China Electronics Corporation Holdings Company Limited

中國電子集團控股有限公司

(Stock Code : 00085)

2007

Annual Report

Corporate Information

Board of Directors

Non-executive Directors

Xiong Qunli *(Chairman)*
Tong Baoan *(Vice Chairman)*

Executive Directors

Fan Qingwu *(Managing Director)*
Hua Longxing

Independent Non-executive Directors

Chan Kay Cheung
Wong Po Yan
Yin Yongli

Audit Committee

Chan Kay Cheung *(Chairman)*
Wong Po Yan
Yin Yongli

Remuneration Committee

Wong Po Yan *(Chairman)*
Chan Kay Cheung
Yin Yongli
Fan Qingwu

Company Secretary and Qualified Accountant

Yam Pui Hung Robert

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Office in Hong Kong

Room 3503, 35th Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Principal Bankers

Bank of China (HK) Limited
The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited

Investor Relations

Telephone: (852) 2598 9088
Facsimile: (852) 2598 9018
Website: www.cecholding.com
Email: corp@cecholdings.com.hk

Stock Code

00085

Principal Share Registrar

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

Auditors

PricewaterhouseCoopers

Legal Advisors

As to Hong Kong Law

Linklaters

As to Bermuda Law

Conyers Dill & Pearman

CONTENTS

Chairman's Statement

Dear Shareholders,

In the past year, the global mobile handset industry continued to grow under keen competition. Notwithstanding the tough operating environment, the Group achieved sales of 8.5 million units and recorded total revenue of HK$3,167.7 million.

In 2007, China Electronics Corporation ("CEC"), the controlling shareholder of the Company, acquired the mobile handset business of the Philips Group. After then, the Group, through its principal operating subsidiary – Shenzhen Sang Fei Consumer Communications Company Limited, acquired from the Philips Group and the CEC Group respectively the exclusive licence right to use the "*Philips*" and "*Xenium*" trademarks in the mobile handset business and extended its business profile from downstream of the industry value chain in the past to the upstream area. Such collaboration not only promotes the value of the Group's mobile handset business, it also sets a solid foundation for transforming the Group from an OEM manufacturer to a complete business solution provider in the long run.

The global information technology industry tends to focus on the advancement and development of their core technologies and businesses, and new investments were largely emphasised in the upstream and downstream of the industry value chain. Currently, the profession is optimistic but prudent about the global information technology product market in 2008, and is in general positive towards the forthcoming development of smart mobile handsets, semi-conductor and

Chairman's Statement

software service sectors. The Group will seize the opportunities arising from the business restructuring in the global information technology industry: on one hand to continue the business development in its existing mobile handset operation, and at the same time to explore new businesses at the upstream of the industry value chain through merger and acquisition.

CEC is one of the core enterprises in the information technology industry in China, and possesses leading competitiveness in sectors like mobile communications equipment, semi-conductor, key components and software and is a leading service provider. In the new year ahead, the Group will further leverage the competitive advantages of CEC and will proactively enhance its business structure and intensify its capital market operation. The ultimate objective is to advance its core technology from low end to mid-to-high end stream and to promote its core business to the upstream of the industry value chain, and bring the best return to our shareholders.

On behalf of the Board, I would like to thank all our staff members for their contribution and effort in the past year, and to express our most sincere gratitude to our shareholders and business partners for their continued cooperation and support.

Sincerely yours,

Xiong Qunli
Chairman

25 April 2008

"Expediting improvements in **industry structure,** optimising resources allocation, **and promoting** the Group's entire competitiveness"

Management Discussion and Analysis

Business Review

The mobile handset business environment remained tough during the year. Fierce competition and ever-advancing technologies forced industry players to actively undergo business reorganisation so as to maintain their competitive advantages and market position. In late 2006, the Philips Group, one of the major OEM/ODM customers of the Group, announced its intention to dispose of its mobile handset business. Since then, the Philips Group carried out a series of operational restructuring which imposed an adverse impact on the sales performance of the "*Philips*" mobile handset business. Despite the difficult operating environment during this transitional period, the Group endeavoured dedicated efforts to work actively with the Philips Group and China Electronics Corporation ("CEC", together with its subsidiaries, collectively the "CEC Group") to streamline the handover of the "*Philips*" mobile handset business. Major turnarounds to the overall business were achieved since August 2007 whereby series of new products were launched and deferred sales orders were substantially caught up by end of the year.

During the year under review, sales of "*Philips*" mobile handset had substantially reduced as a result of deferred sales orders and postponement of new products launch during the disposal of the mobile handset business by the Philips Group. Sales of "*Philips*" mobile handsets dropped by 20% to 3.7 million units. At the same time, sales of own-branded and other OEM mobile handsets also reduced to 2 million units as the Group had placed primary focus on the alignment of the "*Philips*" mobile handsets business with an aim to keeping the operation on track. Sales of mobile handsets had in total dropped by 24% to 5.7 million units. On the other hand, the portable media player business continued to perform well. The Group in total sold 2.8 million units of portable media players in 2007, representing more than triple of the sales last year. The overall sales of mobile handsets and portable media players were in line with previous year at 8.5 million units. However, as the mobile handsets sold during the first half of the year were primarily old models which had lower sales value, total revenue for the year were downed by 11% to HK$3,167.7 million. Despite the reduction in sales revenue, the Group's new mobile handset business model brought significant improvement to the overall gross profit margin of the Group. In addition to the encouraging growth in the portable media player business, gross profit during the year under review was HK$559.7 million, representing an increase of 1.4 times over last year.

Business Review *(Continued)*

During the year, the Group incurred selling and marketing costs of HK$259.1 million and administrative expenses of HK$331.7 million, representing an increase of 5.1 times and 1.7 times over last year respectively. Since the Philips Group announced its intention to dispose of its mobile handset business, the Group implemented various measures and put in additional resources for adopting the new business model. New functional units including the Mould and Tooling Centre, Product Research and Development Centre and the Logistics Centre were set up in 2006 to support the manufacturing chain. In 2007, the Group placed special emphasis on the product development function which effectively enhanced quality control and product reliability. Moreover, tremendous amount of resources were invested by the Group in the sales and distribution functions in both PRC and overseas markets so as to reactivate the market channels as well as to cope with the additional sales activities of the new business. The expansions in the Group's business area and its functional units not only effectively brought the "*Philips*" mobile handset business back on the right track, streamlined the Group's operation flow and enhanced the business efficiency through economies of scale, they also enable the Group to establish a complete value chain in mobile handset manufacturing which extends the operation of the Group to a comprehensive scope. The increase in selling and marketing costs and administrative expenses in 2007 represented the additional investments placed by the Group in these functional units during the year.

For the year ended 31 December 2007, the Group recorded a loss before income tax of HK$19.1 million (2006: profit of HK$71.5 million). After taking into account the tax adjustments, the profit attributable to equity holders for the year was HK$8.1 million (2006: HK$43.3 million), and basic earnings per share was HK0.75 cents (2006: HK3.99 cents).

The Board does not recommend the payment of a dividend for the year ended 31 December 2007 (2006: HK$0.016 per share).

