.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standards on Investment Circular Reporting Engagements (HKSIR) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement does not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group had the Transaction and the Capital Reorganisation actually occurred as at the dates indicated therein or at any future dates; or
- the results and cash flows of the Group for the year ended 31 December 2008 or any future periods.

OPINION

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group in respect of the year ended 31 December 2008; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(1) UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

The following is an illustrative and unaudited pro forma consolidated balance sheet of the Enlarged Group which is prepared based on the audited consolidated balance sheet of the Group as at 31 December 2008 and the audited consolidated balance sheet of the CCT Industrial Group as at 31 December 2008, after giving effect to the pro forma adjustments as explained in the notes below, for the purpose of illustrating the effect of the Transactions on the financial position of the Enlarged Group as if the Transaction had taken place and the Capital Reorganisation had become effective on 31 December 2008.

The unaudited pro forma consolidated balance sheet has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give true picture of the financial position of the Enlarged Group had the Transaction and the Capital Reorganisation been completed as at 31 December 2008 or at any future dates.

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

	The Group as at 31 December 2008 HK\$ million Note (a)	The CCT Industrial Group as at 31 December 2008 HK\$ million Note (b)	Pro forma adjustments HK\$ million	Notes	Unaudited pro forma Enlarged Group HK\$ million
NON-CURRENT ASSETS					
Property, plant and equipment	449	119	102	(f), (g)	670
Investment properties	178	—	(178)	(f)	—
Prepaid land lease payments	47	142	28	(f), (g)	217
Deferred tax assets	—	1			1
Goodwill	22	—			22
Total non-current assets	696	262			910
CURRENT ASSETS					
Inventories	106	17			123
Trade and bills receivables	402	121	(108)	(c)	415
Prepayments, deposits and other receivables	32	7	1	(f)	40
Pledged time deposits	86	—			86
Cash and cash equivalents	455	20			475
Total current assets	1,081	165			1,139
CURRENT LIABILITIES					
Trade and bills payables	610	44	(108)	(c)	546
Tax payable	9	12			21
Other payables and accruals	156	21			177
Interest-bearing bank and other borrowings	265	3			268
Total current liabilities	1,040	80			1,012
NET CURRENT ASSETS	41	85			127
TOTAL ASSETS LESS CURRENT LIABILITIES	737	347			1,037
NON-CURRENT LIABILITIES					
Interest-bearing bank loans and other borrowings	—	1			1
Amount due to the ultimate holding company	—	394	(394)	(e)	—
Deferred tax liabilities	2	—			2
Total non-current liabilities	2	395			3
Net assets	735	(48)			1,034
EQUITY					
Equity attributable to equity holders of the parent					
Issued share capital	654	—	(589)	(d)	65
Convertible preference shares	—	—	35	(e)	35
Share premium	238	—	311	(d), (e)	549
Reserves	(157)	(48)	590	(d), (e), (g)	385
Total equity	735	(48)			1,034

Notes to the unaudited pro forma consolidated balance sheet of the Enlarged Group:

- (a) The audited consolidated balance sheet of the Group as at 31 December 2008 was extracted from the published annual report of the Group for the year ended 31 December 2008, which is set out in Appendix I(2) to the Circular.
- (b) The audited consolidated balance sheet of the CCT Industrial Group as at 31 December 2008 was extracted from the accountants' report on the CCT Industrial Group, which is set out in Appendix II(1) to the Circular.
- (c) The adjustment represents elimination of the intercompany balances as at 31 December 2008 between the Group and the CCT Industrial Group.
- (d) The adjustment represents the effect of the Capital Reorganisation of CCT Tech including (i) the Share Consolidation, under which every 10 issued CCT Tech Existing Shares of par value of HK\$0.01 each of CCT Tech will be consolidated into one issued Consolidated Share of par value of HK\$0.10 each; (ii) the Capital Reduction, under which the par value of each issued Consolidated Share will be reduced from HK\$0.10 to HK\$0.01 by canceling HK\$0.09 paid-up capital on each issued Consolidated Share; and (iii) Credit Transfer by transferring the credit in the amount of approximately HK\$589 million arising from the Capital Reduction of the issued share capital of CCT Tech to the contributed surplus account of CCT Tech which will be applied to set-off against the accumulated losses of CCT Tech as at the date the Capital Reduction becoming effective.
- (e) The adjustment reflects (i) the issue of Convertible Preference Shares by CCT Tech for the acquisition of the Sale Share in CCT Industrial and the Sale Shareholder's Loan due from CCT Industrial to CCT Telecom; and (ii) the elimination of the investment cost of the CCT Industrial and the inter-company balance representing the Sale Shareholder's Loan on consolidation. Since the Group and the CCT Industrial Group are ultimately controlled by CCT Telecom both before and after the completion of the Transaction, the Transaction is considered as a business combination under common control and is accounted for using merger accounting. On this basis, the assets and liabilities of the CCT Industrial Group are consolidated in the financial statements of the Group using the existing book values as stated in the consolidated financial statements of the CCT Telecom Group prior to the Transaction.

The aggregate effect of the pro forma adjustments (d) and (e) are summarised as below:

	Issued share capital HK\$ million	Convertible Preference Shares HK\$ million	Share premium HK\$ million	Reserves HK\$ million	Amount due to the ultimate holding company (Sale Share- holder's Loan) HK\$ million	Total HK\$ million
Pro forma adjustment (d):						
— Capital Reduction and Credit Transfer	(589)	—	—	589	—	—
Pro forma adjustment (e):						
— Issue of Convertible Preference Shares	—	35	311	—	—	346
— Elimination of the net deficits of the CCT Industrial Group	—	—	—	48	—	48
— Elimination of the amount due to the ultimate holding company	—	—	—	—	(394)	(394)
Total	(589)	35	311	637	(394)	—

- (f) The adjustment represents the reclassification of the investment properties of the Group which have been leased by the Group to the CCT Industrial Group for use as the factory premises of the Components Business. After Completion, members of the CCT Industrial Group will become wholly-owned subsidiaries of the Company and hence the factory complex leased by the Group to the CCT Industrial Group will cease to be classified as the investment properties as they will be used internally by members of the Enlarged Group. As such, the building portion of the “investment properties” in the amount of HK\$102 million (after the depreciation charge in (g)) will be reclassified to the “property, plant and equipment” account and the land portion of the “investment properties” in the amount of HK\$28 million (after amortisation charge in (g)) will be reclassified to the “prepaid land lease payments” account after Completion.
- (g) The adjustment represents the accumulated additional depreciation and amortisation charges on the factory complex leased by the Group to the CCT Industrial Group for the period from the date on which the factory complex was first leased by the Group to the CCT Industrial Group to 31 December 2008 as if such factory complex had always been used internally by members of the Enlarged Group under the basis of merger accounting.

The aggregate effect of the pro forma adjustments (f) and (g) are summarised as below:

	Property, plant and equipment <i>HK\$ million</i>	Investment properties <i>HK\$ million</i>	Prepaid land lease payments <i>HK\$ million</i>	Prepayments, deposits and other receivables <i>HK\$ million</i>	Total Assets <i>HK\$ million</i>	Reserves <i>HK\$ million</i>	Total <i>HK\$ million</i>
Pro forma adjustment (f):							
— Reclassification of the investment properties	145	(178)	32	1	—	—	—
Pro forma adjustment (g):							
— Depreciation and amortisation charges for the prior years	(36)	—	(3)	—	(39)	(39)	—
— Depreciation and amortisation charges for the year ended 31 December 2008	(7)	—	(1)	—	(8)	(8)	—
	<u>102</u>	<u>(178)</u>	<u>28</u>	<u>1</u>	<u>(47)</u>	<u>(47)</u>	<u>—</u>

The aggregate effect of the pro forma adjustments (d), (e) and (g) on the “Reserves” account are summarised as below:

	<i>HK\$ million</i>
Pro forma adjustment (d)	589
Pro forma adjustment (e)	48
Pro forma adjustment (g)	<u>(47)</u>
	<u>590</u>

(2) UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

The following is an illustrative and unaudited pro forma consolidated income statement of the Enlarged Group which is prepared based on the audited consolidated income statement of Group for the year ended 31 December 2008 and the audited consolidated income statement of the CCT Industrial Group for the year ended 31 December 2008, after giving effect to the pro forma adjustments as explained in the notes below, for the purpose of illustrating the effect of the Transaction on the results of the Enlarged Group as if the Transaction had taken place on 1 January 2008 and the Capital Reorganisation had become effective also on 1 January 2008.

