

Review of Operations

Mobile phone business

Subsequent to the acquisition of Pegasus HK in December 2001 and completion of the acceleration agreement in October 2002, the mobile phone business has become the major revenue source of the Group.

Despite the depressed economic conditions of 2002, the mobile phone business has grown at a smooth and steady pace. We remain committed to developing innovative, quality products for our customers and continue to introduce original and useful features via new products in order to attract customers and capture more market share. The "T9000", the latest product in the Tian Zhi Xing series, includes a firewall feature so that any unwanted incoming calls can be blocked at the discretion of the user. "Haier Penphone 5" has successfully applied for two international patents for its innovative features. Its pen-shaped design and laser pen function have also caught the attention of the market. Nowadays, mobile phones have become fashion accessories for the public and we will leverage on our design strengths to put more creative products on the market ahead of our competitors.

Development of mobile phone market in China

Penetration rates of mobile phones in Hong Kong, Europe and the US now exceed 85%, 70% and 40%, respectively. Compared with these and many other developed countries and locations, a penetration rate of less than 20% in China is low and has plenty of room for growth in the years ahead, still leaving some 80% of the Chinese population as potential mobile phone customers.

As a result of the attractiveness of the China market, domestic brands of mobile phone makers that came into the market with zero market share a few years ago have scrambled and managed to gain a market share of more than 20% by the end of 2002. MII has estimated that in 2003, domestic brands will have a market share of 35% or more. It is strongly believed that domestic brands will capture a greater share of a growing market in the years ahead.

The increase in penetration rate coupled with the increase in share of market by domestic brands means that we can expect to enjoy a "compound growth" in business in the coming years. In order to prepare and equip ourselves for the growing market, the Company recently announced its plan to build a new factory in Qingdao. In addition to the three existing advanced SMT (surface mount technology) lines, the Group intends to acquire more new SMT lines with an aim of increasing the total annual production capacity.

Baby care product business

In March 2002, the baby care product business was sold to CCT Telecom, the major shareholder of the Group. This has enabled the Group to focus on its mobile phone business.

