



Mr. Mak Shiu Tong, Clement (Chairman)

Chairman's Letter

In 2002, we took a big step towards achieving our goal. Haier-CCT Holdings Limited ("Haier-CCT" or the "Company") and its subsidiaries (together the "Group") enjoyed appreciable returns from the mobile phone business. In 2002, the recorded revenue was approximately HK\$500 million, representing a significant increase of 123% over 2001. EBITDA reached HK\$14.2 million, a notable increase of 35% against the previous year. This encouraging return is due to our determined strategy and our confidence in the mobile phone business in the PRC.

The Group's loss attributable to shareholders for the year ended 31 December 2002 amounted to HK\$66.9 million. The loss was mainly attributable to amortisation of goodwill amounting to HK\$74.8 million made for the acquisition of the mobile phone business. Without such amortisation, there would have been a profit of approximately HK\$8 million attributable to the shareholders this year (2001: loss of HK\$1.6 million). The current year's results included the Company's 64.5% share of the three-month contribution from Pegasus Qingdao from October 2002 and, therefore, did not reflect the whole picture of the performance of our mobile phone business. The mobile phone market is huge and growing at a rapid pace. As an active and committed mobile phone market participant, we believe our results from the mobile phone business will be promising when a full year's contribution is reflected in 2003 and in future years.

As the mobile phone business grows, we believe the revenue derived from the mobile phone business will recover the amortisation of goodwill and contribute net profits to the Group in the coming years.

Restructuring and evolution of the Group's business

Early in 2001, we foresaw ample opportunities in the mobile phone market in the PRC. We immediately formulated a clear strategy to participate in this huge market and, with the full support of the major shareholders, we progressively transformed into an integrated manufacturer and distributor of mobile phones.

In 2001, in the first stage of our restructuring, we acquired from Haier and CCT Telecom, the Group's major shareholders, 100% of Pegasus Telecom (Hong Kong) Co. Ltd. ("Pegasus HK"), a joint venture set up in Hong Kong which was principally engaged in material sourcing for the production and export of mobile phones. In order to speed up the Group's evolution, stage two of the restructuring was accelerated and completed in October 2002. At that point the Group acquired from Haier and CCT Telecom a total of 64.5% interest in Pegasus Qingdao, which was engaged in the manufacture and distribution of mobile phones.

As part of this restructuring, the baby care product business was sold to CCT Telecom in March 2002.

Market positioning

We are one of the few domestic manufacturers in China to be equipped with sufficient product range and production technology to produce quality mobile phones from chip sets, while also having the capability to design. We are also one of the very few Chinese domestic manufacturers to have actually launched CDMA phones last year. We are active in this market and committed to the business. With the well-received Tian Zhi Xing series (e.g. "T6000" and "T9000") and Kai Yun Xing series, as well as the recently-launched "Haier Penphone 5", we have already established ourselves as an outstanding player in the mobile phone industry in the PRC.

Synergies of shareholders

Haier is a white goods giant in China and is also well known internationally. According to Euromonitor, a leading market research institute in Europe, Haier is the largest white goods manufacturer in China and the fifth largest globally and is also the largest global manufacturer in terms of refrigerators. On 26 December 2002, Haier Group announced revenue of RMB72.3 billion. In 2002, Haier was ranked the top company in China for overall leadership by the Far Eastern Economic Review in an annual company survey, the "Review 200", conducted by AC Nielsen International Research (Hong Kong). The "Haier" brand name is ranked the first in China and had a brand value of RMB48.9 billion in 2002, as assessed by Beijing Famous-Brand Evaluation Co. Ltd.



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Haier's prestigious and well-respected brand name and extensive distribution network, together with CCT Telecom's R&D strength and international business network, ensure that the Group will benefit from this winning synergy to expand and grow more rapidly.

Outlook

China is the fastest growing mobile phone market today and has already surpassed the US to become the largest mobile phone market in the world. The number of mobile phone subscribers in China reached 200 million at the end of 2002 and will continue to grow steadily. The MII (Ministry of Information Industry of the PRC) has projected that total subscribers will reach approximately 300 million in 2005, representing an annualised compound growth rate of 26% over the period from 2001 to 2005. With the current relatively low penetration rate in China compared with other developed countries and with her entry into the WTO, there is a healthy future for the mobile phone business. We are confident that Haier-CCT can successfully seize all opportunities and increase its market share in this growing market.

Possible further asset injection

In February 2003, Haier informed the Board that they were considering a further asset injection into the Group, which may include part or all of their white goods domestic appliances business. Among other things, the possible asset injection will depend on regulatory matters and approvals in Mainland China and Hong Kong. If the asset injection proceeds, this will enlarge the Group's asset and revenue bases.

We will explore new business opportunities and create diversified revenue streams in order to strengthen our financial capability. I am confident that this can maximise the returns to our shareholders and investors.

Acknowledgements

I would like to take this opportunity to thank our staff, whose experience and dedication have contributed greatly to the successful results that we are able to report now. I would also like to thank our business partners and shareholders for their continued support. We look forward to creating greater opportunities and delivering increased returns for you in the coming years.

Mak Shiu Tong, Clement

Chairman

Hong Kong, 22 April 2003