Capital Resources and Liquidity

The Group finances its operations primarily by internal resources and short term bank borrowings. As at 31 December 2007, the Group had cash and cash equivalent amounted to HK$391.7 million (2006: HK$419.8 million) which were primarily denominated in Hong Kong dollars, Renminbi and United States dollars.

As at 31 December 2007, the Group had unsecured short term bank borrowings of HK$394.1 million (2006: nil), which were denominated in Renminbi and United States dollars. The bank borrowings were borrowed at contracted fixed interest rate. The Group's available bank facilities were approximately RMB800 million. As at 31 December 2007, the Group did not have any pledged assets or guarantee (2006: nil).

As at 31 December 2007, the Group had net current assets of HK$497 million (2006: HK$516.3 million). The overall gearing ratio, which is calculated as the total liabilities over total assets of the Group, was 67% (2006: 55%).

Capital Resources and Liquidity
(Continued)

The Group's export sales are predominantly invoiced in United States dollars and its domestic sales are invoiced in Renminbi. The Group imports some of its raw materials and production and testing equipment from overseas suppliers which are paid in United States dollars, Japanese Yen and Euro. The Group will make use of hedging contracts, when appropriate, to leverage the risk of foreign exchange fluctuation arising from its operation.

Contingent Liabilities and Capital Commitment

As at 31 December 2007, the Group had contracted but not provided for capital commitments of HK$2.5 million (2006: HK$1.3 million) for the acquisition of fixed assets and intangible assets. The Group did not have any material contingent liabilities outstanding as at 31 December 2007 (2006: nil).

Employee and Remuneration Policies

As at 31 December 2007, the Group had approximately 2,400 employees (2006: 2,850 employees), the majority of whom were based in China. Personnel expenses during the year were HK$173.2 million (2006: HK$149.1 million).

The Group recognises the importance of high calibre and competent staff and has a strict recruitment policy and performance appraisal scheme. Remuneration packages are largely in line with industry practices, and are formulated on the basis of performance and experience and will be reviewed regularly. Bonus and other merit payments are linked with the performance of the Group and of the individuals as incentive to optimise performance. The Company has in place a share option scheme, pursuant to which share options may be granted to selected personnel of the Group, with a view to encouraging employees to work towards enhancing the value of the Group.

Continuing Connected Transactions

The Group's principal operating subsidiary, Shenzhen Sang Fei Consumer Communications Company Limited ("Sang Fei") entered into a maintenance service agreement with Philips (China) Investment Company Limited ("Philips China"), whereby Sang Fei will provide mobile handset maintenance service to Philips China. Such maintenance service agreement is for a term of one year commencing from 1 January 2006 and may be extended for another one year unless either party objects. The maintenance service agreement had automatically been renewed in accordance with its terms in 2007.

Management Discussion and Analysis

Continuing Connected Transactions *(Continued)*

On 12 February 2007, CEC announced that it had entered into an acquisition agreement with the Philips Group. As part of the acquisition, CEC agreed to acquire the 25% equity interest in Sang Fei held by members of the Philips Group. The acquisition was completed at the end of March 2007. After the completion of the acquisition, the Philips Group had ceased to be a connected person of the Company, and hence, the transactions between members of the Group and members of the Philips Group were no longer continuing connected transactions of the Company.

The cap as set for the aggregate consideration to be received by Sang Fei from Philips China in relation to the provision of maintenance service in 2007 was RMB 25 million. The directors of the Company are of the view that the terms of the maintenance service agreement are in the ordinary and usual course of business of the Group and on normal commercial terms which are fair and reasonable and in the interest of the Company and its shareholders as a whole.

On 8 August 2007, Sang Fei entered into the Xenium Licence Agreement with Shenzhen SED Electronics Group Co., Ltd. ("Sang Da Electronics", together with its subsidiaries, collectively the "Sang Da Group"), pursuant to which Sang Da Electronics agreed to procure the licensing of the "*Xenium*" trademark to Sang Fei and provide Sang Fei with sales channels services. The royalty for the licensing of the "*Xenium*" trademark shall be calculated based on a fixed rate for every unit of mobile handset bearing the "*Xenium*" trademark sold. The maximum royalty payable shall be RMB13.5 million for the period commencing from the effective date of the Xenium Licence Agreement until 31 December 2007, RMB16 million for 2008, RMB17.5 million for 2009 and RMB4.2 million for the period commencing from 1 January 2010 until the expiry of the Xenium Licence Agreement. Such amounts have been set as the proposed annual caps for the transactions contemplated under the Xenium Licence Agreement. As a complementary service to the licensing of the "*Xenium*" trademark, the sales channels service will be provided by the Sang Da Group to Sang Fei free of charge.

Continuing Connected Transactions *(Continued)*

On 8 August 2007, Sang Fei has also entered into the Comprehensive Services Agreements with P-Marshall Singapore Pte. Limited and P-Marshall Hong Kong Limited (collectively "P-Marshall"), pursuant to which P-Marshall agreed to provide various business support services to Sang Fei. Such business support services include information technology services, human resources services, office space leasing services and such other business support services as Sang Fei may from time to time require. The Comprehensive Services Agreements do not impose any obligations on the part of Sang Fei to use any business support services to be provided by P-Marshall. The charges of the business support services to be provided by P-Marshall under the Comprehensive Services Agreements shall be the actual costs incurred by P-Marshall for the provision of such services. It is expected that total consideration payable by Sang Fei under the Comprehensive Services Agreements during the term of the Comprehensive Services Agreements will not exceed the respective amounts set out in the following table. Accordingly, those amounts have been set as the proposed annual caps for the total consideration payable by Sang Fei under the Comprehensive Services Agreements:

Period	Amount *(RMB'000)*
From the commencement date of the Comprehensive Services Agreements to 31 December 2007	42,120
For the year ending 31 December 2008	56,160
For the year ending 31 December 2009	56,160
From 1 January 2010 to the expiry of the Comprehensive Services Agreements	14,040

On 17 June 2004, Sang Fei entered into the Business Services Agreement with CEC to set out the framework for the ongoing business relationship between the CEC Group on the one hand and Sang Fei on the other. The Business Services Agreement was supplemented by a supplemental business services agreement dated 21 December 2006 entered into between the same parties, pursuant to which, the term of the Business Services Agreement was extended to 31 December 2009. Reference is made to the circular of the Company dated 8 January 2007, which set out details of the Business Services Agreement. Pursuant to the Business Services Agreement, Sang Fei supplies products (including mobile handsets), raw materials and samples to the CEC Group and the CEC Group supplies raw materials and provides various support services, including after sales and maintenance services and renovation services, to Sang Fei.

