

Chairman's Letter



OVERVIEW

With an overhaul in the corporate structure and direction of the Group, the year 2005 will be remembered as a year of historical milestone of the Group. On 28 January 2005, the Group completed the acquisition of the top loading washing machine business and remaining 35.5% equity interest in Pegasus Telecom (Qingdao) Co., Ltd. (the "Asset Injection") from Haier Group Corporation and Qingdao Haier Investment and Development Co., Ltd. (together with their respective subsidiaries, excluding the Group, the "Haier Group"). As the Asset Injection was mainly satisfied by the issue of new shares, the Haier Group has thereby become the controlling shareholder of the Group 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.

This is expected to be the first in a series of steps being undertaken by the Haier Group to position the Company as the listed flagship of the Haier Group's white goods business. Our long term goal is to become a global top 3 white goods manufacturer and we believe that the Asset Injection has built up a solid foundation for the Group to achieve such mission.

Chairman's Letter (cont'd)**GROUP RESULTS**

Turnover in 2005 amounted to HK\$4,940 million, representing a decrease of approximately 16% from HK\$5,894 million in 2004. The washing machine business continued to exhibit strong growth in turnover of approximately 20% to HK\$3,312 million in fiscal 2005. However, the Group's turnover has been adversely affected by a drop in turnover of the mobile handset business of approximately 48% to HK\$1,629 million in the year 2005.

Loss attributable to shareholders amounted to HK\$433 million for the year ended 31 December 2005, against a profit attributable to shareholders of HK\$119 million in 2004. The loss was mainly due to the performance of the mobile handset business, which recorded an operating loss of HK\$139 million in fiscal 2005, and the impairment loss of HK\$322 million in relation to goodwill attributable to the Group's acquired interest in the mobile handset business. The loss has substantially narrowed from HK\$397 million in the first half of 2005 to HK\$36 million in the second half of 2005, despite the continued loss of the mobile handset business, as a result of the strong performance of the washing machine business which recorded a strong operating profit of HK\$73 million in the second half of the year.

Despite a loss being reported, since impairment loss on goodwill is a non-cash item and coupled with contribution from the washing machine business, the Group continues to maintain a very strong cash flow position, with a net cash inflow from operating activities of HK\$350 million in fiscal 2005.

OUTLOOK

The Board expects the operating environment in the mobile handset market in the PRC to remain difficult in the foreseeable future. To improve the performance of the Group, the Group is devoting more resources on the profit making washing machine business, whose contribution to Group turnover was substantially up from 47% in 2004 to 67% in 2005. As mentioned in our announcement dated 12 April 2006, we are also in negotiation and discussion with the Haier Group in relation to a possible disposal of the mobile handset business to the Haier Group. The Company will make appropriate announcement as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") in the event that the possible disposal materialises.



It is Haier Group's intention to turn the Company into the listed flagship of its white goods business and in ultimately become a global top 3 white goods manufacturer. We are exploring further asset injection opportunities from the Haier Group subject to, among other things, the satisfactory completion of due diligence on their financial and operating performance, the negotiation of a legally binding agreement and receipt of all applicable governmental, regulatory and shareholders' approval. At present, the Company has not entered into any agreement in respect of further asset injections. The Group will make appropriate announcement on further developments in accordance with the requirements of the Listing Rules.

APPRECIATION

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.

By Order of the Board

Yang Mian Mian

Chairman

Hong Kong, 19 April 2006



Haier 海尔



**CCTV 2005创新中国
自主创新推荐产品**



**2005国家科学技术进步奖
家电行业得主**



**Haier's Dual Drive Washing Machine
Gold medal in the 95th Concours Lépine International France**