The unaudited pro forma consolidated income statement has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the results of the Enlarged Group for the year ended 31 December 2008 or any future periods had the Transaction or the Capital Reorganisation been completed on 1 January 2008 or at any future dates.

	The Group	The Industrial Group	Pro forma adjustments	Notes	Unaudited pro forma Enlarged Group
	Year ended 31 December 2008	Year ended 31 December 2008	HK\$ million		HK\$ million
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>		
	<i>Note (a)</i>	<i>Note (b)</i>			
REVENUE	2,758	446	(420)	(c)	2,784
Cost of sales	<u>(2,781)</u>	<u>(460)</u>	412	(c), (d)	<u>(2,829)</u>
Gross loss	(23)	(14)			(45)
Other income and gains	36	4	(6)	(c)	34
Selling and distribution costs	(36)	(1)			(37)
Administrative expenses	(149)	(33)	6	(c)	(176)
Other expenses	(8)	—			(8)
Finance costs	<u>(9)</u>	<u>(1)</u>			<u>(10)</u>
	(189)	(45)			(242)
Costs in connection with the Discontinuation and restructuring	<u>(126)</u>	<u>(65)</u>			<u>(191)</u>
LOSS BEFORE TAX	(315)	(110)			(433)
Tax	<u>(2)</u>	<u>—</u>			<u>(2)</u>
LOSS FOR THE YEAR	<u><u>(317)</u></u>	<u><u>(110)</u></u>			<u><u>(435)</u></u>

Notes to the unaudited pro forma consolidated income statement of the Enlarged Group:

- (a) The audited consolidated income statement of the Group for the year ended 31 December 2008 were extracted from the published annual report of the Group for the year ended 31 December 2008, which is set out in Appendix I(2) to the Circular.
- (b) The audited consolidated income statement of the CCT Industrial Group for the year ended 31 December 2008 was extracted from the accountants' report on the CCT Industrial Group, which is set out in Appendix II(1) to the Circular.
- (c) The adjustment of approximately HK\$420 million represents elimination of the intercompany transactions for the year ended 31 December 2008 between the Group and the CCT Industrial Group. The unaudited pro forma adjustment to the consolidated income statement of the Enlarged Group will have continuing effect on the consolidated income statement of the Enlarged Group.
- (d) The adjustment of approximately HK\$8 million represents the additional depreciation charge on the buildings and the additional amortisation charge on the prepaid land lease payments for the factory complex leased by the Group to the CCT Industrial Group for the year ended 31 December 2008, which had been re-classified from the "investment properties" account to the "property, plant and equipment" account and the "prepaid land lease payments" account after Completion as explained in the notes (f) and (g) of the Appendix III(1) to the Circular. This unaudited pro forma adjustment will have continuing effect on the consolidated income statement of the Enlarged Group.
- (e) No adjustments have been made to reflect any trading results or other transactions of the Group and the CCT Industrial Group entered into subsequent to 31 December 2008.

**(3) UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE
ENLARGED GROUP**

The following is an illustrative and unaudited pro forma consolidated cash flow statement of the Enlarged Group which is prepared based on the audited consolidated cash flow statement of Group for the year ended 31 December 2008 and the audited consolidated cash flow statement of the CCT Industrial Group for the year ended 31 December 2008, after giving effect on the pro forma adjustments as explained in the notes below, for the purpose of illustrating the effect of the Transaction on the cash flows of the Enlarged Group as if the Transaction had taken place on 1 January 2008 and the Capital Reorganisation had become effective on 1 January 2008.

The unaudited pro forma consolidated cash flow statement has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the cash flows of the Enlarged Group for the year ended 31 December 2008 or any future periods had the Transaction or the Capital Reorganisation been completed on 1 January 2008 or at any future dates.

	The Group Year ended 31 December 2008 <i>HK\$ million</i> <i>Note (a)</i>	The CCT Industrial Group Year ended 31 December 2008 <i>HK\$ million</i> <i>Note (b)</i>	Pro forma adjustments <i>HK\$ million</i>	<i>Notes</i>	Unaudited pro forma Enlarged Group <i>HK\$ million</i>
CASH FLOWS FROM					
OPERATING ACTIVITIES					
Loss before tax	(315)	(110)	(8)	(d)	(433)
Adjustments for:					
Interest on bank and other borrowings	9	1			10
Bank interest income	(6)	—			(6)
Depreciation	92	22	7	(d)	121
Recognition of prepaid land lease payments	1	3	1	(d)	5
Amortisation of other intangible assets	24	—			24
Impairment of items of property, plant and equipment	60	65			125
Impairment of deferred development costs	22	—			22
Net impairment of trade receivables	48	—			48
Write off of deferred development costs	6	—			6
Write off of items of property, plant and equipment	2	—			2
Provision for slow-moving and obsolete inventories	17	3			20
Gain on disposal of financial assets at fair value through profit or loss	(1)	—			(1)
Loss on disposal of items of property, plant and equipment	1	—			1
	(40)	(16)			(56)
Decrease in inventories	63	7			70
Decrease in trade and bills receivables	239	2	(3)	(c)	238
Increase in prepayments, deposits and other receivables	(8)	(1)			(9)
Decrease in trade and bills payables, other payables and accruals	(277)	(44)	3	(c)	(318)
Cash used in operations	(23)	(52)			(75)
Interest received	6	—			6
Interest paid	(9)	(1)			(10)
Hong Kong profits tax paid	(3)	—			(3)
PRC tax paid	(4)	1			(3)
Net cash outflow from operating activities	(33)	(52)			(85)

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

	The Group Year ended 31 December 2008 <i>HK\$ million Note (a)</i>	The CCT Industrial Group Year ended 31 December 2008 <i>HK\$ million Note (b)</i>	Pro forma adjustment <i>HK\$ million</i>	<i>Note</i>	Unaudited pro forma Enlarged Group <i>HK\$ million</i>
Net cash outflow from operating activities	<u>(33)</u>	<u>(52)</u>			<u>(85)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of items of property, plant and equipment	(35)	(14)			(49)
Additions to other intangible assets	(27)	—			(27)
Proceeds from disposal of financial assets at fair value through profit or loss	29	—			29
Increase in pledged time deposits	(1)	—			(1)
Decrease in prepayments for acquisition of property, plant and equipment	<u>—</u>	<u>6</u>			<u>6</u>
Net cash outflow from investing activities	<u>(34)</u>	<u>(8)</u>			<u>(42)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase in amounts due from ultimate holding company	—	153			153
New bank loans	112	—			112
New trust receipts loans, net	50	—			50
Repayment of bank loans	(117)	—			(117)
Capital element of finance lease rental payments	—	(3)			(3)
Dividend paid	<u>—</u>	<u>(105)</u>			<u>(105)</u>
Net cash inflow from financing activities	<u>45</u>	<u>45</u>			<u>90</u>
NET DECREASE IN CASH AND CASH EQUIVALENT	<u>(22)</u>	<u>(15)</u>			<u>(37)</u>
Cash and cash equivalents at beginning of year	476	34			510
Effect of foreign exchange rate changes, net	<u>1</u>	<u>1</u>			<u>2</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>455</u></u>	<u><u>20</u></u>			<u><u>475</u></u>

Notes to the unaudited pro forma consolidated cash flow statement of the Enlarged Group:

- (a) The audited consolidated cash flow statement of the Group for the year ended 31 December 2008 was extracted from the published annual report of the Group for the year ended 31 December 2008, which is set out in Appendix I(2) to the Circular.
- (b) The audited consolidated cash flow statement of CCT Industrial Group for the year ended 31 December 2008 was extracted from the accountants' report on the Group, which is set out in Appendix II(1) to the Circular.
- (c) The adjustment represents the effect of the elimination of the intercompany cash flow between the Group and the CCT Industrial Group. This unaudited pro forma adjustment will have continuing effect on the consolidated cash flow statement of the Enlarged Group.
- (d) The adjustment of approximately HK\$8 million represents the additional depreciation charge on buildings, and the additional amortisation charge on the prepaid land lease payments for the factory complex leased by the Group to the CCT Industrial Group for the year ended 31 December 2008, which had been re-classified from the "investment properties" account to the "property, plant and equipment" account and the "prepaid land lease payments" account after Completion as explained in the note (f) of the Appendix III(1) to the Circular. This unaudited pro forma adjustment will have continuing effect on the consolidated cash flow statement of the Enlarged Group.
- (e) No adjustments have been made to reflect cash flow from any trading results or other transactions of the Group and the CCT Industrial Group entered into subsequent to 31 December 2008.