Continuing Connected Transactions *(Continued)*

As a result of anticipated increase in the volume of transactions between Sang Fei and the CEC Group following the completion of the disposal of the mobile handset business by the Philips Group to CEC, the Company has applied to The Stock Exchange of Hong Kong Limited for the revision of the annual caps for certain continuing connected transactions between Sang Fei and the CEC Group pursuant to the Business Services Agreement. The revised annual caps are as follows:

Type of transaction	2007 *(RMB'000)*	2008 *(RMB'000)*	2009 *(RMB'000)*
Sales of products, raw materials and samples			
– Annual charges receivable by the Group	2,520,000	3,500,000	3,900,000
Purchase of raw materials			
– Annual charges payable by the Group	820,000	1,160,000	1,300,000
After sales and maintenance services			
– Annual charges payable by the Group	60,000	80,000	90,000
Renovation services			
– Annual charges payable by the Group	15,000	10,000	10,000

Sang Da Electronics is a subsidiary of CEC. Each of P-Marshall Hong Kong Limited and P-Marshall Singapore Pte. Limited is a wholly-owned subsidiary of Sang Da Electronics. CEC is the Company's ultimate controlling shareholder, holding 74.98% interest in the Company and therefore all of Sang Da Electronics, P-Marshall and CEC are connected persons of the Company. Accordingly, the transactions contemplated under the Xenium Licence Agreement, the Comprehensive Services Agreements and the Business Services Agreement are continuing connected transactions of the Company. The transactions contemplated under the Xenium Licence Agreement and the Comprehensive Services Agreements and the related proposed annual caps as well as the revision of the annual caps for the various continuing connected transactions under the Business Services Agreement were approved by the independent shareholders at the special general meeting held on 14 September 2007.

Management Discussion and Analysis

On 9 April 2008, Sang Fei entered into a tenancy agreement ("Sang Da Tenancy Agreement") with Shenzhen SED Industry Co., Ltd. ("Sang Da"). Pursuant to the Sang Da Tenancy Agreement, Sang Da agreed to lease to Sang Fei the premises which is situated in Shenzhen, PRC. Sang Fei will use the premises as its offices, factory and warehouse.

The aggregate rentals, management fees, air-conditioning fees and utilities surcharges payable by Sang Fei to Sang Da under the Sang Da Tenancy Agreement for the nine months ending 31 December 2008, each of the two financial years ending 31 December 2009 and 2010 and the four months ending 30 April 2011 are expected not to exceed the respective total amounts as set out in the following table:

	For the nine months ending 31 December 2008 RMB'000	For the year ending 31 December 2009 RMB'000	For the year ending 31 December 2010 RMB'000	For the four months ending 30 April 2011 RMB'000
Rentals	4,459	6,272	6,272	1,814
Management fees	632	883	883	251
Air-conditioning fees	108	162	162	54
Utilities surcharges	100	160	190	76
Total:	**5,299**	**7,477**	**7,507**	**2,195**

Based on the aggregate rentals, management fees, air-conditioning fees and utilities surcharges payable by Sang Fei to Sang Da under the Sang Da Tenancy Agreement, the annual caps for the transactions contemplated under the Sang Da Tenancy Agreement for the nine months ending 31 December 2008, each of the two financial years ending 31 December 2009 and 2010 and the four months ending 30 April 2011 are therefore set at RMB5,299,000, RMB7,477,000, RMB7,507,000 and RMB2,195,000, respectively.

Sang Da is a substantial shareholder of Sang Fei holding 10% of its equity interest. Sang Da is indirectly owned as to approximately 42.23% by CEC. CEC is the Company's ultimate controlling shareholder, holding 74.98% interest in the Company. As such, Sang Da is a connected person of the Company as well as an associate of CEC. Accordingly, the transactions contemplated under the Sang Da Tenancy Agreement constitute continuing connected transactions of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Details of the Sang Da Tenancy Agreement were included in the announcement of the Company dated 9 April 2008.

Corporate Governance Report

The Company is committed to achieving the best corporate governance practices by emphasising its accountability, transparency, independence, responsibility and fairness. The Company is dedicated to exercise corporate governance through regular reviews of its adopted practices with reference to the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited.

The Company has fully complied with the code provisions in the CG Code throughout 2007. The following summarises the corporate governance practices adopted by the Company.

Board of Directors

The board of directors of the Company ("Board") consists of two executive directors, two non-executive directors and three independent non-executive directors. The Chairman of the Board is a non-executive director, who is responsible for the leadership and overseeing the functioning of the Board and the strategic development of the Group. The Managing Director is delegated with the authority and responsible for managing the Group's business, and the implementation of the Group's strategies in achieving the overall commercial objectives. There are no relations among the directors (including the Chairman and the Managing Director).

All the directors, including the non-executive directors, will be subject to retirement by rotation for every three years and in accordance with the Listing Rules and the bye-laws of the Company. The remuneration of the directors are determined with reference to their duties, responsibilities and experience, and to the prevailing market conditions.

The Board is responsible for the formulation of long term business objectives, strategies and plans, and to monitor and control the operating and financial performance of the Group. The day-to-day operations and implementation of business objectives are delegated to the Managing Director. The management is delegated with power and authority to carry out daily operations and duties. The Board has the power and is responsible for appointing new directors to fill a casual vacancy or as an addition to the Board. The nomination will take into consideration the candidate's skills knowledge and experience appropriate for the requirements of the Company.

All directors actively participate in the review and monitor of the Company's business. A list of directors and their attendance record of the board meetings in 2007 are set out below:

Board of Directors *(Continued)*

Number of full board meetings held in 2007: 5

Member of the Board	Number of meetings attended
Non-executive directors	
Xiong Qunli *(Chairman) (Note 1)*	–
Chen Zhaoxiong *(Note 2)*	4
Tong Baoan *(Vice Chairman)*	5
Executive directors	
Fan Qingwu *(Managing Director)*	5
Hua Longxing	5
Independent non-executive directors	
Chan Kay Cheung	5
Wong Po Yan	4
Yin Yongli	4

Notes:

(1) Mr. Xiong Qunli was appointed as chairman of the Board and non-executive Director on 21 January 2008.

(2) Mr. Chen Zhaoxiong resigned as chairman of the Board and non-executive Director on 14 January 2008.

The biographies of the directors are set out on pages 15 and 16 of the annual report.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules to regulate the directors' securities transactions. All directors have confirmed, following specific enquiry by the Company, that they have fully complied with the Model Code throughout 2007.

Remuneration Committee

The Board has established a remuneration committee, comprising the three independent non-executive directors and an executive director. A list of members of the remuneration committee is set out below. The terms of reference of the remuneration committee are available for inspection upon request at the principal office of the Company in Hong Kong.

The principal responsibilities of the remuneration committee include reviewing and recommending to the Board the remuneration policy and the remuneration of the directors and the senior management.

The remuneration committee held one meeting in 2007 to review the remuneration package of the directors and the policy over grant of share option to employees. The attendance of individual members at the remuneration committee meetings is set out below:

Remuneration Committee *(Continued)*

Member of the remuneration committee	Number of meetings attended
Wong Po Yan *(Chairman)*	1
Chan Kay Cheung	1
Yin Yongli	–
Fan Qingwu	1

Details of the remuneration of the directors and the share options granted to the directors for the year ended 31 December 2007 are set out on pages 65 and 20 of the annual report respectively.

Audit Committee

The Company has established an audit committee comprising three independent non-executive directors of the Company. The members have extensive experience in financial matters and one of them is a certified public accountant. A list of members of the audit committee is set out below. The terms of reference of the audit committee are available for inspection upon request at the principal office of the Company in Hong Kong.

