

Directors' Report

The directors would like to present their report together with the audited accounts for the year ended 31 December 2004.

THE ACQUISITION

On 10 December 2003, China Electronics Corporation (“CEC”), the Company and the Company’s then holding company, Winsan International Holdings Limited, entered into a sale and purchase agreement to acquire CEC’s 65% equity interest in Shenzhen Sang Fei Consumer Communications Company Limited (“Sang Fei”), a Sino-foreign joint venture company established in the People’s Republic of China principally engaged in the manufacturing and sale of mobile telephones (the “Acquisition”), at a consideration of HK\$260,000,000. The consideration was satisfied by the issuance of 6,500,000,000 shares of the Company to CEC. The Acquisition was completed on 24 September 2004.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at a special general meeting held on 14 July 2004, the name of the Company was changed from Winsan (China) Investment Group Company Limited to China Electronics Corporation Holdings Company Limited.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is an investment holding company. The principal activities of the Group, upon the Acquisition, comprise the manufacturing and sale of mobile telephones. The principal activities of subsidiaries are set out in note 28 to the accounts.

Before the Acquisition, the Group was engaged in the operation of Transonline and DICO Group. The two businesses were disposed of on 29 September 2004 and 11 October 2004 respectively.

An analysis of the Group’s performance for the year by business and geographical segments is set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 27 of the annual report.

The directors do not recommend the payment of a dividend for the year ended 31 December 2004 (2003: Nil).

FIXED ASSETS

Particulars of the movements in fixed assets of the Group and the Company during the year are set out in note 14 to the accounts.

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SHARE CAPITAL

Particulars of the movements in share capital of the Company are set out in note 21 to the accounts.

RESERVES

Particulars of the movements in reserves of the Group and the Company during the year are set out in note 22 to the accounts.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company does not have any revenue reserve available for distribution to the shareholders (2003: Nil).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 67 of the annual report.

SHORT-TERM LOANS

Particulars of the short-term loans of the Group are set out in note 20 to the accounts.

BORROWING COSTS

No interest was capitalised by the Group during the year (2003: Nil).

DIRECTORS

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

Non-executive directors

Mr. Yang Xiaotang	(appointed on 24 September 2004)
Mr. Tong Baoan	(appointed on 24 September 2004)
Ms. Chiu King Cheung	(resigned on 24 September 2004)

Executive directors

Mr. Fan Qingwu	(appointed on 24 September 2004)
Mr. Hua Longxing	(appointed on 24 September 2004)
Mr. Chan Chak Shing	(resigned on 24 September 2004)
Mr. Chan Hon Ching	(resigned on 24 September 2004)
Ms. Lo Mei Chun	(resigned on 24 September 2004)

DIRECTORS (CONTINUED)

Independent non-executive directors

Mr. Chan Kay Cheung

Mr. Wong Po Yan

Mr. Yin Yongli (appointed on 24 September 2004)

In accordance with section 86(2) of the Company's bye-laws, Mr. Yang Xiaotang, Mr. Tong Baoan, Mr. Fan Qingwu, Mr. Hua Longxing and Mr. Yin Yongli will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

The Company has received confirmation from each of the independent non-executive directors as regards their independence to the Company, and considers them to be independent.

No director proposed for re-election at the forthcoming annual general meeting has a service contract, which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographies of the directors of the Company are set out on page 11 of the annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, no interests nor short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) of the Company were recorded in the register maintained 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 Companies.

SHARE OPTION SCHEME

On 20 June 2002, the shareholders of the Company approved the termination of the share option scheme adopted by the Company on 5 July 1997 (the "Old Scheme") and the adoption of a new share option scheme (the "Share Option Scheme"). Accordingly, no options can be granted under the Old Scheme. Any outstanding options granted but not exercised under the Old Scheme shall continue to be exercisable.

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SHARE OPTION SCHEME (CONTINUED)

Summary of each of the Share Option Scheme and the Old Scheme are as follows:

Term	Share Option Scheme	Old Scheme
Purpose	To provide the participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company.	Not applicable
Participants	All executive and non-executive directors of the Company, full time employees and part-time employees of the Group, advisors, consultants, distributors, suppliers, agents, customers, partners, joint venture partners, promoters, service providers to the Group.	Any employees (including executive directors) of the Company or any of its subsidiaries.
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report	111,320,000 ordinary shares and approximately 1.3% of the issued share capital as at the date of the annual report.	Not applicable
Maximum entitlement of each participant	1% of the shares in issue in any 12-month period	Not exceeding 25% of the total maximum number of shares available for subscription
Period within which securities must be taken up under an option	10 years from the business day on which board of directors resolves to make an offer of grant of options	10 years from the offer of the grant of option

SHARE OPTION SCHEME (CONTINUED)