**GRANT SHERMAN APPRAISAL LIMITED**

Room 1701 on 17/F,
Jubilee Centre,
18 Fenwick Street,
Wanchai,
Hong Kong

5 June 2009

The Directors
CCT Tech International Limited
2208, 22/F, St. George's Building
2 Ice House Street, Central,
Hong Kong

Dear Sirs/Madams,

In accordance with your instructions, we have made an appraisal of the fair market value of CCT Industrial Products Holdings Limited ("CCT Industrial"). Pursuant to the sale and purchase agreement dated 29 April 2009 as amended by the supplemental agreement dated 7 May 2009 and the second supplemental agreement dated 27 May 2009 entered into between CCT Telecom Holdings Limited ("CCT Telecom") and CCT Tech International Limited ("CCT Tech") (CCT Telecom and its subsidiaries, including CCT Tech and its subsidiaries, together referred to as the "CCT Telecom Group"), CCT Telecom has conditionally agreed to sell the entire issued share capital of and the shareholder's loan made to CCT Industrial, a direct wholly-owned subsidiary of CCT Telecom, to CCT Tech or its designated nominee(s) at a total consideration of HK\$346,311,000 (the "Transaction"). Therefore, CCT Tech requires us to provide an independent opinion on the fair market value of CCT Industrial.

This letter identifies the asset appraised, describes the basis of valuation and assumptions, explains the valuation methodology utilized and presents our conclusion of value.

The term *fair market value* is defined as the estimated amount at which an asset might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts.

The purpose of this appraisal is to express an independent opinion of the fair market value of CCT Industrial as of 31 March 2009. It is our understanding that this appraisal will be used for a major acquisition and connected transaction purposes and our report might be used in connection with a public document.

INTRODUCTION

CCT Telecom Group

CCT Telecom, a company listed on the main board of the stock exchange of Hong Kong (Code: 00138), and its subsidiaries, are principally engaged in (i) manufacture, sale, design and development of telecom and electronic products and accessories; (ii) manufacture and sale of infant and child products;

(iii) securities business; (iv) property development and holding; and (v) forestry business in CCT Resources Holdings Limited;. The major manufacturing arm of CCT Telecom is CCT Tech, a company listed on the main board of the stock exchange of Hong Kong (Code: 00261). CCT Tech and its subsidiaries (the “Group”) are principally engaged in the manufacture, sale, design and development of telecom and electronic products and accessories.

CCT Industrial

CCT Industrial, a company incorporated in the British Virgin Islands, is an investment holding company under CCT Telecom Group. CCT Industrial and its subsidiaries (“CCT Industrial Group”) are principally engaged in the manufacture and sale of plastic casing, plastic components, linear mode power supplies, switching mode power supplies, transformers, adaptors, and other electronic components (the “Components”) manufactured by CCT Industrial Group for supply to the Group and other third party manufacturers for production of telecom and electronic products.

The production plants of CCT Industrial Group are located in cities of Huiyang and Dongguan, Guangdong Province, the PRC. Apart from the production of the Components, CCT Industrial Group is also engaged in the plastic mould making and secondary operation of plastic products such as spraying, silk-screening & UV printing, hot-stamping, laser marking, and ultrasonic welding.

On top of the core operations as mentioned above (“Core Operating Assets”), CCT Industrial Group also holds a plot of land located at Shang Pai Lot Ban Pai, Shi Wei Ai Ling, Danshui Town, Huiyang City, Guangdong Province, the PRC with a site area of 450,000 square metres (the “Land”). As explained by the management of CCT Industrial Group (the “Management”), the presence of the Land will not have any operational and financial impacts on the existing operations of CCT Industrial Group.

The Transaction

Pursuant to the sale and purchase agreement dated 29 April 2009 as amended by the supplemental agreement dated 7 May 2009 and the second supplemental agreement dated 27 May 2009 entered into between CCT Telecom and CCT Tech, CCT Telecom has conditionally agreed to sell the entire issued share capital of and the shareholder’s loan made to CCT Industrial, a direct wholly-owned subsidiary of CCT Telecom, to CCT Tech or its designated nominee(s) at a total consideration of HK\$346,311,000.

BASIS OF VALUATION AND ASSUMPTIONS

We have appraised the business enterprise of CCT Industrial on the basis of fair market value. Fair market value is defined as the estimated amount at which the business enterprise might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, and with the buyer and seller contemplating retention of the business at its present location for continuation of current operations unless the break-up of the business or the sale of its assets would yield greater investment returns.

The Land

Our valuation of the Land is our opinion of market value which we would define as intended to mean the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

We have valued the property interests of the Land by comparison approach assuming sale in their existing state with the benefit of vacant possession and by making reference to comparable sales evidences as available in the relevant market.

In valuing the property interests of the Land, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (1st Edition 2005) published by The Hong Kong Institute of Surveyors.

In the course of our valuation, we relied on a considerable extent of information provided by the Group on matters such as statutory notices, easements, tenure, occupation, floor area, identification of the Land and all other relevant matters. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided. All documents and leases have been used as reference only. All dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the Land. However, no structural survey has been carried out and it was not possible to inspect the wood work and other parts of the structure which were covered, unexposed or inaccessible. Therefore, we are not able to report that the Land is free of rot, infestation or any structural defects. No tests have been carried out on any of the building services.

We have assumed that the Group has uninterrupted rights to use the Land for the whole of the unexpired term of the leases and is entitled to transfer the property interests with the residual term of the lease without payment of any further premium to the government authorities or any third parties other than those stipulated in the mentioned documents.

We have assumed that all consents, approvals and licenses from relevant government authorities for the properties have been granted without any onerous conditions or undue time delay which might affect their values.

It is assumed that all applicable zoning, building and land use regulations and restrictions have been complied with unless non-conformity has been stated, defined, and considered in the appraisal report. Moreover, it is assumed that the utilization of the land and improvements is within the boundary of the Land described and that no encroachment or trespass exists, unless noted in the report.

No allowance has been made in our report for any charges, mortgages or amounts owing on the Land nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Land is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have been shown copies of various title documents and official site plans relating to the Land that are held by the Group in the PRC. However, we have not searched the original documents to verify ownership or to verify any lease amendments which may not appear on the copies handed to us. Due to the nature of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the Land or any material encumbrances that might be attached to the Land. In the preparation of our valuation report regarding the Land, we have relied to a considerable extent on the legal opinion provided by the Group's legal adviser, Zhu Ming Lawyer, Office of Guangdong (廣東鑄銘律師事務所) on the PRC laws regarding the titles of the Land.

(Note: For further details on the valuation of the Land, please refer to Appendix V)

Core Operating Assets

Our investigation included discussions with the Management in relation to the history, operations and prospects of CCT Industrial. We also studied the current condition of the market and reviewed the financial information prepared by the Management, as well as a review of other relevant documents. We assumed that the data we obtained in the course of the valuation, along with the opinions and representations provided to us by CCT Industrial Group are true and accurate. Before arriving at our opinion of value, we have considered the following principal factors:

- the nature of CCT Industrial from its inception;
- the financial condition of CCT Industrial;
- the specific economic and competitive elements affecting CCT Industrial, its industry and its markets;
- the nature and prospect of the telecom and electronic sector in mainland China;
- the market-derived investment returns of entities engaged in a similar line of business; and
- the business risks of CCT Industrial.

Due to the changing environment in which CCT Industrial is operating, a number of assumptions have to be established in order to sufficiently support our concluded value of the business enterprise. The major assumptions adopted in this appraisal are:

- there will be no major changes in the existing political, legal, and economic conditions in the territories in which CCT Industrial will carry on its business;

- there will be no major changes in the current taxation law in mainland China, Hong Kong and the territories CCT Industrial conducts its business, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- exchange rates and interest rates will not differ materially from those presently prevailing;
- the availability of finance will not be a constraint on the forecast growth of the operations of CCT Industrial;
- CCT Industrial will utilize and maintain its current operational, administrative and technical facilities to expand and increase its sales in its business;
- CCT Industrial will retain and have competent management, key personnel, and technical staff to implement its business plan and to support its ongoing operation; and
- industry trends and market conditions for the related industries will not deviate significantly from current economic forecasts.

We were furnished, for the purpose of this appraisal, with unaudited financial data as well as other records, documents and projections. We have reviewed and examined the financial information and have no reason to doubt the truth and accuracy of the information contained therein. We have also consulted public sources of financial and business information to supplement the information provided by the Management. In arriving at our opinion of value, we have relied to a very considerable extent on the above-mentioned information and discussions held with the Management and other representatives from CCT Industrial Group.

VALUATION METHODOLOGY

After reviewing the operating and financial background of CCT Industrial, we consider that its fair market value is composed of (1) the Core Operating Assets, which primarily include the property, plant and equipment, and its net current assets; and (2) the Land.

