



The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

## **CHANGE OF COMPANY NAME**

Pursuant to a special resolution passed at a special general meeting of the Company held on 13 December 2004 and approved by the Registrar of Companies in Bermuda, the name of the Company was changed from Haier-CCT Holdings Limited to Haier Electronics Group Co., Ltd. with effect from 31 January 2005.

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the manufacture and sale of mobile phones and trading of raw materials. There were no significant changes in the nature of the Group's principal activities during the year.

Subsequent to the year end, on 28 January 2005, the Group acquired the entire issued share capital of Haier Holdings (BVI) Limited and Qingdao Haier Investment and Development Holdings (BVI) Limited (collectively referred to as "Haier BVI"). The principal activities of Haier BVI and their subsidiaries are the manufacture and sale of washing machines under the brand name of "Haier".

## **RESULTS AND DIVIDENDS**

The Group's loss for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 74.

The directors do not recommend the payment of any dividends in respect of the year.

## **SUMMARY FINANCIAL INFORMATION**

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years/period, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 75. This summary does not form part of the audited financial statements.

## **FIXED ASSETS**

Details of movements in the fixed assets of the Group during the year are set out in note 16 to the financial statements.

## **SHARE CAPITAL, SHARE OPTIONS AND WARRANTS**

Details of movements in the Company's share capital, share options and warrants during the year, together with the reasons therefor, are set out in notes 28 and 29 to the financial statements.



## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK\$120,691,000 (2003: HK\$165,118,000). In addition, the Company's share premium account, in the amount of HK\$70,179,000 (2003: HK\$70,174,000), may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers, respectively, during the financial year is as follows:

	Percentage of the Group's total			
	Sales		Purchases	
	2004	2003	2004	2003
	%	%	%	%
The largest customer	<b>87</b>	72	–	–
Five largest customers in aggregate	<b>98</b>	99	–	–
The largest supplier	–	–	<b>55</b>	12
Five largest suppliers in aggregate	–	–	<b>74</b>	33

During the year, Haier Group Corporation ("Haier") and Qingdao Haier Investment and Development Co., Ltd. ("Haier Investment"), substantial shareholders of the Company, had beneficial interest in one of the five largest customers and one of the five largest suppliers of the Group, respectively.

Save as disclosed above, none of the directors or any of their associates or any shareholders of the Company (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.



## DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

### Executive directors:

Yang Mian Mian	(appointed on 28 January 2005)
Wu Ke Song	
Chai Yong Sen	
Liang Hai Shan	
Cao Chun Hua	(appointed on 28 January 2005)
Cui Shao Hua	
Song Chun Guang	(appointed on 28 January 2005)
Mak Shiu Tong, Clement	(resigned on 28 January 2005)
Tam Ngai Hung, Terry	(resigned on 28 January 2005)
Man Wei Dong	(resigned on 28 January 2005)

### Independent non-executive directors:

Lam Kin Kau, Mark	
Fung Hoi Wing, Henry	
Lau Ho Wai, Lucas	(appointed on 17 September 2004)
Wu Yinong	(appointed on 28 January 2005)

In accordance with the bye-laws of the Company, Yang Mian Mian, Wu Ke Song, Liang Hai Shan, Cao Chun Hua, Song Chun Guang, Lau Ho Wai, Lucas, and Wu Yinong will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

The independent non-executive directors of the Company are not appointed for any specific terms and are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the bye-laws of the Company.

The Company has received annual confirmations of independence from Lam Kin Kau, Mark, Fung Hoi Wing, Henry, Lau Ho Wai, Lucas, and Wu Yinong, and still considers them to be independent as at the date of this report.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 15 of this annual report.



## DIRECTORS' SERVICE CONTRACTS

During the year, no director had a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, the interests of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Total	
Mak Shiu Tong, Clement (note)	–	107,219,667	107,219,667	1.08
Tam Ngai Hung, Terry	10,000,000	–	10,000,000	0.10
	10,000,000	107,219,667	117,219,667	1.18

Note: The shares of the Company were held by Capital Winner Investments Limited and Capital Interest Limited (through Mono Alto International Limited and CCT Industrial Holdings Limited), which are corporations controlled by Mak Shiu Tong, Clement.

The interests of the directors in the share options of the Company are separately disclosed in note 29 to the financial statements.



## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (cont'd)

Save as disclosed above, as at 31 December 2004, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 29 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director of the Company or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name of shareholder	Notes	Number of shares held	Approximate percentage of total shareholding (%)
CCT Telecom Holdings Limited	(1)	4,346,772,486	43.62
Soaring Profit Holdings Limited	(2)	4,346,772,486	43.62
Info-net International Corp.		899,000,000	9.02
Greatway International Corp.		880,172,486	8.83
Clear Access Agents Limited		810,000,000	8.13
Super Control Investments Limited		733,600,000	7.36
Invest Paradise Group Limited		700,000,000	7.03
Haier Group Corporation	(3)	2,983,000,000	29.94
Qingdao Haier Collective Asset Management Association	(4)	2,983,000,000	29.94
Qingdao Haier Investment and Development Co., Ltd.	(5)	2,983,000,000	29.94
Qingdao Haier International Trading Co., Ltd.	(6)	1,960,000,000	19.67
Haier (Hong Kong) Company Limited	(7)	1,960,000,000	19.67
Orient Rich (H.K.) Limited		1,960,000,000	19.67



## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES (cont'd)

Notes:

- (1) The interest disclosed comprises 4,346,772,486 shares indirectly owned by Soaring Profit Holdings Limited through the subsidiaries as disclosed in note (2) below. Soaring Profit Holdings Limited is a wholly-owned subsidiary of CCT Telecom Holdings Limited.
- (2) The interest disclosed comprises 899,000,000 shares held by Info-net International Corp., 880,172,486 shares held by Greatway International Corp., 810,000,000 shares held by Clear Access Agents Limited, 733,600,000 shares held by Super Control Investments Limited, 700,000,000 shares held by Invest Paradise Group Limited and 324,000,000 shares held by Full Elite Assets Limited. Info-net International Corp., Greatway International Corp., Clear Access Agents Limited, Super Control Investments Limited, Invest Paradise Group Limited and Full Elite Assets Limited are wholly-owned subsidiaries of Soaring Profit Holdings Limited.
- (3) Haier Group Corporation is acting in concert with Qingdao Haier Investment and Development Co., Ltd. As Qingdao Haier Investment and Development Co., Ltd. is holding 1,023,000,000 shares and is interested in 1,960,000,000 shares held by Orient Rich (H.K.) Limited as stated in notes (5), (6) and (7) below, Haier Group Corporation is also taken to be interested in the 1,023,000,000 shares held by Qingdao Haier Investment and Development Co., Ltd. and the 1,960,000,000 shares held by Orient Rich (H.K.) Limited.
- (4) Qingdao Haier Collective Asset Management Association is interested in 1,023,000,000 shares held by its non wholly-owned subsidiary, namely, Qingdao Haier Investment and Development Co., Ltd. and 1,960,000,000 shares held by Orient Rich (H.K.) Limited as stated in notes (5), (6) and (7) below.
- (5) Qingdao Haier Investment and Development Co., Ltd. is holding 1,023,000,000 shares and is interested in 1,960,000,000 shares held by Orient Rich (H.K.) Limited through its non wholly-owned subsidiary, namely Qingdao Haier International Trading Co., Ltd. as stated in notes (6) and (7) below.
- (6) Qingdao Haier International Trading Co., Ltd. is interested in 1,960,000,000 shares held by Orient Rich (H.K.) Limited through its non wholly-owned subsidiary, namely Haier (Hong Kong) Company Limited as stated in note (7) below.
- (7) Haier (Hong Kong) Company Limited is interested in 1,960,000,000 shares held by Orient Rich (H.K.) Limited. Orient Rich (H.K.) Limited is a non wholly-owned subsidiary of Haier (Hong Kong) Company Limited.

As at 31 December 2004, Qingdao Haier Group Holdings (BVI) Limited is interested in a long position in 4,026,706,667 shares and 1,444,444,444 shares under the convertible notes respectively pursuant to the asset injection agreement as disclosed in note 34(i) to the financial statements.

As at 31 December 2004, Qingdao Haier Group Holdings (BVI) Limited was owned as to 50% by each of Haier and Haier Investment. Accordingly, each of Haier and Haier Investment is deemed to be interested in the interests of Qingdao Haier Group Holdings (BVI) Limited. Qingdao Haier Collective Asset Management Association is also deemed to be interested in the same interest of Qingdao Haier Group Holdings (BVI) Limited via Haier Investment.

Save as disclosed above, as at 31 December 2004, no other person, other than the directors or the chief executive of the Company, whose interests are set out in the section "Directors' interests in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.



## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions with Haier, the subsidiaries of Haier, and the subsidiaries of Haier Investment, certain details of which, disclosed in compliance with the requirements of Chapter 14A of the Listing Rules, are set out below. Haier and Haier Investment are substantial shareholders of the Company.

(a) During the year, the Group had the following continuing connected transactions:

	Notes	2004 HK\$'000	2003 HK\$'000
Sales of mobile phones	(i)	<b>2,747,869</b>	1,197,120
Purchases of materials	(ii)	<b>1,786,847</b>	81,388
Utility service fee expenses	(iii)	<b>4,657</b>	3,724
General security service fee expenses	(iii)	<b>136</b>	439
Human resources service fee expenses	(iii)	<b>38</b>	159
Legal consultancy service fee expenses	(iii)	–	64
Interest expenses	(iii)	<b>3,442</b>	3,346
Interest income	(iii)	<b>143</b>	73

Notes:

- (i) The sales of mobile phones were made in accordance with the terms and conditions set out in the products distribution agreement entered into between Pegasus Telecom (Qingdao) Co., Ltd. ("Pegasus Qingdao") and Qingdao Haier Telecommunications Co., Ltd. on 10 January 2003.

