

CHAIRMAN'S LETTER

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

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

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

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

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

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

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

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

CHAIRMAN'S LETTER

Outlook

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

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

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

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

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

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

Acknowledgements

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

Mak Shiu Tong, Clement
Chairman

Hong Kong, 23 April 2004