Valuation Methodology for the Land

The valuation of the Land is on the basis of market value, which is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

We have valued the property interests of the Land by comparison approach assuming sale in their existing state with the benefit of vacant possession and by making reference to comparable sales evidences as available in the relevant market.

(Note: A valuation certificate of the Land has been incorporated in Appendix V)

Valuation Methodology for the Core Operating Assets

Before arriving at our opinion of value, we personally inspected the CCT Industrial's assets and studied the market conditions. To develop our opinion of value, we considered the three generally accepted approaches to value: cost, market and income capitalization. The theory of these approaches is outlined as follows:

The Cost Approach

The cost approach establishes value based on the cost of reproducing or replacing the property, less depreciation from physical deterioration, and functional and economic/external obsolescence.

Cost of Reproduction New is defined as the estimated amount required to reproduce the property at one time in like kind and materials in accordance with current market prices for materials, labor, and manufactured asset, contractors' overhead and profit, and fees, but without provision for overtime, bonuses for labor, or premiums for materials or asset.

Cost of Replacement New is defined as the estimated amount required to replace the entire property at one time with a modern new unit using the most current technology and construction materials that will duplicate the production capacity and utility of an existing unit at current market prices for materials, labor, and manufactured equipment, contractors' overhead and profit, and fees, but without provision for overtime, bonuses for labor, or premiums for materials or equipment.

Physical Deterioration is the loss in value resulting from wear and tear in operation and exposure to the elements.

Functional Obsolescence is the loss in value caused by conditions within the property such as changes in design, materials, or process that result in inadequacy, overcapacity, lack of utility, or excess operating costs.

Economic/External Obsolescence is an incurable loss in value caused by unfavorable conditions external to the property such as the local economy, economics of the industry, availability of financing, encroachment of objectionable enterprises, loss of material and labor sources, lack of efficient transportation, shifting of business centers, passage of new legislation, and changes in ordinances.

The cost approach generally provides a meaningful indication of the value of land improvements, special buildings, special structures, and special machinery and equipment associated with a viable business or justified by economic demand.

When market transactions of comparable property are not available, when data cannot be extrapolated from larger transactions, or when transactions are non-existent, under premise of continued use, assuming adequate earnings, the cost approach is the preferred valuation procedure.

The Market Approach

In the market approach, the value of the appraised property is estimated through analysis of recent sales of comparable items of the property. It is employed in the valuation of the property for which there is a known used market. Under the premise of continued use assuming adequate earnings, consideration is given to the cost to acquire similar items in the used-property market; an allowance then is made to reflect the costs for freight and installation.

A variant of the direct market approach is the use of market relationship. Recent market prices for property in an asset classification are determined with respect to age and are compared with a benchmark price, such as the cost of reproduction new. The ratio is applied to similar property in the classification when the secondary market for the subject property is too sparse to exhibit appropriate comparables.

The Income Capitalization Approach

In the income capitalization approach, value is developed on the basis of capitalization of the net earnings that would be generated if a specific stream of income can be attributed to an asset or a group of assets. This approach is most applicable to investment and general-use properties where there is an established and identifiable rental market.

Selection of Valuation Approach

In any appraisal study, all three approaches to value must be considered, as one or more may be applicable to the subject property or investment. In some situations, elements of two or three approaches may be combined to reach a value conclusion. For this appraisal, since the income generated by an individual asset could hardly be identified and the income generated by the business enterprise is difficult to project as CCT Industrial is in a turnaround stage. Its future net income largely depends on its achievement in cost-saving plan as well as the variance of its gross profit margin. As a result of these uncertainties, the income capitalization approach was not applied in this appraisal. Also, since market transactions of comparable property are not available, when data cannot be extrapolated from larger transactions, or when transactions are non-existent, the market approach was not used. The cost approach was the principal method adopted to arrive at our opinion of value.

Below is a summary showing the breakdown of the business enterprise value:

Adjusted Consolidated Balance Sheet (As at 31 March 2009)	Book Value <i>HK\$'000</i>	Adjusted Value <i>HK\$'000</i>	Remarks
PROPERTY, PLANT AND EQUIPMENT	114,760	106,635	Book value has been adjusted to fair market value after valuation by cost approach
THE LAND	140,976	199,080	Book value has been adjusted to market value after valuation by comparison approach
DEFERRED TAX ASSETS	169	169	Book value is considered to be an appropriate figure to represent its fair market value
CURRENT ASSETS	136,880	136,880	Book value is considered to be an appropriate figure to represent its fair market value
CURRENT LIABILITIES	(53,090)	(53,090)	Book value is considered to be an appropriate figure to represent its fair market value
LONG TERM LIABILITIES			
Long term portion of lease payable	(269)	(269)	Book value is considered to be an appropriate figure to represent its fair market value
	<u> </u>	<u> </u>	
TOTAL NET ASSETS	<u>339,426</u>	<u>389,405</u>	

CONCLUSION OF VALUE

Based upon the investigation and analysis outlined above and on the appraisal method employed, it is our opinion that as of 31 March 2009, the fair market value of the CCT Industrial is reasonably stated by the amount of **HONG KONG DOLLARS THREE HUNDRED EIGHTY NINE MILLION AND FOUR HUNDRED AND FIVE THOUSAND (HKD389,405,000) ONLY.**

This conclusion of value was based on the International Valuation Standards (Eighth Edition 2007) and generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We have not investigated the title to or any liabilities against the property appraised.

We hereby certify that we have neither present nor prospective interests in the securities of CCT Telecom Group or the value reported.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED

Keith C.C. Yan, ASA
Managing Director

Kelvin C.H. Chan, FCCA, CFA
Associate Director

Note: Mr. Keith C.C. Yan is an Accredited Senior Appraiser (Business Valuation) and he has been conducting business valuation of various industries, including computer software, in the Greater China region for various purposes since 1988. Mr. Kelvin C.H. Chan is a CFA Charterholder and a fellow member of the Association of Chartered Certified Accountants. He has been working in the financial industry since 1996, with experiences covering the area of corporate banking, equity analysis and business valuation. Mr. Yan and Mr. Chan has followed and adopted appropriate guidelines and rules in their respective professional associations as mentioned above.

**GRANT SHERMAN APPRAISAL LIMITED**

Room 1701 on 17/F,
Jubilee Centre,
18 Fenwick Street,
Wanchai,
Hong Kong

5 June 2009

The Directors
CCT Tech International Limited
2208, 22nd Floor,
St. George's Building
2 Ice House Street
Central

Dear Sir,

In accordance with your instructions to value a plot of land located at Shang Pai Lot Ban Pai, Shi Wei Ai Ling, Danshui Town, Huiyang City, Guangdong Province, the PRC with a site area of 450,000 square metres (the "Land") to be acquired by CCT Tech International Limited ("CCT Tech") and/or its subsidiaries (together referred to "the Group"), we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of the Land as at 31 March 2009.

Our valuation of the Land is our opinion of market value which we would define as intended to mean the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

We have valued the property interests of the Land by comparison approach assuming sale in their existing state with the benefit of vacant possession and by making reference to comparable sales evidences as available in the relevant market.

In valuing the property interests of the Land, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (1st Edition 2005) published by The Hong Kong Institute of Surveyors.

In the course of our valuation, we have relied on a considerable extent on information provided by the Group on such matters as statutory notices, easements, tenure, occupation, floor areas, identification of the Land and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material facts have been omitted from the information supplied. All documents have been used as reference only. All dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interiors of the Land in respect of which we have been provided with such information as we have required for the purpose of our valuations. No structural survey has been carried out and it was not possible to inspect the wood work and other parts of the structures which were covered, unexposed or inaccessible.

We have assumed that the Group has uninterrupted rights to use the Land for the whole of the unexpired term of the leases and is entitled to transfer the property interests with the residual term of the lease without payment of any further premium to the government authorities or any third parties other than those stipulated in the mentioned documents.

We have assumed that all consents, approvals and licenses from relevant government authorities for the properties have been granted without any onerous conditions or undue time delay which might affect their values.

It is assumed that all applicable zoning, building and land use regulations and restrictions have been complied with unless non-conformity has been stated, defined, and considered in the appraisal report. Moreover, it is assumed that the utilisation of the land and improvements is within the boundary of the Land described and that no encroachment or trespass exists, unless noted in the report.

