



Haier 海尔



OVERVIEW

The preceding year has been a year of significant changes to the Group. Despite keen competition in the market, the Group's mobile handset business continued to build up both its market share as well as market reputation, with a remarkable 89% increase in turnover from HK\$1,665 million in 2003 to HK\$3,153 million in 2004. To enhance the revenue base of the Group and as a first step towards building up an integrated electronics-white goods giant, on 5 March 2004, the Group entered into an agreement with Haier Group Corporation and Qingdao Haier Investment and Development Co., Ltd. (together with their respective subsidiaries, collectively, the "Haier Group") to acquire from the Haier Group its washing machine business, and the Group also announced its intention to exercise the call option to acquire from the Haier Group the remaining 35.5% interest in Pegasus Telecom (Qingdao) Co., Ltd. ("Pegasus Qingdao") not already owned by the Group (collectively the "Asset Injection"). The Asset Injection was approved in a special general meeting by the shareholders on 13 December 2004, and was completed subsequent to the balance sheet date on 28 January 2005. As the Asset Injection was mainly paid for by the issue of new shares to the Haier Group, the Haier Group has thereby become the controlling shareholder of the Company and the name of the Company was also changed from Haier-CCT Holdings Limited to Haier Electronics Group Co., Ltd. with effect from 31 January 2005.

GROUP RESULTS

For 2004, turnover was solely derived from the mobile handset business. Turnover rose substantially by 89% to HK\$3,153 million in 2004. The Group continued to strengthen its market position and increase its market share. This was made possible by the launch of an extensive range of innovative mobile phones by our strong R&D team, which introduced 24 new models in 2004, our experienced management team and the extensive distribution channel of the Haier Group. Mirroring Haier Group's success achieved in the white goods and electronics markets, with a short history of just 4 years, the "Haier" brand name has already been recognised as a quality name in the mobile handset market with rapidly rising popularity among consumers.

The Group has seen a turnaround in its operating results. On the operating level, the Group's mobile handset business has started to turn profitable in 2004. Earnings before interest, tax, depreciation and amortisation ("EBITDA") and operating profit before amortisation and impairment of goodwill amounted to HK\$63.7 million and HK\$29.6 million, respectively, for 2004, against negative figures of HK\$6.9 million and HK\$31.8 million, respectively, for 2003.

Net loss attributable to shareholders in 2004 substantially narrowed to HK\$42.5 million, which was after charging a non-cash amortisation of goodwill of HK\$44.5 million (It should be noted that pursuant to Hong Kong Financial Reporting Standard ("HKFRS") 3 "Business Combinations" recently issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which is effective for the year ending 31 December 2005 in respect of the Company, goodwill acquired in a business combination will no longer be subject to amortisation, but will instead be subject to test for impairment periodically). The net loss in 2004 was 95% lower than the net loss of HK\$856.4 million in 2003, which figure was after charging an impairment of goodwill of HK\$732.2 million. The impairment was made in 2003 after considering the intense competition



in the mobile handset market by the management. For 2004, although competition in the market place further intensified, after considering the strengthening of Group's position in the market place over the past year and in view of the positive responses of our new products in the market, the Board had determined that there was no need to make further impairment in the carrying value of goodwill. We remain optimistic on the long-term potential of the mobile handset market in China and on our ability in continuing to strengthen our market position, and in ultimately becoming one of the leaders in the market.

OUTLOOK

Asset Injection

As mentioned in our circular to shareholders dated 18 November 2004 in connection with the Asset Injection (the "Circular"), it is Haier Group's intention to turn the Company into its listed flagship, to list its white goods business through the Company and to become a global top three white goods giants. As mentioned in the Circular, assets considered to be injected into the Company include Haier Group's interest in Qingdao Haier Co., Ltd. (a company with its A shares listed on the Shanghai Stock Exchange and engaged in the manufacture and sale of air conditioners, refrigerators and other small home appliances), certain joint ventures engaged in the front loading washing machine business (in contrast to the top loading washing machine business acquired by the Group under the Asset Injection), and its other white goods businesses. At present, the Group has not entered into any binding agreement in respect of further asset injections. The Group is exploring these opportunities and will make public announcements on further developments in accordance with the requirements of the Listing Rules.

Washing Machine Business

Although not included in our 2004 results, the washing machine business we acquired under the Asset Injection subsequent to the balance sheet date has been performing very well. The market share of "Haier" brand name in terms of sales revenue in domestic washing machine market in China continued to rise from approximately 31% in 2003 to approximately 34% in 2004 according to China Market Monitor Co., Ltd. (a market research company based in Beijing). A total of 43 new models were launched in 2004. These were well accepted in the market and helped us to further strengthen our already dominant market position. We are optimistic about the prospects of our washing machine business and the financial performance of this business will be included in the 2005 first half interim results to be announced in the third quarter of this year.



Mobile Handset Business

Despite increased competition from foreign branded manufacturers especially since the last quarter of 2004, we are optimistic about the future of the Group's mobile handset business. The Haier Group had in the past faced fierce competition in the consolidation phase in many businesses but it then came out as a winner. We are confident that the Group will be able to duplicate such success in China's mobile handset market. We believe we can build on our supreme brand value, quality of product and after sale service, extensive distribution channel and our strong R&D capability. We see steady and strong growth in the demand for mobile handsets in China and we believe this will be the business offering strong growth to the Group in the future. Over the past year, we offered an extensive range of new products such as phones with sophisticated features like 260K TFT displays plus OLED color sub-display, extra long stand-by time (up to 18 days), picture in picture function, incoming call and SMS fire walls, and we are also the first domestic manufacturer to offer 1.3 mega pixel digital camera phone. These were well received by the market. In the coming year, we will also place substantial effort in exploring the export markets to compliment our growth in the domestic market and to capitalise on the renowned "Haier" brand name.

PROSPECTS

In the coming year, we will continue to strengthen our market position in our two main lines of business, namely the mobile handset business and the newly added washing machine business. At the same time, we will explore further asset injection opportunities from the Haier Group, subject to, among other things, the satisfactory completion of due diligence on their financial and business operation, the negotiation of a legally binding agreement and the receipt of all applicable governmental, regulatory and shareholders' approvals in Hong Kong and the PRC. We are confident that we are on the right track towards attaining the goal of becoming a global electronics-white goods giant.

APPRECIATION

Finally, I would like to take this opportunity to thank all my fellow directors and staff members for their dedicated services, contributions and support during the year. In particular, I would like to extend my appreciation to the outgoing board members, Mr. Mak Shiu Tong, Clement and Mr. Tam Ngai Hung, Terry, who were nominated by our previous largest shareholder, CCT Telecom Holdings Limited, and who resigned upon Haier Group becoming the controlling shareholder of the Company on completion of the Asset Injection on 28 January 2005, for their most appreciated services in the past years.

Yang Mian Mian

Chairman

Hong Kong, 22 April 2005



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