

Chairman's Statement



Yang Xiaotang
Chairman

“Our core competence is the most important and effective element to win in the future.”

Achievements in 2004



Dear Shareholders,

I am pleased to announce the results of China Electronics Corporation Holdings Company Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 31 December 2004 and the Group’s future prospects.

2004 was a year of major reform for the Company. On 24 September 2004, the Company completed the acquisition of the 65% equity interest in Shenzhen Sang Fei Consumer Communications Company Limited (“Sang Fei”). Upon completion, China Electronics Corporation (“CEC”) has become the controlling shareholder of the Company. Leveraged on the new management team and the new business model, the Group has a more solid operating base and a proven steady cash flow. The management also brought major realignment to the Group’s investment portfolio which involves the disposal of investment projects continuously recording operating losses or those which fall short of set targets. After the overall strategic reorientation of its business, not only did Sang Fei contribute profits to the Group, the new business also laid a solid foundation for the Group to further develop in consumer electronics and communications businesses – sectors which have promising potential in the coming future.

In light of the keen market competition creating a harsh business environment, the Group has focused in expanding its production capacity of the mid- to high-end handsets for the global market. In addition to the enhanced operation efficiency and cost control management, the Group recorded remarkable results in 2004. During the year under review, the Group sold approximately 8.4 million units of mobile phones, representing more than 57% increase over last year. Notwithstanding the stiff market competition from both local manufacturers and leading multinational industry players, the Group effectively capitalized on its know-how and technology in mobile phone manufacturing to offer products at



competitive prices. In addition to its reliable network of suppliers from different parts of the world and the well-implemented inventory control policies, the Group successfully achieved robust growth in sales volume as well as in its overall operating profitability.

I would like to extend my appreciation and attribute our success to you.

Outlook

The global consumer electronics and communication sector is expected to grow steadily, and the evolution in technology will continue at fast pace. 4C convergence (computer, communication, consumer electronics and content) and 3-net integration (communication network, cable television network and internet) will be the trend of future advancement in information technology. These provide the Group with plentiful business opportunities, and will be regarded as the direction of our future development. The management is confident with the prospect of the Group in the coming years.

Our core competence is the most important and effective element to win in the future. In 2004, the Group completed the business realignment and corporate reorganization with great success, and attained remarkable operating results during the year. This is, however, only the first step of our overall corporate strategy. Looking forward, the Group will endeavour to promote Sang Fei as a major mobile phone provider in the industry, and will proactively explore new business opportunities in consumer electronics and communication products and services.

At present, Sang Fei has the capability of producing GSM, CDMA and PHS mobile phones, and possesses the technology and expertise for the manufacture of 3G mobile phones and lead-free handsets. With the extensive experience and know-how it has gained, together with the continuous support from CEC, Sang Fei will continue to diversify its product profile and income source, and to improve the overall profitability as a whole.



Chairman's Statement

To drive quantum growth of its business, the management will implement dynamic development strategies. The Group will devote its resources in research and development, production and sales and distribution functions, and to establish a complete production chain in mobile communication products. In addition, the Group will actively explore and extend its business profile in the upstream and downstream of the consumer electronics and communication product chain, including the design and manufacture of proprietary chipsets, development of system platform and provision of network application and services. The Group will also expedite its business growth by actively pursuing new investment opportunities through strategic acquisitions or partnerships with good potential. Besides, the State Council has approved CEC early this year to set up the China Cable Network ("CCN") joint venture with China Media Group. Being the core operator of the cable television network, CCN will be engaged in the integration and development of the domestic cable television network and related service provision, including the high-definition television broadcasting in China. With the technological advantage of CEC and through maximizing the synergies between CEC and the Group, the management will further integrate, improve and expand the business profiles of the Group and creates a healthy, efficient and transparent corporate structure, and a comprehensive industry value chain and supply chain. Our ultimate objective is to advance the Group as a leading information technology, equipment manufacturing and network application services provider in China.

The management is ambitious towards achieving these goals and objectives. With the support from our shareholders, we are confident that the Group will carry the best performance in the coming years, which in turn maximize the shareholders value and investor return as a whole.

Acknowledgement

Last but not least, I would like to take this opportunity to express the Board's sincere gratitude to all shareholders and business associates for their continuous support and trust, and to all staff for their devoted efforts and contributions to the Group.

Sincerely yours,

Yang Xiaotang
Chairman

Hong Kong, 18 March 2005