The audit committee provides independent review and supervision of financial reporting, and examines the effectiveness of the internal controls of the Group and the adequacy of the external audits. The audit committee examines all matters relating to the accounting principles and practices adopted by the Group, including consideration of the auditing functions, internal controls, information systems, and financial reporting matters. External auditors and directors are invited to attend the meetings as and when necessary. The audit committee also serves as a channel of communication between the Board and the external auditors.

The audit committee held two meetings in 2007 to review the annual and interim financial statements and the effectiveness of the internal control practices of the Group. The audit committee has also reviewed the audit plan and approach of the external auditors and monitors regularly the progress and results of the audit. The attendance of individual members at the audit committee meeting is set out below:

Member of the audit committee	Number of meetings attended
Chan Kay Cheung *(Chairman)*	2
Wong Po Yan	1
Yin Yongli*	1

* *certified public accountant*

During 2007, the Group paid to the auditors HK$1,890,000 for audit services.

Accountability and Audit

The Board is responsible for overseeing the preparation of financial statements which give a true and fair view of the state of affairs of the Group and of the results and cash flow during the reporting period. A statement from the auditors about their reporting responsibilities is set out on page 28 of the annual report. In preparing the financial statements for the year ended 31 December 2007, the directors have selected suitable accounting policies and applied them consistently and have made prudent and reasonable judgments and estimates and have prepared the financial statements on a going concern basis. The Board has also reviewed the effectiveness of the internal control system of the Group, including all the material controls in financial, operational, compliance and risk management functions, through the assistance of the external auditors to ensure a sound system is maintained and operated by the management in compliance with agreed processes and standards.

On behalf of the Board
Yam Pui Hung Robert
Company Secretary

Hong Kong, 25 April 2008

Biographies of Directors and Senior Management

Non-executive Directors

Mr. Xiong Qunli, aged 51, is the Chairman of the Company. Mr. Xiong graduated from the Faculty of Electromagnetic Engineering of Northwest Institute of Telecommunication Engineering and holds a research degree in economic administration from the Party School of the Central Committee of the Communist Party of China, and is a senior engineer at researcher level. Mr. Xiong is the chairman of China Electronics Corporation ("CEC"), the controlling shareholder of the Company, and was previously the director of Research Institute No. 36 of the Ministry of Information Industry ("MII"), the vice president of China Academy of Electronics and Information Technology of MII, and the vice president of China Electronics Technology Group Corporation from 1995 to 2005. Mr. Xiong is also the vice president of Chinese Institute of Electronics, an executive committee member of China Institute of Communications and a member of the expert committee of the State Plan 863. Mr. Xiong has been deeply involved in the information technology industry and has extensive experience in strategic planning, research and development and corporate management. Mr. Xiong joined the Company in January 2008.

Mr. Tong Baoan, aged 60, is the Vice Chairman of the Company. Mr. Tong is also a director of CEC and the chairman of Shanghai Hua Hong (Group) Company Limited. Mr. Tong graduated from Tianjin University, the PRC, and was the deputy director of the Department of International Cooperation of the Ministry of Electronics Industry. During 1996 to 2001, Mr. Tong was the general manager of Shenzhen Sang Da Electronics Corporation, and was the vice president of CEC from 2001 to 2005. Mr. Tong joined the Company in September 2004.

Executive Directors

Mr. Fan Qingwu, aged 44, is the Managing Director of the Company. Mr. Fan is also a director of Shenzhen Sang Fei Consumer Communications Company Limited ("Sang Fei"). Mr. Fan graduated from the Renmin University of China in the PRC. From 1996 to 1999, Mr. Fan was the executive vice president of China Securities Industry Institute. From 1999 to 2003, he was the general manager of the Investment Banking Department and the Asset Management Department of CEC. Mr. Fan was also the vice president of China Electronics Industry Corporation and the Chief Economist of CEC. Mr. Fan joined the Company in September 2004.

Mr. Hua Longxing, aged 66, is an executive director of the Company, and is also the chairman of Sang Fei since 1996. Mr. Hua graduated from the Faculty of Wireless Engineering of Southeast University in the PRC. From 1993 to 2000, Mr. Hua was the vice chairman of the board of directors and the general manager of Shenzhen SED Industry Company Limited. Before that, he was the deputy general manager of Shenzhen Sang Da Electronics Corporation. From 1983 to 1987, he was the director of the Liaison Division of the office of Ministry of Electronics Industry in Shenzhen Economic Zone. Mr. Hua joined the Company in September 2004.

Biographies of Directors and Senior Management

Independent Non-executive Directors

Mr. Chan Kay Cheung, aged 61, is the vice chairman of The Bank of East Asia (China) Limited. Mr. Chan was an executive director and deputy chief executive of The Bank of East Asia, Limited. He joined the Bank in 1965 and possesses extensive knowledge and experience in the banking industry. Mr. Chan is a fellow member of the Hong Kong Institute of Bankers, advisory committee member on the Quality Migrant Admission Scheme of the Hong Kong Immigration Department and an international senior economic consultant of The People's Government of Shaanxi Province. He is also an independent non-executive director of Chu Kong Shipping Development Company Limited, Four Seas Food Investment Holdings Limited and China Central Properties Limited. Mr. Chan was appointed director of the Company in May 1997.

Mr. Wong Po Yan, aged 84, is the founder of United Overseas Enterprises Limited. Mr. Wong was the vice chairman of the Basic Law Committee of Hong Kong Special Administrative Region under the standing committee of the PRC, member of the Drafting Committee of Basic Law, member of the Preparatory Committee of Hong Kong Special Administrative Region and the chairman of the Airport Authority. He had been a member of the Legislative Council for 9 years. Mr. Wong was appointed director of the Company in May 1997.

Mr. Yin Yongli, aged 68, graduated from Shandong Finance Institute, the PRC. Mr. Yin is the chairman of China Rightson Certified Public Accountants/Tianhua Certified Public Accountants since September 2001. He was the chairman of another audit firm in the PRC during the period from 1998 to 2001. Before that, Mr. Yin spent over 35 years in the petrochemical industry in the PRC as an accountant of Sinopec Corporation. From 1985 to 1988, he was the chief accountant of the financial planning department, and was the deputy department head of the finance department from 1988 to 1998. Mr. Yin was appointed director of the Company in September 2004.

Senior Management

Mr. Yam Pui Hung Robert, aged 40, is the Qualified Accountant and Company Secretary of the Company. Mr. Yam is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Yam holds a bachelor's degree in accountancy and has extensive experience in accounting, financial management and corporate finance. Mr. Yam joined the Company in September 2004.

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2007.

Principal activities and geographical analysis of operations

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively the "Group") comprise the manufacturing and sales of mobile handsets and other portable electronics products. The principal activities of the principal subsidiaries are set out in Note 8 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the financial statements.

Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 32 of the annual report.

The directors do not recommend the payment of a dividend for the year ended 31 December 2007 (2006: HK$0.016 per share).

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group and of the Company are set out in Note 6 to the financial statements.

Share capital

Details of the share capital of the Company are set out in Note 12 to the financial statements.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in Note 13 to the financial statements.