No allowance has been made in our valuations for any charge, mortgage or amount owing on the Land nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the Land is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have been shown copies of various title documents and official site plans relating to the property that are held by the Group in the PRC. However, we have not searched the original documents to verify ownership or to verify any lease amendments which may not appear on the copies handed to us. Due to the nature of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the Land or any material encumbrances that might be attached to the Land. In the preparation of our valuation report regarding the Land, we have relied to the considerable extent on the legal opinion provided by the Group's legal adviser, Zhu Ming Lawyer, Office of Guangdong (廣東鑄銘律師事務所) on the PRC laws regarding the titles of the Land.

The Land have been valued in Hong Kong Dollar at the exchange rate as on 31 March 2009 of RMB1.00 to HK\$1.1355.

We enclose herewith the valuation certificate.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED
Peggy Y.Y. Lai
MRICS MHKIS RPS(GP)
Associate Director
Real Estate Group

Note: Ms. Peggy Y.Y. Lai is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors and Registered Professional Surveyors in the General Practice Section, who has over 5 years experience in the valuation of properties in Hong Kong, the PRC and the Asian Region.

VALUATION CERTIFICATE

Property interest to be acquired by the Group for owner-occupation

Property	Description and tenure	Particulars of occupancy	Market Value as at 31 March 2009
A plot of land located at Shang Pai Lot Ban Pai, Shi Wei Ai Ling, Danshui Town, Huiyang City, Guangdong Province, the PRC	Subject property comprises a parcel of irregularly-shaped industrial land fronting onto Shanhan Road and having a total site area of approximately 450,000 sq.m.	The property is currently left vacant.	HK\$199,080,000

Notes:

- (i) Pursuant to a Land Use Rights Certificate No. 惠陽國用(2006)字第2200006號 (Huiyang Guo Yong (2006) Zi No. 2200006), the property with a site area of approximately 450,000 sq.m. was granted to 惠陽中建塑膠產品有限公司 (Huiyang CCT Plastic Products Co., Ltd.), an indirect wholly-owned subsidiary of the CCT Industrial Products Holdings Limited for industrial use up to 23 January 2050.
- (ii) We have been provided with a PRC legal opinion on the title to the property issued by the Group's legal advisors, which contains, inter alia, the following information:
- (a) Huiyang CCT Plastic Products Co., Ltd. has obtained the land use rights under the aforesaid State-Owned Land Use Right Certificate mentioned in note (i).
 - (b) Huiyang CCT Plastic Products Co., Ltd. is entitled to transfer, let or mortgage the land use rights of the property.
 - (c) The property is not subject to material encumbrances.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular with regard to the Company and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement contained herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at 31 December 2008 (being the date of the latest published audited accounts of the Company), the Latest Practicable Date, immediately after the Capital Reorganisation becoming effective, immediately after Completion (assuming there will be no change of the shareholding structure between the Latest Practicable Date and the Completion) but before any conversion of the Convertible Preference Shares, and immediately after the issue of the Conversion Shares upon full conversion of the Convertible Preference Shares into the Conversion Shares at the Conversion Ratio, were and will be as follows:

Authorised:

	Number of shares	Nominal value HK\$
<i>As at 31 December 2008 and as at the Latest Practicable Date:</i>		
— shares of the Company of par value of HK\$0.01 each	<u>120,000,000,000</u>	<u>1,200,000,000.00</u>
<i>Immediately after the Capital Reorganisation becoming effective:</i>		
— CCT Tech Ordinary Shares of par value of HK\$0.01 each	20,536,890,000	205,368,900.00
— Convertible Preference Shares of par value of HK\$0.01 each	<u>3,463,110,000</u>	<u>34,631,100.00</u>
Total authorised capital	<u>24,000,000,000</u>	<u>240,000,000.00</u>

**Issued and fully paid and to be issued
and fully paid or credited as fully paid:**

	Number of shares	Nominal value HK\$
<i>As at 31 December 2008 and as at the Latest Practicable Date:</i>		
— shares in issue of the Company of par value of HK\$0.01 each	<u>65,413,993,990</u>	<u>654,139,939.90</u>
<i>Immediately after the Capital Reorganisation becoming effective:</i>		
— CCT Tech Ordinary Shares in issue	6,541,399,399	65,413,993.99
— Convertible Preference Shares in issue	—	—
Total issued capital	<u>6,541,399,399</u>	<u>65,413,993.99</u>
<i>Immediately after Completion:</i>		
— CCT Tech Ordinary Shares in issue	6,541,399,399	65,413,993.99
— Convertible Preference Shares in issue	<u>3,463,110,000</u>	<u>34,631,100.00</u>
Total issued capital	<u>10,004,509,399</u>	<u>100,045,093.99</u>
<i>Immediately after the issue of the Conversion Shares upon full conversion of the Convertible Preference Shares:</i>		
CCT Tech Ordinary Shares in issue before conversion of the Convertible Preference Shares	6,541,399,399	65,413,993.99
Issue of the CCT Tech Ordinary Shares upon full conversion of the Convertible Preference Shares	<u>3,463,110,000</u>	<u>34,631,100.00</u>
CCT Tech Ordinary Shares in issue after full conversion of the Convertible Preference Shares	<u>10,004,509,399</u>	<u>100,045,093.99</u>
Convertible Preference Shares in issue before conversion of the Convertible Preference Shares	3,463,110,000	34,631,100.00
Full conversion of the Convertible Preference Shares	<u>(3,463,110,000)</u>	<u>(34,631,100.00)</u>
Convertible Preference Shares in issue after full conversion of the Convertible Preference Shares	<u>—</u>	<u>—</u>

All shares of the Company, the CCT Tech Existing Shares, the CCT Tech Ordinary Shares and the Conversion Shares to be issued rank equally in all respects, including capital, dividends and voting rights. The CCT Tech Existing Shares in issue are currently listed on the Stock Exchange. As at the

Latest Practicable Date, there are no outstanding share options under the share option scheme of the Company adopted on 17 September 2002 and took effect on 7 November 2002, warrants, conversion rights or other similar rights giving rights to subscribe for the unissued existing shares of the Company.

Save as disclosed above, since 31 December 2008 (being the date of the latest published audited accounts of the Company), no shares or loan capital of the Company has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms has been granted in connection with the issue or sale of any such capital.

3. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the shares and the underlying shares of the convertible preference shares and/or the share options of the Company and its associated corporations

As at the Latest Practicable Date, 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 and/or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or which were required, pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

(1) *Interests and short positions in the shares and the underlying shares of the convertible preference shares of the Company as at the Latest Practicable Date*

(i) *Long positions in the CCT Tech Existing Shares:*

Name of the Director	Number of the CCT Tech Existing Shares interested and nature of interest			Approximate percentage of the total issued share capital (%)
	Personal	Corporate	Total	
Mak Shiu Tong, Clement (Note)	120,000,000	33,026,391,124	33,146,391,124	50.67
Tam Ngai Hung, Terry	20,000,000	—	20,000,000	0.03
Cheng Yuk Ching, Flora	18,000,000	—	18,000,000	0.03
Chen Li	10,000,000	—	10,000,000	0.02

Note: Included in the shareholdings in which Mr. Mak Shiu Tong, Clement was interested, 33,026,391,124 CCT Tech Existing Shares were held by CCT Telecom through its indirect wholly-owned subsidiaries. Mr. Mak Shiu Tong, Clement is deemed to be interested in such CCT Tech Existing Shares under the SFO as he is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of CCT Telecom.

(ii) Long positions in the underlying shares of the Convertible Preference Shares:

Name of the Director	Description of equity derivatives	Number of the total underlying shares	Approximate percentage of the total issued share capital (%)
Mak Shiu Tong, Clement (Note 1)	Convertible Preference Shares	34,631,100,000 (Note 2)	52.94

Notes:

1. The underlying shares of the Convertible Preference Shares in which Mr. Mak Shiu Tong, Clement was interested will be held by CCT Telecom through its indirect wholly-owned subsidiaries upon Completion. Mr. Mak Shiu Tong, Clement is deemed to be interested in such interest of the underlying shares of the Convertible Preference Shares under the SFO as he is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of CCT Telecom.
2. Being number of the underlying shares of the Convertible Preference Shares before the proposed Share Consolidation becoming effective.