Term	Share Option Scheme	Old Scheme
Minimum period for which an option must be held before it can be exercised	The Company must specify the minimum period at the time of grant of options	The Company must specify the minimum period at the time of grant of options
Amount payable on acceptance of the option	HK\$1.00	HK\$1.00 or its equivalent in RMB at the prevailing exchange rate at the time of offer
Period within which payments/call/ loans must be made/repaid	Not applicable	Not applicable
Basis of determining the exercise price	The higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share on the date of grant	The higher of (i) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of grant; or (ii) the nominal value of a share
Remaining life of the scheme	The scheme remains in force until 19 June 2012	The outstanding options shall remain exercisable up to 29 October 2010

During the year ended 31 December 2004, no options have been granted under the Share Option Scheme. No options have been lapsed nor exercised, but a total of 80,480,000 outstanding options under the Old Scheme have been cancelled due to the resignation of certain directors and employees during the year.

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SHARE OPTION SCHEME (CONTINUED)

As at 31 December 2004, there were no share options outstanding under the two share option schemes. Details of the share options outstanding during the year were as follows:

Name	Date of grant	Exercise price HK\$	Options as at 1 January 2004 Number	Options cancelled during the year Number	Options as at 31 December 2004 Number
<i>Ex-Directors</i>					
Mr. Chan Chak Shing	1/9/1997	1.530	16,000,000	(16,000,000)	–
	31/3/1998	0.360	11,500,000	(11,500,000)	–
	16/2/2000	0.240	2,300,000	(2,300,000)	–
Mr. Chan Hon Ching	1/9/1997	1.530	1,000,000	(1,000,000)	–
	31/3/1998	0.360	22,000,000	(22,000,000)	–
	16/2/2000	0.240	2,000,000	(2,000,000)	–
Ms. Lo Mei Chun	1/9/1997	1.530	600,000	(600,000)	–
	30/10/2000	0.173	1,000,000	(1,000,000)	–
Ms. Chiu King Cheung	1/9/1997	1.530	1,000,000	(1,000,000)	–
	31/3/1998	0.360	22,000,000	(22,000,000)	–
	16/2/2000	0.240	1,000,000	(1,000,000)	–
<i>Employees</i>					
Total employees	30/10/2000	0.173	80,000	(80,000)	–

As at 31 December 2004, no directors of the Company had any share options outstanding under the two share option schemes.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors of the Company or their respective associates (as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Details of the connected transactions entered into by the Group during the year are set out below:

Continuing connected transactions

Type of transaction	Amount HK\$'000
Sales of products, samples and materials to the CEC Group ⁽¹⁾	44,038
Purchases of raw materials from the CEC Group	8,052
After sales repair and maintenance services by the CEC Group	1,175
Provision of canteen services by the CEC Group	6,459
Fitment and decoration services from the CEC Group	5,065
Rental arrangement with the CEC Group	6,010
Processing arrangements with the CEC Group	6,364
Sales of products, samples and materials to the Philips Group ⁽²⁾	4,162,127
Purchases of raw materials from the Philips Group	1,034,201
Corporate services arrangements with the Philips Group	15,535

Note:

- (1) CEC Group, being China Electronics Corporation together with its subsidiaries, is a connected person of the Group by virtue of being the controlling shareholder of the Company.
- (2) Philips Group, being Koninklijke Philips Electronics N.V. together with its group companies, is a connected person of the Group by virtue of being a substantial shareholder of Shenzhen Sang Fei Consumer Communications Company Limited, the principal operating subsidiary of the Group.

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CONNECTED TRANSACTIONS (CONTINUED)

Pursuant to the resolutions passed in the Company's special general meeting on 14 July 2004, and the written approval by CEC on 20 December 2004 in relation to the revision of the annual cap of the sales of products to the Philips Group, the above connected transactions were approved by the independent shareholders of the Company.

Brief description and particular terms of the continuing connected transactions are set out in note 27 "RELATED PARTY TRANSACTIONS" to the accounts in accordance with the requirements of Chapter 14A of the Listing Rules.

In the opinion of the independent non-executive directors of the Company, the above transactions were carried out in the ordinary and usual course of business, on normal and commercial terms and were in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of the Group and the shareholders as a whole.

The auditors have confirmed that the above transactions:

- had been approved by the board of directors of the Company;
- were in accordance with the pricing policies of the Group;
- were entered into in accordance with the terms of the relevant agreements governing such transactions; and
- had not exceeded the cap approved by the board of directors of the Company as described in the circulars of the Company dated 21 June 2004 and 31 December 2004.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, the following directors of the Company are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group:

Name of director	Name of entity	Principal business of the entity	Nature of director's interest in the entity
Mr. Yang Xiaotang	China Electronics Corporation (<i>note a</i>)	Investment holdings	President and legal representative
Mr. Tong Baoan	China Electronics Corporation (<i>note a</i>)	Investment holdings	Vice president
	China Electronics Industry Corporation (<i>note b</i>)	Investment holdings	President and legal representative
	Shenzhen SED Industry Co., Ltd. (<i>note b</i>)	Investment holdings	Chairman
Mr. Fan Qingwu	China Electronics Industry Corporation (<i>note b</i>)	Investment holdings	Vice president
	CEC Wireless R&D Co. Ltd.	Research and development of mobile telephones	Director