Distributable reserves

Distributable reserves of the Company as at 31 December 2007 as calculated under the laws in Bermuda and the Company's bye-laws amounted to HK$155,975,000 (2006: HK$130,590,000).

Five year 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 78 of the annual report.

Short-term loans

Particular of the short-term loans of the Group are set out in Note 15 to the financial statements.

Borrowing costs

No interest was capitalised by the Group during the year (2006: nil).

Report of the Directors

Directors

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

Non-executive Directors

Xiong Qunli *(Chairman)*
(appointed on 21 January 2008)
Chen Zhaoxiong
(resigned on 14 January 2008)
Tong Baoan *(Vice Chairman)*

Executive Directors

Fan Qingwu *(Managing Director)*
Hua Longxing

Independent Non-executive Directors

Chan Kay Cheung
Wong Po Yan
Yin Yongli

In accordance with Bye-law 86(2), Mr. Xiong Qunli shall retire and in accordance with Bye-law 87(1), Messrs. Hua Longxing and Yin Yongli shall retire by rotation at the annual general meeting and, being eligible, Messrs. Xiong Qunli, Hua Longxing and Yin Yongli offer themselves for re-election at the annual general meeting.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

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.

Biographical details of directors

Brief biographies of the directors of the Company are set out on pages 15 to 16 of the annual report.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 31 December 2007, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as 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 Issuers, were as follows:

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures *(Continued)*

Long position in shares of the Company

Name of director	Capacity	Interest in underlying shares pursuant to share options	Total interest	Approximate percentage of the issued share capital of the Company
Tong Baoan	Beneficial owner	3,800,000	3,800,000	0.35%
Fan Qingwu	Beneficial owner	3,600,000	3,600,000	0.33%
Hua Longxing	Beneficial owner	3,600,000	3,600,000	0.33%

Saved as disclosed above, as at 31 December 2007, none of the directors nor the chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Share option scheme

Pursuant to an ordinary resolution passed on 20 June 2002, the Company adopted a new share option scheme (the "Share Option Scheme") to replace the old share option scheme. According to the Share Option Scheme, the board of directors of the Company may grant options to any 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 and service providers to the Group. The purpose of the Share Option Scheme is 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.

Share option scheme *(Continued)*

The total number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme must not exceed 108,356,000 ordinary shares, representing 10% of the issued share capital as at the date of the annual report. The number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by the Company must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time. The maximum entitlement of each participant in any 12-month period must not exceed 1% of the shares in issue from time to time. No share options were outstanding under the old option scheme.

There was no requirement for a grantee to hold the option for a certain period before exercising the option unless otherwise determined by the directors. The exercise period should be any period determined by the board of directors but in any event the exercise period should not later than 10 years from the date of grant. The grantee must accept an option within 21 days from the date of offer by making a non-refundable payment of HK$1 to the Company.

The subscription price shall be at the discretion of the board of directors provided that it shall be not less than the highest of (i) the closing price of the shares on the date of grant; (ii) the average of the closing prices of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share on the date of grant. The Share Option Scheme will remain in force until 19 June 2012.

During the year, no share options were granted under the Share Option Scheme.

As at 31 December 2007, the directors and the chief executive of the Company and employees of the Group had the following personal interests in options to subscribe for shares of the Company granted under the Share Option Scheme:

Name	Options outstanding as at 1/1/2007	Options lapsed	Options outstanding as at 31/12/2007
Directors			
Tong Baoan	3,800,000	–	3,800,000
Fan Qingwu	3,600,000	–	3,600,000
Hua Longxing	3,600,000	–	3,600,000
Sub-total	11,000,000	–	11,000,000
Aggregate of employees and other participants	10,150,000	(200,000)	9,950,000
Total	21,150,000	(200,000)	20,950,000

Share option scheme *(Continued)*

The outstanding options were all granted on 25 October 2005 under the Share Option Scheme. The options represent personal interest held by the grantees as beneficial owners. Grantees of such options are entitled to exercise the options at a price of HK$1.488 per share in the following periods:

(i) in respect of 40% of the options granted, from 1 November 2005 to 31 October 2008;

(ii) in respect of a further 30% of the options granted, from 1 November 2006 to 31 October 2009; and

(iii) in respect of the remaining 30% of the options granted, from 1 November 2007 to 31 October 2010.

No options granted under the Share Option Scheme were exercised or cancelled during the year.

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 of Hong Kong Limited (the "Listing Rules")) to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests 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	Note	Amount HK$'000
Sales of products, samples and materials and provision of after sales service to the Philips Group	i	447,751
Provision of maintenance services to the Philips Group	ii	3,158
Purchases of goods from the Philips Group	iii	847
Sales of products, samples and materials to the CEC Group	iv	418,464
Purchases of goods from the CEC Group	v	120,771
After sales repair and maintenance services by the CEC Group	vi	12,435
Provision of canteen services by the CEC Group	vii	11,899
Fitment and decoration services from the CEC Group	viii	221
Rental arrangements with the CEC Group	ix	11,030
Processing arrangements with the CEC Group	x	10,911
Licence of trademark from the CEC Group	xi	14,063
Comprehensive services from the CEC Group	xii	40,059

Notes:

(i) Koninklijke Philips Electronics N.V., together with its group companies (the "Philips Group"), was once a connected person of the Company by virtue of being a substantial shareholder of Shenzhen Sang Fei Consumer Communications Company Limited ("Sang Fei"), the principal operating subsidiary of the Company.

In March 2007, the Philips Group disposed of its equity interests in Sang Fei to Shenzhen SED Electronics Group Co., Ltd., a subsidiary of China Electronics Corporation ("CEC"). From then onwards, the Philips Group ceased to be a connected person of the Group. Consequently the Group's transactions with them since 1 April 2007 are not connected transactions and the disclosure herein excludes such transactions.

Members of the Philips Group were the major customers of the Group. Sales to the Philips Group were based on the general purchasing agreement dated 13 July 2005 ("General Purchasing Agreement"), pursuant to which the Philips Group was entitled to purchase goods from the Group at a price determined using a "cost plus" basis and with reference to market rates. Sales to the Philips Group were approved by the written approval from CEC, details of which were included in the circular dated 11 August 2005.

(ii) Members of the Philips Group engaged the Group for the provision of maintenance services during the product warranty period. The maintenance services were provided under the maintenance services agreement dated 21 January 2006 ("Maintenance Services Agreement") and were renewed automatically in accordance with the terms in 2007. The maintenance services were carried out on normal commercial terms and conditions with reference to market rates. The provision of maintenance services to the Philips Group were approved by the written approval from CEC, details of which were included in the circular dated 16 February 2006 and the announcement dated 5 March 2007.

Connected transactions *(Continued)*

Notes: (Continued)

(iii) Members of the Philips Group were the major suppliers of raw materials. Purchases of raw materials from the Philips Group were based on the General Purchasing Agreement and on normal commercial terms and conditions and with reference to market rates. Purchases of raw materials from the Philips Group were approved by the written approval from CEC, details of which were included in the circular dated 11 August 2005.