(2) Interests and short positions in the shares and the underlying shares of an associated corporation — CCT Telecom as at the Latest Practicable Date

Long positions in the CCT Telecom Shares:

Name of the Director	Number of the shares interested and nature of interest			Total	Approximate percentage of the total issued share capital (%)
	Personal	Family	Corporate		
Mak Shiu Tong, Clement (Note 1)	715,652	—	294,775,079	295,490,731	45.11
Tam Ngai Hung, Terry	500,000	—	—	500,000	0.08
Cheng Yuk Ching, Flora (Note 2)	14,076,713	160,000	—	14,236,713	2.17
William Donald Putt	591,500	—	—	591,500	0.09

Notes:

1. Included in the shareholdings in which Mr. Mak Shiu Tong, Clement was interested, 294,775,079 CCT Telecom Shares were held by Capital Force International Limited, New Capital Industrial Limited and Capital Winner Investments Limited, all of which are corporations wholly-owned by him, his spouse and his two sons. Mr. Mak Shiu Tong, Clement is deemed to be interested in such CCT Telecom Shares under the SFO as he is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Capital Force International Limited, New Capital Industrial Limited and Capital Winner Investments Limited.
2. Included in the shareholdings in which Ms. Cheng Yuk Ching, Flora was interested, 160,000 CCT Telecom Shares were held by the spouse of Ms. Cheng Yuk Ching, Flora, who is deemed to be interested in such CCT Telecom Shares under the provisions of Part XV of the SFO.

(3) *Interests and short positions in the shares and the underlying shares of the share options of an associated corporation — CCT Resources Holdings Limited (“CCT Resources”) as at the Latest Practicable Date*

(i) *Long positions in the shares of CCT Resources:*

Name of the Director	Number of the shares interested and nature of interest		Total	Approximate percentage of the total issued share capital (%)
	Personal	Corporate		
Mak Shiu Tong, Clement (Note)	19,344,000	2,031,764,070	2,051,108,070	48.80
Tam Ngai Hung, Terry	7,500,000	—	7,500,000	0.18

Note: Included in the shareholdings in which Mr. Mak Shiu Tong, Clement was interested, 2,031,764,070 shares of CCT Resources were held by CCT Telecom through its wholly-owned subsidiary. Mr. Mak Shiu Tong, Clement is deemed to be interested in such shares of CCT Resources under the SFO as he is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of CCT Telecom.

(ii) *Long positions in the underlying shares of the share options of CCT Resources:*

Name of the Director	Date of grant of the share options	Exercise period of the share options	Exercise price per share HK\$	Number of the share options outstanding	Number of the total underlying shares	Approximate percentage of the total issued share capital (%)
Mak Shiu Tong, Clement	14/8/2006	14/8/2006 – 13/8/2011	0.038	22,500,000	22,500,000	0.54
Tam Ngai Hung, Terry	14/8/2006	14/8/2006 – 13/8/2011	0.038	18,000,000	18,000,000	0.43
Cheng Yuk Ching, Flora	14/8/2006	14/8/2006 – 13/8/2011	0.038	5,000,000	5,000,000	0.12
William Donald Putt	14/8/2006	14/8/2006 – 13/8/2011	0.038	5,000,000	5,000,000	0.12

(b) Particulars of the Directors’ other interests

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into a service contract with the Company or any other member of the Enlarged Group (excluding contracts expiring or determinable by the Company or any member of the Enlarged Group within one year without payment of compensation, other than statutory compensation).

(c) Save as disclosed above, as at the Latest Practicable Date

- (i) none of the Directors and the chief executive of the Company and/or any of their respective associates had any interest and short position in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO

(including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or were required, pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange;

- (ii) none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2008, being the date of the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group; and
- (iii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group which contract or arrangement was subsisting and which was significant in relation to the business of the Enlarged Group taken as a whole.

(d) Substantial Shareholders' interests

As at the Latest Practicable Date, so far as was known to, or could be ascertained after reasonable enquiries by, the Directors, the following persons (other than the Directors or the chief executive of the Company) had interests or short positions in the shares or the underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, or directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstance at general meetings of any other member of the Enlarged Group:

(i) Long positions in the CCT Tech Existing Shares as at the Latest Practicable Date:

Name of the Shareholder	Number of the CCT Tech Existing Shares held	Approximate percentage of the total issued share capital (%)
CCT Telecom (<i>Note 1</i>)	33,026,391,124	50.49
CCT Technology Investment Limited (<i>Note 2</i>)	33,026,391,124	50.49
Jade Assets Company Limited	29,326,391,124	44.83
Expert Success	2,350,000,000	3.59
CCT Assets	1,350,000,000	2.07

Notes:

1. The interest disclosed represents 33,026,391,124 CCT Tech Existing Shares indirectly owned by CCT Technology Investment Limited through the subsidiaries stated in Note 2 below. CCT Technology Investment Limited is a wholly-owned subsidiary of CCT Telecom.

2. *The interest disclosed represents 29,326,391,124 CCT Tech Existing Shares held by Jade Assets Company Limited, 1,350,000,000 CCT Tech Existing Shares held by CCT Assets and 2,350,000,000 CCT Tech Existing Shares held by Expert Success, all of them are wholly-owned subsidiaries of CCT Technology Investment Limited.*

(ii) Long positions in the underlying shares of the Convertible Preference Shares as at the Latest Practicable Date:

Name of the holder of the Convertible Preference Shares	Amount of the Convertible Preference Shares HK\$	Number of the total underlying shares	Approximate percentage of the total issued share capital (%)
CCT Telecom (Note 1)	346,311,000	34,631,100,000 (Note 3)	52.94
CCT Technology Investment Limited (Note 2)	346,311,000	34,631,100,000 (Note 3)	52.94
Expert Success	173,155,500	17,315,550,000 (Note 3)	26.47
CCT Assets	173,155,500	17,315,550,000 (Note 3)	26.47

Notes:

- The interest disclosed represents 34,631,100,000 underlying shares of the Convertible Preference Shares which will be held by CCT Technology Investment Limited through the subsidiaries stated in Note 2 below upon Completion. CCT Technology Investment Limited is a wholly-owned subsidiary of CCT Telecom.*
- The interest disclosed represents 17,315,550,000 underlying shares of the Convertible Preference Shares which will be held by CCT Assets and 17,315,550,000 underlying shares of the Convertible Preference Shares which will be held by Expert Success upon Completion, all of them are wholly-owned subsidiaries of CCT Technology Investment Limited.*
- Being number of the underlying shares of the Convertible Preference Shares before the proposed Share Consolidation becoming effective.*

Save as disclosed above, so far as was known to the Directors, as at the Latest Practicable Date, there was no other person (other than the Directors or the chief executive of the Company) who had any interests or short positions in the shares and the underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, or directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstance at general meetings of any other member of the Enlarged Group.

4. LITIGATION

As at the Latest Practicable Date, neither the Company nor any member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any member of the Enlarged Group.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

6. EXPERTS AND CONSENTS

- (i) The following are the qualifications of the experts who have given opinions and advice which are contained in this circular:

Name	Qualification
Ernst & Young	Certified Public Accountants
First Shanghai	A licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity
Grant Sherman	Professional surveyors and valuers
廣東鑄銘律師事務所 (Zhu Ming Lawyer Office of Guangdong) ("PRC Legal Advisers")	Registered law firm in the PRC

- (ii) None of Ernst & Young, First Shanghai, Grant Sherman and the PRC Legal Advisers has any shareholding, directly or indirectly, in the Company or any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any member of the Enlarged Group;
- (iii) Each of Ernst & Young, First Shanghai, Grant Sherman and the PRC Legal Advisers has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or reference to its name in the form and context in which it appears; and
- (iv) None of Ernst & Young, First Shanghai, Grant Sherman and the PRC Legal Advisers has any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to the Company or any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2008, the date to which the latest published audited financial statements of the Group were made up.

7. MATERIAL ADVERSE CHANGE

The Directors have confirmed that there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2008, being the date to which the latest published audited financial statements of the Group were made up, up to the Latest Practicable Date.

The Transaction will not have any adverse effect on the operation, liquidity and financial resources, and capital structure of the Enlarged Group.

8. MATERIAL CONTRACT

The following contract (not being contract entered into in the ordinary course of business of the Enlarged Group) has been entered into by the Enlarged Group within the two years immediately preceding the date of the Announcement and up to and including the Latest Practicable Date which is, or may be, material:

- the Agreement (including the agreement dated 29 April 2009, the supplemental agreement dated 7 May 2009 and the second supplemental agreement dated 27 May 2009 entered into between CCT Telecom and the Company in relation to the Transaction).