The sales were determined based on the costs of materials plus a processing fee ranging from 5% to 40% of the purchase price of the materials.

- (ii) The purchases of materials were made in accordance with the terms and conditions set out in the materials procurement agreement entered into between Pegasus Qingdao, Qingdao Haier International Trading Co., Ltd. and Qingdao Haier Parts Procurement Co., Ltd. on 10 January 2003.

The purchases were determined based on the lower of the average market price or the consolidated and the integrated tender and bidding price plus 2.6% commission.

- (iii) The utility service fee expenses, legal consultancy service fee expenses, human resources service fee expenses, general security service fee expenses and interest expenses were charged by Qingdao Haier Energy Power Co., Ltd. ("Haier Energy"), Qingdao Haier Intellectual Property Rights and Legal Services Centre ("Haier Legal"), Qingdao Haier Human Resources Development Co., Ltd. ("Haier Human Resources"), Qingdao Haier Security Services Co., Ltd. ("Haier Security") and Haier Group Finance Co., Ltd. ("Haier Finance"), respectively, in accordance with the terms and conditions set out in the service agreement (the "Service Agreement") entered into between Pegasus Qingdao, Haier Energy, Haier Legal, Haier Human Resources, Haier Security and Haier Finance on 10 January 2003. The interest income was received from Haier Finance in accordance with the terms and conditions set out in the Service Agreement.



## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (cont'd)

Notes: (cont'd)

(iii) (cont'd)

Pursuant to the Service Agreement, the utility service fees, legal consultancy service fees, human resources service fees and general security service fees were charged with reference to actual costs incurred. The interests were determined with reference to the standard rates published by the People's Bank of China.

The average daily balance of the Group's loan from Haier Finance (plus interest) and deposits in Haier Finance (plus interest) for each of the 12 months ended 31 December 2004 did not exceed RMB150 million (equivalent to approximately HK\$140 million) and RMB30 million (equivalent to approximately HK\$28 million), respectively.

The above transactions were defined as "Ongoing Connected Transactions" in the circular to the shareholders of the Company dated 17 March 2003 and were approved by the shareholders at a special general meeting of the Company on 2 April 2003.

The Stock Exchange has granted conditional waivers to the Company from strict compliance with the connected transactions requirements as set out in the Listing Rules for the two financial years ended 31 December 2004.

The independent non-executive directors of the Company have reviewed and confirmed that the Ongoing Connected Transactions were:

- (i) less than the cap amounts which were set out in the relevant agreements;
  - (ii) entered into in the usual and ordinary course of business of Pegasus Qingdao;
  - (iii) conducted either on normal commercial terms; or if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms that are fair and reasonable so far as the shareholders are concerned; and
  - (iv) entered into either in accordance with the terms of the agreements governing such transactions; or if there are no such agreements, on terms that are no less favourable than terms available to or from independent third parties.
- (b) On 22 June 2004, Haier provided a corporate guarantee of US\$15,000,000 (equivalent to HK\$117,000,000) to the Bank of Communications, Qingdao Branch, as a security for banking facilities granted to Pegasus Qingdao for the period from 22 June 2004 to 22 September 2004. The guarantee was automatically released when the corresponding loan was repaid on 22 September 2004.
- (c) On 25 June 2004, Haier provided a corporate guarantee of RMB70,000,000 (equivalent to HK\$65,421,000) to Haier Finance as a security for banking facilities granted to Pegasus Qingdao for the period from 25 June 2004 to 24 June 2005. As at 31 December 2004, the above banking facilities were fully utilised.





## **SUFFICIENCY OF PUBLIC FLOAT**

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report, being the latest practical date prior to the date of this report.

## **POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events of the Group are set out in note 34 to the financial statements.

## **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for any specific terms as required by Paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the bye-laws of the Company.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules ("Model Code") as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the annual report.

## **AUDIT COMMITTEE**

Pursuant to Rule 3.21 of the Listing Rules, the Company has established an audit committee comprising the four independent non-executive directors of the Company. A set of written terms of reference, which describe the authorities and duties of the audit committee, was also adopted by the board.

The audit committee is answerable to the board and the principal duties of the audit committee include the review and supervision of the financial reporting process and internal controls of the Company. The audit committee had reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2004.



## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

**Yang Mian Mian**

*Chairman*

Hong Kong

22 April 2005