(iv) CEC together with its subsidiaries (the "CEC Group"), is a connected person of the Company by virtue of being the controlling shareholder of the Company. Unless otherwise stated, the connected transactions with the CEC Group disclosed in this section were approved by the shareholders at the special general meetings held on 26 January 2007 and 14 September 2007, details of which were included in the circulars dated 8 January 2007 and 29 August 2007, respectively.

Members of the CEC Group are major customers of the Group. Sales to the CEC Group were based on the supplemental business services agreement dated 21 December 2006 ("Business Services Agreement") and were carried out on normal commercial terms and conditions and with reference to market rates.

(v) The Group from time to time purchases raw materials from members of the CEC Group. Purchases of raw materials from the CEC Group were based on the Business Services Agreement and the Plastic Supply Agreement (details of which were included in the circular dated 31 March 2006) and were carried out on normal commercial terms and conditions and with reference to market rates.

(vi) The Group engaged Shenzhen SED ARC Co., Ltd. and Shanghai SED ARC Co., Ltd. (members of the CEC Group) to provide after sales product repair and maintenance services in respect of its products. The repair and maintenance services were based on the Business Services Agreement and were carried out on normal commercial terms and conditions with reference to market rates.

(vii) Shenzhen Sang Da Baili Electronics Co., Ltd. (a member of the CEC Group) provides canteen services to the production staff of the Group. The canteen services were based on the Business Services Agreement and the service fees were calculated by reference to actual consumption and an agreed fixed premium. Such service fees were on normal commercial terms and conditions and were determined with reference to market rates.

(viii) The Group engaged members of the CEC Group to undertake renovation works in connection with the expansion and improvement of the Group's production premises. The fitment and decoration services were based on the Business Services Agreement and were on normal commercial terms and conditions with reference to market rates.

(ix) The production facilities and some of the staff quarters of the Group were located within an industrial complex owned by members of the CEC Group. These rentals arrangements were based on lease agreements entered into between the relevant members of the CEC Group and the Group (details of which were included in the circular dated 21 June 2004) and were calculated on normal commercial terms and conditions with reference to market rates. Such transactions were approved by the shareholders at the special general meeting held on 14 July 2004. The Company further leased a warehouse from members of the CEC Group pursuant to a tenancy agreement dated 3 July 2006, details of which were included in the announcement of the Company dated 15 September 2006.

Connected Transactions *(Continued)*

Notes: (Continued)

(x) The Group secured dedicated processing services of surface mount assembly production lines from members of the CEC Group. The processing services were based on the supplemental processing agreement dated 21 December 2006 and were carried out on normal commercial terms and conditions with reference to market rates.

(xi) Members of the CEC Group licensed the "*Xenium*" trademark to the Group under the licence agreement dated 8 August 2007. Such transaction was carried out on normal commercial terms and conditions with reference to market rates, details of which were included in the circular of the Company dated 29 August 2007.

(xii) The Group engaged members of the CEC Group to provide various business support services in relation to sales of products based on the comprehensive services agreements dated 8 August 2007. Such transactions were carried out on normal commercial terms and conditions and the service charges shall be the actual costs incurred by members of the CEC Group for the provision of such services, details of which were included in the circular of the Company dated 29 August 2007.

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 of the Group, on normal commercial terms and were in accordance with the relevant agreements governing them and on terms that were fair and reasonable and in the interests of the Group and the shareholders of the Company 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 their respective caps as described in previous circulars and announcements and approved by the Stock Exchange.

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
Xiong Qunli	China Electronics Corporation *(Note a)*	Investment holdings	Chairman
Chen Zhaoxiong *(Note c)*	China Electronics Corporation *(Note a)*	Investment holdings	Vice chairman and president
Tong Baoan	China Electronics Corporation *(Note a)*	Investment holdings	Director
	Shenzhen SED Industry Co., Ltd. *(Note b)*	Investment holdings	Chairman *(Note d)*

Directors' interests in competing business *(Continued)*

Notes:

(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 subsidiaries and associates engaged in mobile handset related businesses which compete or are likely to compete with the business of the Group.

(b) Shenzhen SED Industry Co., Ltd. has subsidiaries or associates engaged in mobile handset related businesses which compete or are likely to compete with the business of the Group. 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 42.23% by CEC as at the date of this report.

(c) Mr. Chen has ceased to be vice chairman and president of CEC in December 2007 and has resigned from the board of the Company on 14 January 2008.

(d) Mr. Tong has ceased to be the chairman of Shenzhn SED Industry Co., Ltd in July 2007.

The above mentioned 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.

Substantial shareholders

As at 31 December 2007, 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 their 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")	812,500,000	74.98%
CEC *(Note 1)*	812,500,000	74.98%
Devon Fortune Limited ("Devon Fortune")	71,129,358	6.56%
Chan Chak Shing *(Note 2)*	75,254,358	6.95%

Substantial shareholders *(Continued)*

Notes:

(1) CEC holds 100% interest in CEC BVI and is deemed to be interested in the shares held by CEC BVI. The directors regard CEC, a state-owned enterprise established under the laws of the People's Republic of China, as being the ultimate holding company of the Group.

(2) This number of shares represents the aggregate of (i) Mr. Chan Chak Shing's family interest of 4,125,000 shares and (ii) corporate interest of 71,129,358 shares held by Devon Fortune. As Mr. Chan Chak Shing holds 100% interest in Devon Fortune, Mr. Chan Chak Shing is deemed to be interested in the shares held by Devon Fortune.

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

Save as disclosed above, as at 31 December 2007, 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 securities

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Major suppliers and customers

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

Sales
– the largest customer 20%
– five largest customers combined 64%

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

Purchases
– the largest supplier 7%
– five largest suppliers combined 27%

CEC Group is the beneficial owner of one of the five largest customers of the Group. Details of the transactions are set out in the section headed "Connected Transactions" above.

Save as disclosed above, none of the directors, their respective 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 customers or suppliers noted above.

Public float

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

Report of the Directors

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 financial statements. The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2007 and the audited financial statements for the year ended 31 December 2007.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment.

On behalf of the Board
Xiong Qunli
Chairman

Hong Kong, 25 April 2008

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsmile (852) 2810 9888
www.pwchk.com

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
CHINA ELECTRONICS CORPORATION HOLDINGS COMPANY LIMITED
(incorporated in the Cayman Islands and continued in Bermuda with limited liability)

We have audited the consolidated financial statements of China Electronics Corporation Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 30 to 77, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility forwards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 April 2008

Consolidated Balance Sheet

As At 31 December 2007
(All amounts in HK dollars thousands unless otherwise stated)

	Note	As at 31 December 2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	6	41,047	61,685
Intangible assets	7	16,144	16,251
Deferred income tax assets	22(e)	46,691	8,916
		103,882	86,852
Current assets			
Inventories	9	444,189	335,802
Trade and other receivables	10	877,150	493,179
Cash and cash equivalents	11	391,741	419,809
		1,713,080	1,248,790
Total assets		1,816,962	1,335,642
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Issued equity	12	370,074	370,074
Other reserves	13	71,807	55,137
Retained earnings			
– Proposed final dividend	25	–	17,337
– Unappropriated retained earnings		29,889	21,815
		471,770	464,363
Minority interests in equity		129,066	138,775
Total equity		600,836	603,138
LIABILITIES			
Current liabilities			
Trade and other payables	14	741,030	717,826
Current income tax liabilities		3,725	2,044
Short term bank loans	15	394,111	–
Provision for warranty	16	77,260	12,634
Total liabilities		1,216,126	732,504
Total equity and liabilities		1,816,962	1,335,642
Net current assets		496,954	516,286
Total assets less current liabilities		600,836	603,138

The notes on page 35 to 77 are an integral part of these consolidated financial statements.