9. MISCELLANEOUS

- (a) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and the head office and the principal place of business of the Company in Hong Kong is located at 2208, 22/F., St. George's Building, 2 Ice House Street, Central, Hong Kong.
- (b) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Ms. Tong Kam Yin, Winnie, who is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.
- (d) All time references contained in this circular refer to Hong Kong time.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office and the principal place of business of the Company in Hong Kong at 2208, 22/F., St. George's Building, 2 Ice House Street, Central, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the memorandum and articles of association of CCT Industrial;

- (c) the Companies Act;
- (d) the letter from the Board, the text of which is set out on pages 7 to 26 of this circular;
- (e) the letter of recommendation from the Independent Board Committee containing its recommendation to the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Board Committee” in this circular;
- (f) the letter of advice from First Shanghai, the text of which is set out on pages 29 to 40 of this circular;
- (g) the accountants’ report on the CCT Industrial Group, the text of which is set out in Appendix II to this circular;
- (h) the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (i) the valuation report on the CCT Industrial Group, the text of which is set out in Appendix IV to this circular;
- (j) the property valuation report on the Land, the text of which is set out in Appendix V to this circular;
- (k) the letters of consent from Ernst & Young, First Shanghai, Grant Sherman and the PRC Legal Advisers referred to under the section headed “Experts and Consents” in this appendix;
- (l) the annual reports of the Company for the two financial years ended 31 December 2007 and 2008;
- (m) the interim reports of the Company for the six months ended 30 June 2007 and 2008;
- (n) the material contract referred to in the section headed “Material Contract” in this appendix; and
- (o) this circular.

NOTICE OF THE SGM

TECH INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00261)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of the shareholders of CCT Tech International Limited (the “**Company**”) will be held at 2208, 22/F., St. George’s Building, 2 Ice House Street, Central, Hong Kong on Monday, 29 June 2009 at 9:15 a.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions as a special resolution and an ordinary resolution of the Company:

SPECIAL RESOLUTION

- (I) “**THAT** subject to the passing of the ordinary resolution numbered (II) as set out in this notice and conditional upon (i) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in the Ordinary Shares (as defined below); and (ii) compliance with the requirements of section 46(2) of the Companies Act 1981 of Bermuda (as amended from time to time), with effect from 9:30 a.m. on the business day next following the day on which this resolution is passed by the shareholders of the Company:
- (A) every 10 issued existing shares of HK\$0.01 each of the Company be consolidated (the “**Share Consolidation**”) into one issued consolidated share of HK\$0.10 each (the “**Consolidated Share(s)**”);
- (B) the par value of each issued Consolidated Share be reduced from HK\$0.10 to HK\$0.01 by cancelling HK\$0.09 of the paid-up capital on each issued Consolidated Share to form issued share of HK\$0.01 each (the “**Capital Reduction**”);
- (C) the credit arising from the Capital Reduction be credited to the contributed surplus account of the Company and the directors of the Company be and are hereby authorised to apply the amount in the contributed surplus account of the Company to set-off against the accumulated losses of the Company;
- (D) subject to and forthwith upon the Share Consolidation and the Capital Reduction becoming effective, the authorised share capital of the Company be increased from HK\$120,000,000 divided into 12,000,000,000 shares of par value of HK\$0.01 each of the Company to HK\$240,000,000 divided into 24,000,000,000 shares of par value of HK\$0.01 each (the “**Capital Increase**”);
- (E) subject to and forthwith upon the Capital Increase becoming effective, convertible preference shares of par value of HK\$0.01 each of the Company (the “**Convertible Preference Share(s)**”) having the rights, benefits and restrictions set out in sub-paragraph (F) below be created and the increased authorised share capital of HK\$240,000,000 divided into 24,000,000,000 shares of par value HK\$0.01 each shall be reclassified and re-designated to the effect that the authorised share capital of the Company of HK\$240,000,000 divided into 24,000,000,000 shares of par value HK\$0.01 each shall comprise of 3,463,110,000

NOTICE OF THE SGM

Convertible Preference Shares and 20,536,890,000 ordinary shares of par value HK\$0.01 each (the “**Ordinary Share(s)**”) and all of the shares of the Company then in issue shall be designated as Ordinary Shares;

- (F) the Convertible Preference Shares shall carry equal rights and rank pari passu with one another and each Convertible Preference Share shall have the rights and benefits and subject to the restrictions as follows:

1. Dividend, bonus issue and distribution

Holders of the Convertible Preference Shares shall not be entitled to any dividend payment or any distribution (including bonus issue) of the Company.

2. Transferability

The Convertible Preference Shares are freely transferable. Any transfer shall be in compliance with the bye-laws of the Company (the “**Bye-laws**”), applicable laws and regulatory requirements, including the rules of any stock exchange on which the securities of the Company are listed.

3. Conversion

3.1 Subject to paragraph 3.2 below, holders of the Convertible Preference Shares shall have the right (the “**Conversion Right**”) to convert the Convertible Preference Shares into the Ordinary Shares at the conversion ratio of one Convertible Preference Share convertible into one Ordinary Share (the “**Conversion Ratio**”), subject to adjustment in the manner provided in paragraph 4 below, on a day other than a Saturday, Sunday or a public holiday during which banks are regularly open for business in Hong Kong (the “**Business Day**”) at any time after the issue of the Convertible Preference Shares.

3.2 If the issue of the Ordinary Shares following the exercise of the Conversion Right by a holder of the Convertible Preference Shares would result in the Company not meeting the requirement under the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) applicable to the Company that not less than 25% or the minimum percentage as set out in the Listing Rules from time to time shall be held by the public (the “**Public Float Requirement**”) immediately after the conversion, then the number of Ordinary Shares to be issued pursuant to such conversion shall be limited to the maximum number of Ordinary Shares issuable by the Company which would not result in a breach of the Public Float Requirement and the balance of the Conversion Right attached to the Convertible Preference Shares which the holder of the Convertible Preference Shares sought to convert shall be suspended until such time when the Company is able to issue new Ordinary Shares in satisfaction of the exercise of the said balance of the Conversion Right in compliance with the Public Float Requirement.

NOTICE OF THE SGM

- 3.3 The Conversion Right may, subject as provided herein, be exercised by a holder of the Convertible Preference Shares delivering, at its own expense, during normal business hours on a Business Day to the principal place of business of the Company in Hong Kong a notice (the “**Conversion Notice**”) duly completed and signed stating the intention of such holder to convert and the address in Hong Kong for the delivery of the certificate(s) for the Ordinary Shares arising from such conversion together with the original certificate(s) of the Convertible Preference Shares. The Company shall be responsible for payment of all taxes and stamp, issue and registration fees and duties (if any), and the levies and charges (if any) of the Stock Exchange arising on any such conversion. A Conversion Notice once delivered shall be irrevocable.
- 3.4 The Ordinary Shares arising from the conversion shall be allotted and issued by the Company, credited as fully paid, to the holder of the relevant Convertible Preference Shares or its nominee(s) as it may in writing direct on the day on which the Conversion Notice is given to the Company, and the Company shall within 21 Business Days thereafter issue certificate(s) for the relevant Ordinary Shares to which the holder of the relevant Convertible Preference Shares or such person as it may direct shall become entitled on exercise of its Conversion Right in board lots with one certificate for any odd lot of Ordinary Shares arising from the conversion (unless otherwise directed by the relevant holder) and shall deliver such certificate(s) to the relevant holder at the address in Hong Kong set out in the Conversion Notice (or, in the absence of such address in the Conversion Notice, the registered address of such holder) and, if applicable, a new certificate for any unconverted Convertible Preference Shares.
- 3.5 Conversion of the Convertible Preference Shares shall be effected in such manner as the directors of the Company shall subject to the Bye-laws and to any other applicable laws and regulations, from time to time determine provided that no conversion shall take place if to do so would result in the Ordinary Shares arising from the conversion being issued at a price below their nominal value as at the date of the conversion.
- 3.6 Ordinary Shares arising on conversion shall carry the right to receive all dividends and other distributions declared, made or paid upon the Ordinary Shares by reference to any record date on or after the date of surrender of the certificate(s) for the Convertible Preference Shares and the delivery of the Conversion Notice and shall rank *pari passu* in all other respects and form one class with the Ordinary Shares then in issue and fully paid.
- 3.7 Until such time as all Convertible Preference Shares have been converted to Ordinary Shares, the Company shall:
- (a) at all times keep available for issue and free of all liens, charges, options, mortgages, pledges, claims, equities, encumbrances and other third-party rights of any nature, and not subject to any pre-emptive rights out of its authorised but unissued share capital such number of authorised but unissued

NOTICE OF THE SGM

Ordinary Shares as would enable all Convertible Preference Shares to be converted to Ordinary Shares and any other rights of conversion into, subscription for or exchange into Ordinary Shares to be satisfied in full; and

- (b) use its best endeavours to maintain the listing of the Ordinary Shares on the Main Board of the Stock Exchange.

