

Chairman's Letter

Following our acquisition of the 64.5% interest in Pegasus Telecom (Qingdao) Co., Ltd. ("Pegasus Qingdao") in October 2002, this is the first year that Haier-CCT Holdings Limited ("Haier-CCT" or the "Company") and its subsidiaries (together the "Group") have enjoyed a full-year return from its mobile handset business. Turnover in 2003 was HK\$1,664.6 million, representing a significant increase of 233% over year 2002 as turnover in 2002 only included a three-month contribution from Pegasus Qingdao after the Group's acquisition. The turnover in 2003 of Pegasus Qingdao witnessed a remarkable increase of approximately 49% over that of 2002. Such an increase was due to factors such as the Group's successful penetration of the mobile handset market, the ongoing technological improvement and advancement of the Group's products, the expansion of production scale, the extension of our sales network overseas and the increasing recognition of "Haier" brand name in the mobile handset industry.

Net loss attributable to shareholders in 2003 amounted to HK\$856.4 million (2002 (restated): HK\$66.3 million). The increase in loss was mainly due to: (i) a stock provision of approximately HK\$55.5 million being made by the Group; (ii) an amortisation of goodwill amounting to approximately HK\$82.9 million; and (iii) an impairment of goodwill of approximately HK\$732.2 million.

The slow-moving stock provision was made due to poor market conditions in year 2003 as a result of the outbreak of atypical pneumonia and a general price reduction trend in the mobile handset market. The change in consumer trends, such as from black-and-white screen handsets to colour-screen handsets, also led to some of the Group's inventory becoming obsolete.

Although the robust and continued growth of the China mobile handset market has provided ample business opportunities for mobile handset manufacturers, this growth has also led to increasing competition among domestic manufacturers and with foreign players. The Group's mobile handset business has, as a result, been in a loss-making position for the past two years. The Board therefore decided this year that it would be appropriate to write down the carrying amount of goodwill attributable to the Group's acquired mobile handset business to reflect the impact of such market competition. The impairment of goodwill of approximately HK\$732.2 million was assessed by the Board and was written off to the consolidated profit and loss account for the year ended 31 December 2003. As the goodwill is an intangible and non-cash item, the impairment of such goodwill does not have any adverse impact on the Company's cash position and its normal business operations. After the impairment of such goodwill, the annual amortisation of goodwill attributable to the Group's acquired interest in the mobile handset business will be decreased thereafter.

We are, nonetheless, optimistic about the future of the Group's mobile handset business in light of the steady and rapidly growing China mobile handset market. To this end, we have made a substantial investment in a new mobile handset factory in Qingdao. With the new factory, we are able to increase our production capacity to cater for increasing production demand in the years ahead. The new factory has a total floor area of approximately 35,000 square metres and is equipped with some of the most advanced telecom production facilities all housed within a dust-free, temperature and humidity controlled environment.

In 2003, apart from the original design manufacturing of mobile handsets, we also expanded into the electronic manufacturing services ("EMS") business, for which our customers will provide the product design for our production. We have already manufactured mobile handsets for many international and domestic telecom companies under this EMS arrangement. While we continue to place great emphasis on our huge China domestic market, our expansion into the EMS business has enabled us to strengthen our foothold in the international market. We are one of the few Chinese mobile handset manufacturers who have export capability due to our high production and design capabilities, high product quality that meets international standards and the ability to leverage the extensive international and domestic distribution networks of Haier, the Company's substantial shareholder.

In February 2004, Haier announced revenue of RMB 80.6 billion in 2003. The year 2003 was also the second year that the "Haier" brand name was ranked number one in China. With Haier's prestigious and well-respected brand name and extensive distribution network coupled with the Group's research and development strength, the Group is now well-positioned to overcome any challenges that may lie ahead.

Outlook

China is the largest mobile handset market in the world today. The Ministry of Information Industry in China has reported that the number of mobile handset subscribers in China reached 269 million at the end of 2003 which represents a significant growth of about 35% as compared to 2002. China has also become an important global mobile handset manufacturing base. Market share of domestic manufacturers in China has increased from 22.6% in 2002 to 39.7% in 2003. With the current relatively low penetration rate in China compared with other developed countries, the future growth of the mobile handset industry is promising.

Acquisition of washing machine business

On 5 March 2004, we entered into a conditional agreement with Haier to acquire from Haier its washing machine business. The acquisition will broaden the Group's revenue base and result in the Group's diversification into the white goods business. We also intend to exercise a call option in respect of the 35.5% interest in Pegasus Qingdao. It is intended that the acquisition of the washing machine business and the exercise of the call option will be completed at the same time.

The acquisition is subject to, among other things, the approval of the independent shareholders and regulatory approvals. Please refer to our announcement dated 2 April 2004 for more details on the acquisition.

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

Appreciation

I would like to take this opportunity to express my appreciation to our Board of Directors and to all staff for their hard work especially during this challenging period, and to our customers, shareholders and bankers for their continuing support. We will continue to strengthen our mobile handset business so as to increase the value of the Company and, in turn, the return to our shareholders.

Mak Shiu Tong, Clement

Chairman

Hong Kong, 23 April 2004

