

China

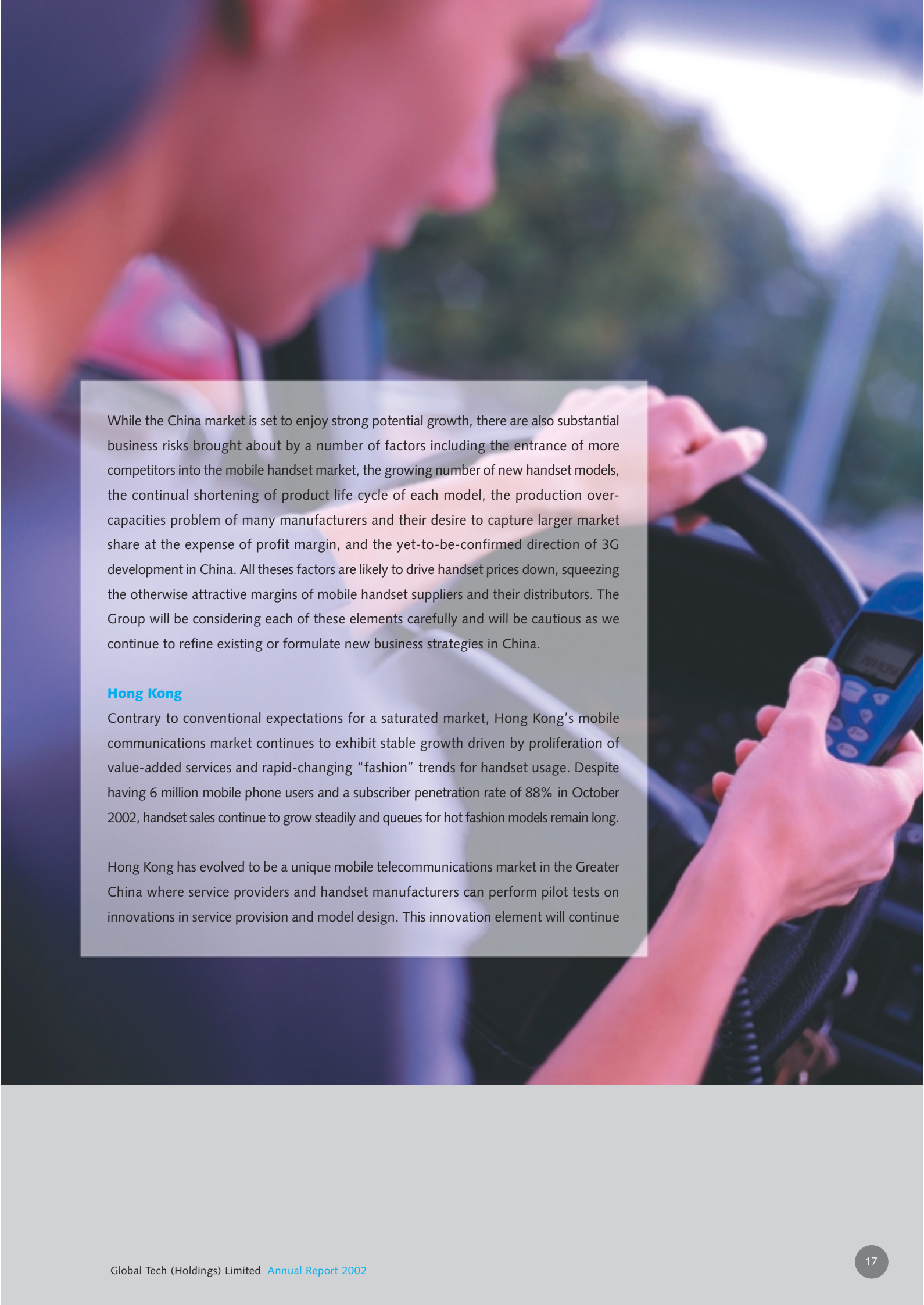
China continues to be the world's largest and fastest growing mobile telecommunications market. Latest statistics from the Ministry of Information Industry ("MII") showed the number of mobile phone users exceeding 200 million in December 2002, accounting for a fifth of the world's total of 1 billion mobile phone users. Monthly incremental growth had been maintained at more than five million users for most time of the year. MII has also established a target of adding 52 million mobile phone subscribers to the existing networks, setting to boost the penetration rate to 20.1% by the end of 2003. The Tenth Five Year Plan prescribed the country's total number of mobile phone users to reach 260-290 million by the year 2005.