4. Adjustment to conversion

- 4.1 If while any of the Convertible Preference Shares remain outstanding, the Company shall subdivide or consolidate the Ordinary Shares, the Conversion Ratio applicable to any subsequent conversion shall in the case of a subdivision be increased or in the case of a consolidation be reduced proportionately.
- 4.2 Save as provided in paragraph 4.1, no adjustment will be made to the Conversion Ratio as a result of any other changes to the share capital of the Company, including without limitation, to the generality of the foregoing, any bonus issue, scrip dividend or other distribution and any rights issue or other issue of shares, options to subscribe for or any other securities convertible into Ordinary Shares.
- 4.3 Any adjustment to the Conversion Ratio shall be made to the nearest whole number such that in the event of any fraction of a whole number of Ordinary Shares in the case of a conversion, such fraction shall be rounded down to the nearest whole number of Ordinary Shares.
- 4.4 Whenever the Conversion Ratio is adjusted as herein provided, the Company shall as soon as possible but no later than 28 days of the event giving rise to such adjustment give written notice to the holders of the Convertible Preference Shares that the Conversion Ratio has been adjusted (setting out brief particulars of the event giving rise to the adjustment, the Conversion Ratio in effect prior to such adjustment, the adjusted Conversion Ratio and the effective date thereof) and such notice shall be conclusive and binding.

5. Non-redemption

Without prejudice to the power of the Company to purchase its shares in accordance with the Bye-laws, the Convertible Preference Shares are non-redeemable once issued.

NOTICE OF THE SGM

6. Voting rights

Without prejudice to the sub-paragraph below, holders of the Convertible Preference Shares shall be entitled to receive notices of and attend any general meetings of the Company but shall not be entitled to vote at such general meetings of the Company unless:

6.1 the resolution in question, which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights or privileges of the holders of the Convertible Preference Shares; or

6.2 the resolution in question relates to the dissolution or winding-up of the Company, in which event the Convertible Preference Shares shall confer on the holders thereof the right to participate and vote (either in person or by proxy) at that general meeting on an “as-converted-to-Ordinary Share” basis at the time of the relevant general meeting.

7. Rights in liquidation

On a return of capital in liquidation or otherwise the assets of the Company available for distribution among the members of the Company shall be applied as follows:

7.1 firstly, towards payment to the holders of the Convertible Preference Shares of an amount equal to the aggregate of the amounts paid up or credited as paid up on all the outstanding Convertible Preference Shares (pro rata to the aggregate of the nominal amount of the Convertible Preference Shares held by each such holder); and

7.2 secondly, the balance of such assets shall belong to and be distributed among the holders of the Ordinary Shares and other classes of shares of the Company currently or to be created in future in the capital of the Company. Holders of the Convertible Preference Shares shall not have the right to participate in such remaining assets.

8. Listing

No listing of the Convertible Preference Shares will be sought on the Stock Exchange or on any other stock exchanges. Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Ordinary Shares which may fall to be issued upon the exercise of the Conversion Right attaching to the Convertible Preference Shares (the “**Conversion Shares**”).

NOTICE OF THE SGM

- (G) any director be and is hereby authorised to sign and execute such documents and do all such acts and things incidental to any of the foregoing or as he/she considers necessary, desirable or expedient in connection with the implementation of or giving effect to any of the foregoing and the transactions contemplated thereunder including without limitation to aggregate all of the fractional shares and to sell them for the benefit of the Company.”

ORDINARY RESOLUTION

(II) **“THAT**

- (A) the agreement dated 29 April 2009 (the **“Agreement”**) as amended by the supplemental agreement dated 7 May 2009 (the **“First Supplemental Agreement”**) and the second supplemental agreement dated 27 May 2009 (the **“Second Supplemental Agreement”**) between (1) CCT Telecom Holdings Limited (the **“Vendor”**); and (2) the Company (a copy each of which is tabled at the meeting and marked “A”, “B” and “C” respectively and initialled by the chairman of the meeting for identification purpose), pursuant to which the Company conditionally agreed to purchase and the Vendor conditionally agreed to sell the entire issued share capital of CCT Industrial Products Holdings Limited (**“CCT Industrial”**) (a direct wholly-owned subsidiary of the Vendor) and the interest-free shareholder’s loan due from CCT Industrial to the Vendor (the **“Acquisition”**), at a total consideration of HK\$346,311,000 which is to be satisfied by the allotment and issue of an aggregate of 3,463,110,000 Convertible Preference Shares (as defined in the special resolution numbered (I) as set out in this notice and having the rights and benefits and subject to the restrictions set out in the special resolution numbered (I)(F) as set out in this notice) as to 1,731,555,000 Convertible Preference Shares in favour of Expert Success International Limited (**“Expert Success”**) (an indirect wholly-owned subsidiary of the Vendor) and as to 1,731,555,000 Convertible Preference Shares in favour of CCT Assets Management Limited (**“CCT Assets”**) (an indirect wholly-owned subsidiary of the Vendor), credited as fully paid at the subscription price of HK\$0.10 each which shall be convertible into the Ordinary Shares on a one to one basis, subject to the adjustment to conversion as set out in the special resolution numbered (I)(F) of this notice, subject to the terms and conditions of the Agreement as amended by the First Supplemental Agreement and the Second Supplemental Agreement, the execution of the Agreement, the First Supplemental Agreement and the Second Supplemental Agreement, be and is hereby approved, ratified and confirmed; and that all transactions contemplated under the Agreement as amended by the First Supplemental Agreement and the Second Supplemental Agreement, including the Acquisition, which constitute a major acquisition and connected transaction for the Company under the Listing Rules, be and are hereby approved;
- (B) conditional upon the Listing Committee of the Stock Exchange granting approval for the listing of, and the permission to deal in, the Ordinary Shares in issue following completion of the capital reorganisation of the Company as set out in the special resolution numbered (I) of this notice, and the Conversion Shares and the conditions precedent of the Agreement as amended by the First Supplemental Agreement and the Second Supplemental Agreement having been fulfilled or waived, as the case may be, and subject to the special resolution numbered (I) as set out in this notice being duly passed, the allotment and issue of 3,463,110,000 Convertible Preference Shares as to 1,731,555,000 Convertible Preference

NOTICE OF THE SGM

Shares in favour of Expert Success and as to 1,731,555,000 Convertible Preference Shares in favour of CCT Assets to satisfy the consideration of the Acquisition be and is hereby confirmed and approved;

- (C) the directors of the Company be and are hereby authorised to allot and issue the Conversion Shares arising from the conversion of the Convertible Preference Shares pursuant to the terms of the Agreement as amended by the First Supplemental Agreement and the Second Supplemental Agreement and the directors of the Company be and are hereby also authorised to do all such acts and things they consider necessary or expedient in relation to the exercise of the Conversion Right attaching to the Convertible Preference Shares; and
- (D) any one director of the Company, or any two directors of the Company if affixation of the common seal of the Company is necessary, be and is/are hereby authorised to execute all such other document, instrument and agreement (if any) and do all such acts and things and to take all such steps which in his/her/their opinion, may be necessary, appropriate, desirable or expedient to give effect to or in connection with the matters contemplated in and for completion of the Agreement as amended by the First Supplemental Agreement and the Second Supplemental Agreement and the transactions contemplated therein and to agree to any variation, amendment, supplement or waiver of matters relating thereto as is/are, in his/her/their opinion, in the interest of the Company, to the extent that such variation, amendment, supplement or waiver does/do not constitute material changes to the material terms of the transactions contemplated under the Agreement as amended by the First Supplemental Agreement and the Second Supplemental Agreement.”

By Order of the Board of
CCT TECH INTERNATIONAL LIMITED
Mak Shiu Tong, Clement
Chairman

Hong Kong, 5 June 2009

*Head office and principal place of business
in Hong Kong:*

2208, 22/F., St. George's Building
2 Ice Hosue Street
Central
Hong Kong

Notes:

1. *A form of proxy for use at the SGM is enclosed herewith.*
2. *The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either executed under its common seal or under the hand of any officer, attorney or other person duly authorised to sign the same.*
3. *Any shareholder entitled to attend and vote at the SGM is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A shareholder who is the holder of two or more shares may appoint not more than two proxies (who must be an individual or individuals) to attend and vote instead of him/her on the same occasion. A proxy need not be a shareholder of the Company but must attend the SGM in person to represent him/her.*

NOTICE OF THE SGM

4. *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, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 48 hours before the time appointed for holding the SGM or any adjourned meeting thereof (as the case may be). Such prescribed form of proxy for use at the SGM is also published on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company at www.cct-tech.com.hk.*
5. *Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the SGM or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.*
6. *Where there are joint registered holders of any share(s), any one of such joint holders may attend and vote at the SGM or at any adjourned meeting thereof (as the case may be), either in person or by proxy, in respect of such share(s) as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the SGM or at any adjourned meeting thereof (as the case may be), the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.*