Note:

- (a) China Electronics Corporation ("CEC") is the controlling shareholder of the Company. CEC is a state-owned nationwide electronics and information technology conglomerate, and has other subsidiaries and associates engaged in mobile telephone related businesses which compete or are likely to compete with the business of the Group.
- (b) China Electronics Industry Corporation and Shenzhen SED Industry Co., Ltd. have subsidiaries or associates engaged in the mobile telephone related businesses which compete or are likely to compete with the business of the Group. China Electronics Industry Corporation is wholly owned by CEC. Shenzhen SED Industry Co., Ltd. is a company whose A shares are listed on the Shenzhen Stock Exchange and is indirectly owned as to approximately 55.34% by CEC as at the date of this report.

The abovementioned competing businesses are operated and managed by independent management and administration. In addition, the directors of the Company consider that the business model of and markets served by the Group are different from those companies. The board of the Company can exercise independent judgment and is always acting for the interests of the Company and its shareholders as a whole. Accordingly, the Group is capable of carrying on its businesses independently of, and at arm's length from, the competing businesses mentioned above.

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SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests in the issued capital of the Company.

Name of shareholder	Number of shares held	Percentage of shareholding
China Electronics Corporation (BVI) Holdings Company Limited ("CEC BVI")	6,500,000,000	74.98%
CEC ⁽¹⁾	6,500,000,000	74.98%
Bravo New Investments Limited ("Bravo")	500,000,000	5.76%
Mr. Chan Chak Shing ⁽²⁾	764,372,870	8.81%

(1) CEC holds 100% interest in CEC BVI and is deemed to be interested in the shares held by CEC BVI.

(2) This number of shares represents the aggregate of (i) Mr. Chan Chak Shing's family interest of 33,000,000 shares and (ii) corporate interest of 500,000,000 shares and 231,372,870 shares held by Bravo and Winsan International Holdings Limited ("WIHL") respectively. As Mr. Chan Chak Shing holds 100% interest in both Bravo and WIHL, the shares held by Bravo and WIHL are deemed to be interests of Mr. Chan Chak Shing.

All the interests disclosed above represent long position in the shares of the Company.

Save as disclosed above, as at 31 December 2004, no person or corporation had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws or the laws in Bermuda.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

On 17 September 2004, the Company entered into the placing agreements to place in aggregate 610,000,000 shares of the Company to two independent third parties at HK\$0.233 per share. The net proceeds of HK\$142,130,000 were earmarked as the working capital of the Group and as the reserve for future opportunistic investments by the Group. The placing of shares was completed on 24 September 2004.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2004.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentages of sales for the year attributable to the Group's major customers are as follows:

Sales

–	the largest customer	38%
–	five largest customers combined	91%

The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

Purchases

–	the largest supplier	23%
–	five largest suppliers combined	44%

Philips Group is the beneficial owner of four of the five largest customers and one of the five largest suppliers of the Group. Details of the transactions are set out in the section headed "CONNECTED TRANSACTIONS" above.

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

As at 31 December 2004, the Group had in aggregate approximately HK\$744.7 million (RMB789.8 million) due from members of the Philips Group. The receivables were mainly trade balances which arose from sales of products including goods, samples and materials in the ordinary course of the business of the Group with a small amount which represented reimbursement for taxation and administrative expenses paid during the year by the Group. Such amounts are to be settled in accordance with normal trade credit terms ranging from 30 to 60 days after invoice and are covered then by bank guarantee or by documents against acceptance arrangements.

The Philips Group is a connected person of the Company by virtue of being a substantial shareholder of the Group's principal operating subsidiary. Details of the transactions are set out in the section headed "CONNECTED TRANSACTIONS" above.

Save as disclosed above, there is no other disclosure required to be made by the Company pursuant to Rule 13.20 of the Listing Rules.

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COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The directors are pleased to confirm that throughout the year ended 31 December 2004, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules which was in force prior to 1 January 2005, except that during the year, the independent non-executive directors of the Company were not appointed for a specific terms but are subject to retirement by rotation in accordance with the Company's bye-laws.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the directors of the Company.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules ("Model Code"). Having made specific enquiry, the Company confirmed that all directors have complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The audit committee comprises Messrs. Chan Kay Cheung, Wong Po Yan and Yin Yongli, who are independent non-executive directors. The audit committee examined the accounting principles and practices adopted by the Group and discussed with management its internal controls and accounts. During the year, the audit committee has reviewed the unaudited interim accounts for the six months ended 30 June 2004 and the audited accounts for the year ended 31 December 2004.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Yang Xiaotang

Chairman

Hong Kong, 18 March 2005