Xiong Qunli
Director

Fan Qingwu
Director

Balance Sheet

As At 31 December 2007
(All amounts in HK dollars thousands unless otherwise stated)

	Note	As at 31 December 2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	6	758	900
Investments in subsidiaries	8	271,700	271,700
		272,458	272,600
Current assets			
Other receivables	10	918	469
Cash and cash equivalents	11	222,546	196,156
		223,464	196,625
Total assets		495,922	469,225
EQUITY			
Capital and reserves			
Share capital	12	335,891	335,891
Other reserves	13	73,635	71,898
Retained earnings			
– Proposed final dividend	25	–	17,337
– Unappropriated retained earnings		82,340	41,355
Total equity		491,866	466,481
Current liabilities			
Other payables	14	4,056	2,744
Total equity and liabilities		495,922	469,225
Net current assets		219,408	193,881
Total assets less current liabilities		491,866	466,481

The notes on page 35 to 77 are an integral part of these consolidated financial statements.

Xiong Qunli
Director

Fan Qingwu
Director

Consolidated Income Statement

For The Year Ended 31 December 2007
(All amounts in HK dollars thousands unless otherwise stated)

	Note	Year ended 31 December 2007	2006
Revenue	5	3,167,708	3,549,329
Cost of sales	18	(2,608,047)	(3,317,032)
Gross profit		559,661	232,297
Other gains – net	17	9,699	5,130
Selling and marketing costs	18	(259,104)	(42,457)
Administrative expenses	18	(331,740)	(125,118)
Operating (loss)/profit		(21,484)	69,852
Finance income		11,442	8,109
Finance costs		(9,075)	(6,444)
Finance income – net	21	2,367	1,665
(Loss)/profit before income tax		(19,117)	71,517
Income tax credit/(expense)	22	31,640	(2,358)
Profit for the year		12,523	69,159
Attributable to:			
Equity holders of the Company	23	8,074	43,276
Minority interests		4,449	25,883
		12,523	69,159
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)			
– basic	24	0.75	3.99
– diluted	24	0.74	3.99
Dividends	25	–	17,337

The notes on page 35 to 77 are an integral part of these consolidated financial statements.

Consolidated
Statement Of Changes In Equity

For The Year Ended 31 December 2007
(All amounts in HK dollars thousands unless otherwise stated)

		Attributable to equity holders of the Company					
	Note	Issued equity (Note 12)	Other reserves (Note 13)	Retained earnings	Total	Minority interests	Total equity
Balance at 1 January 2006		370,074	35,062	24,880	430,016	138,379	568,395
Dividends related to 2005	25	–	–	(21,671)	(21,671)	(25,449)	(47,120)
Share option granted	13	–	3,654	–	3,654	–	3,654
Appropriation to other reserves		–	7,333	(7,333)	–	–	–
Currency translation differences		–	9,088	–	9,088	(38)	9,050
Profit for the year		–	–	43,276	43,276	25,883	69,159
Balance at 31 December 2006		370,074	55,137	39,152	464,363	138,775	603,138
Balance at 1 January 2007		370,074	55,137	39,152	464,363	138,775	603,138
Dividends related to 2006	25	–	–	(17,337)	(17,337)	(21,748)	(39,085)
Share option granted	13	–	1,737	–	1,737	–	1,737
Currency translation differences		–	14,933	–	14,933	7,590	22,523
Profit for the year		–	–	8,074	8,074	4,449	12,523
Balance at 31 December 2007		370,074	71,807	29,889	471,770	129,066	600,836

The notes on page 35 to 77 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For The Year Ended 31 December 2007
(All amounts in HK dollars thousands unless otherwise stated)

	Note	Year ended 31 December 2007	2006
Cash flows from operating activities			
Cash (used in)/generated from operations	26	(362,808)	432,159
Interest paid		(8,257)	(6,444)
Income tax paid		(4,454)	(10,289)
Net cash (used in)/generated from operating activities		(375,519)	415,426
Cash flows from investing activities			
Interest received		11,216	8,109
Purchase of property, plant and equipment and intangible assets		(19,931)	(32,260)
Proceeds on disposal of property, plant and equipment	26(a)	1,140	42
Net cash used in investing activities		(7,575)	(24,109)
Cash flows from financing activities			
Dividends paid to Company's shareholders		(17,337)	(21,671)
Dividends paid to minority interests		(21,748)	(25,449)
Proceeds from bank loans		1,387,440	1,194,175
Repayment of bank loans borrowed		(993,329)	(1,424,944)
Net cash generated from/(used in) financing activities		355,026	(277,889)
Net (decrease)/increase in cash and cash equivalents		(28,068)	113,428
Cash and cash equivalents at beginning of the year		419,809	306,381
Cash and cash equivalents at end of the year		391,741	419,809

The notes on page 35 to 77 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2007
(All amounts in HK dollars thousands unless otherwise stated)

1. General information

China Electronics Corporation Holdings Company Limited (the "Company") was incorporated in the Cayman Islands and continued in Bermuda with limited liability. The Company has its shares listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Company and its subsidiaries (collectively the "Group") comprise the manufacturing and sale of mobile handsets and other portable electronics products.

The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

These consolidated financial statements are presented in thousands of units of Hong Kong dollar (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 25 April 2008.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

(a) Standards, amendment and interpretations effective in 2007

HKFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

HK(IFRIC) – Int 8, 'Scope of HKFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

2. Summary of significant accounting policies *(Continued)*

2.1 *Basis of preparation (Continued)*

(a) *Standards, amendment and interpretations effective in 2007 (Continued)*

HK(IFRIC) – Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

HK(IFRIC) – Int 7, 'Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies' and HK(IFRIC) – Int 9, 'Re-assessment of embedded derivatives'. These standards are not relevant to the Group's operations.

(b) *Standards, amendments and interpretations to existing standards that are not yet effective*

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 March 2007 or later periods, and the Group has not early adopted them:

HKAS 1 (Revised), 'Presentation of Financial Statements' (effective from 1 January 2009). The revised standard requires presentational changes and further disclosures in the financial statements but does not change the recognition and measurement of specific transactions. The directors of the Group are assessing the impact and believe that the impact on the Group's consolidated financial statements is not significant.

HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amended) from 1 January 2009 but is not expected to have material impact on the Group's consolidated financial statements.

HKFRS 8, 'Operating segments ' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.

HK(IFRIC) – Int 11, 'HKFRS 2 – Group and treasury share transactions', (effective from 1 March 2007). HK(IFRIC) – Int 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's consolidated financial statements.