Continuous penetration from cities to rural areas and the possible migration into the third-generation (3G) data transmission platform are expected to drive handset consumption this year, creating huge demand in the replacement market that is forecast to reach 50 million units in 2003.

Growing affluence of mainland residents, especially those in the major cities of Beijing, Shanghai, Guangzhou and Shenzhen will also create an expanding market segment for replacement, multiple ownerships for fashion and special-usage purposes.

We believe that while increasing penetration continues to be the mainstay of mobile telecommunications development in most parts of the country, growth in urban areas will replicate patterns exhibited in other saturated markets in the world. In particular, voice communications, various dimensions in messaging, gaming or other forms of downloadable entertainment (like mobile theatre and digital wallet), will be assimilated into marketing strategies of different retailers and service providers to help spur domestic consumption on sectors not directly related to telecommunications. This trend will benefit manufacturers capable of offering handsets with enhanced functionalities that ride on this specific requirement.

China has evolved into a market with an appetite for a multitude of sophisticated technology and functionalities sophistication. From basic voice transmission to advanced messaging and features; to the forthcoming lifestyle management via mobile telecommunications networks, demand will exist in China for handsets to serve various purposes.

A background image showing a person's hands on a steering wheel and holding a blue mobile phone. The person is wearing a red and white striped shirt. The background is blurred, showing greenery and a building.

While the China market is set to enjoy strong potential growth, there are also substantial business risks brought about by a number of factors including the entrance of more competitors into the mobile handset market, the growing number of new handset models, the continual shortening of product life cycle of each model, the production over-capacities problem of many manufacturers and their desire to capture larger market share at the expense of profit margin, and the yet-to-be-confirmed direction of 3G development in China. All these factors are likely to drive handset prices down, squeezing the otherwise attractive margins of mobile handset suppliers and their distributors. The Group will be considering each of these elements carefully and will be cautious as we continue to refine existing or formulate new business strategies in China.

Hong Kong

Contrary to conventional expectations for a saturated market, Hong Kong's mobile communications market continues to exhibit stable growth driven by proliferation of value-added services and rapid-changing "fashion" trends for handset usage. Despite having 6 million mobile phone users and a subscriber penetration rate of 88% in October 2002, handset sales continue to grow steadily and queues for hot fashion models remain long.

Hong Kong has evolved to be a unique mobile telecommunications market in the Greater China where service providers and handset manufacturers can perform pilot tests on innovations in service provision and model design. This innovation element will continue

to drive growth in handset sales both in the new and replacement market. It will not be surprising to see mobile phone penetration rate in Hong Kong surpassing the 100% mark in the near future as customers start to stock up more handsets for fashion or special-usage purposes.

In response to intensifying competition and shifting market conditions and technologies, the Group will continue its efforts in the replacement market for premium products.

Taiwan

By the end of October last year, the number of mobile phone users reached 23.83 million, equivalent to 105.9 users per 100 individuals in Taiwan. This implies on average a citizen in Taiwan owns more than one handset and subscribes to mobile telecommunications service from more than one service provider. This characteristic calls for high-end sophistication in technology, functionalities, service package offerings and marketing and promotion excellence.

The replacement market in Taiwan, which consumes about 6 million units a year, has become the mainstay of the handset distribution industry in Taiwan. This market is fiercely contested among more than 30 local, international as well as mainland Chinese brands.

While the island's soft economy is expected to offer very limited upside for prices, manufacturers and distributors strive to maintain sales through better design with added functions. Growing popularity of General Packet Radio Service ("GPRS") packages, coupled with the more affordable service plans launched by the local service providers, creates potential emergence of fresh demand for handsets with colour TFT user interface, poly-chord melodic ring-tone and high-speed data transmission functionalities. It is estimated that the share of GPRS handsets could reach 40% of Taiwan's yearly sale of 6 million units. Service providers' effort to establish content provision alliances with other industries including e-card, on-line gaming and movie-distribution fuels the market with added impetus to spur demand for better handsets.

With the anticipated launch of CDMA in Taiwan in mid 2003, competition amongst handset suppliers and local operators may intensify, causing likely fall in handset prices. To this end, the Group will be working closely with local operators in Taiwan to formulate effective marketing strategies to combat the possible margin threat brought about by this increased competition.