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation (Continued)

(b) Standards, amendments and interpretations to existing standards that are not yet effective (Continued)

HK(IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). HK(IFRIC) – Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC) – Int 14 from 1 January 2008, but it is not expected to have any impact on the Group's financial statements.

HK(IFRIC) – Int 12, 'Service concession arrangements' (effective from 1 January 2008). HK(IFRIC) – Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) – Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

HK(IFRIC) – Int 13, 'Customer loyalty programmes' (effective from 1 July 2008). HK(IRFIC) – Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) – Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

HKAS 27 (Revised) 'Consolidated and Separate Financial Statements' (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010.

HKFRS 3 (Revised) 'Business Combination' (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010.

2. Summary of significant accounting policies *(Continued)*

2.1 *Basis of preparation (Continued)*

(b) *Standards, amendments and interpretations to existing standards that are not yet effective (Continued)*

HKFRS 2 Amendment 'Share-based Payment Vesting Conditions and Cancellations' (effective from 1 January 2009). The amendment clarifies the definition of 'vesting conditions' and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All 'non-vesting conditions' and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 Amendment from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

2.2 *Consolidation*

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.7). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2. Summary of significant accounting policies *(Continued)*

2.2 Consolidation *(Continued)*

(b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parities external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is different from the Group's functional currency of Renminbi. The Directors consider that presentation of consolidated financial statements in Hong Kong dollars will facilitate analysis of financial information of the Group.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, such exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

2. Summary of significant accounting policies *(Continued)*

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

– Leasehold improvements	5 years (or over the lease term, whichever is shorter)
– Plant and machinery	3-4 years
– Motor vehicles	5 years
– Furniture and fixtures	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

If the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition exceeds the cost of acquisition, the excess should be recognised immediately in the income statement.

2. Summary of significant accounting policies *(Continued)*

2.6 *Intangible assets (Continued)*

(b) *Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

(c) *Research and development costs*

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.7 *Impairment of investments in subsidiaries and non-financial assets*

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 *Financial assets*

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2. Summary of significant accounting policies *(Continued)*

2.8 Financial assets (Continued)

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2.10).

(c) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

(d) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. During the year, the Group did not hold any investments in this category.

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of loan and receivable is set out in Note 2.10.

2. Summary of significant accounting policies *(Continued)*

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When the receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.13 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. Summary of significant accounting policies *(Continued)*

2.15 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

The Group recognises a provision for repair or replacement of products still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.

2.17 Employee benefits

(a) Pension obligations

The Group operates a mandatory provident fund scheme ("MPF") for the eligible employees in Hong Kong. The Group's contributions to MPF are set at 5% of employees' salaries, including basic salaries and other cash allowances and are expensed as incurred.

The Group's subsidiaries operating in the People's Republic of China (the "PRC") have to make contribution to staff retirement scheme managed by local government authorities in accordance with the relevant rules and regulations. Contributions to these schemes are charged to the income statement as and when incurred.

2. Summary of significant accounting policies *(Continued)*

2.17 Employee benefits (Continued)

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(c) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(d) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.18 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existent will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2. Summary of significant accounting policies *(Continued)*

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, net of value-added tax, returns, rebates and discounts. Revenue is recognised when the goods are delivered to customers, the customers has accepted the goods and collectibility of the related receivables is reasonably assured.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Dividend income is recognised when the right to receive payment is established.

2.20 Operating leases (as the lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The foreign exchange risks of the Group occur due to the fact that the Group has business activities denominated in foreign currencies, primarily with respect to the United States dollar ("US dollar"), Hong Kong dollar, Euro and Japanese Yen. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. Nevertheless, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The Group currently does not have a foreign currency hedge policy.

3. Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Foreign exchange risk (Continued)

At 31 December 2007, if RMB had strengthened/weakened by 5% against US dollar with all other variables held constant, post-tax profit for the years would have been HK$3,678,000 higher/lower (2006: HK$10,483,000 lower/higher), mainly as a result of foreign exchange gains or losses on translation of US dollar denominated trade receivables, cash and cash equivalents and financial liabilities.

At 31 December 2007, if RMB had strengthened/weakened by 5% against HK dollar with all other variables held constant, post-tax profit for the years would have been HK$5,086,000 higher/lower (2006: HK$4,319,000 higher/lower), mainly as a result of foreign exchange gains or losses on translation of HK dollar denominated trade receivables, cash and cash equivalents and financial liabilities.

At 31 December 2007, if RMB had strengthened/weakened by 5% against Euro with all other variables held constant, post-tax profit for the year would have been HK$24,064,000 lower/higher (2006: HK$306,000 higher/lower), mainly as a result of foreign exchange gains or losses on translation of Euro denominated trade receivables, cash and cash equivalents and financial liabilities.

As less than 10% of the Group's foreign currency transactions are denominated in Japanese Yen and other foreign currencies, the directors of the Group are of the view that foreign exchange risk in relation to transactions denominated in Japanese Yen and other foreign currencies is low. Therefore, no sensitivity analysis for these currencies is presented.

(b) Credit risk

The Group has no significant concentrations of credit risk. Credit risk arises from cash and cash equivalents, and trade and other receivables.

As at 31 December 2007, all the Group's bank deposits are placed in high quality financial institutions without significant exposure to credit risk.

For trade and other receivables, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Individual credit limits are set based on the assessment of the credit quality. Given the constant repayment history, the directors are of the opinion that the risk of default by these counterparties is not significant.

The Group's credit sales are only made to customers with an appropriate credit history and at credit period of 30 to 60 days.

(All amounts in HK dollars thousands unless otherwise stated)

3. Financial risk management *(Continued)*

3.1 *Financial risk factors (Continued)*

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient working capital, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by keeping availability of committed credit lines.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Less than 1 year	2007	2006
Short term bank loans	394,111	–
Interest payment on short term bank loans	7,935	–
Trade and other payables	741,030	717,826
Provision for warranty	77,260	12,634
Current income tax liabilities	3,725	2,044

(d) *Cash flow and fair value interest rate risk*

Other than deposits held in banks, the Group does not have significant interest-bearing assets. The average rate of deposits held in banks as at 31 December 2007 was approximately 2.46% per annum (2006: 1.68%). Any change in the interest rate from time to time is not considered to have significant impact to the Group.

The Group's interest rate risk which affects its income and operating cash flows mainly arises from bank borrowings. The bank borrowings were at fixed rates and expose the Group to fair value interest rate risk. As all the Group's bank borrowings were short term loans and any change in the interest rate from time to time is not considered to have significant impact to the Group.

3. Financial risk management *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bank borrowings, finance lease liabilities and the borrowing component of convertible notes as shown in the consolidated balance sheets) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheets, plus net debt.

The Company's strategy is to maintain an operation with minimal capital risk. The gearing ratio as at 31 December 2007 was 0.4%. The Group did not have any borrowing at 31 December 2006 and all its capital was sourced from equity. The directors are of the opinion that the Group does not have significant capital risk.

3.3 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair values of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgements

(a) Estimated impairment of non-financial assets

The Group tests annually whether non-financial assets, mainly including property, plant and equipment and intangible assets has suffered any impairment in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. Critical accounting estimates and judgements *(Continued)*

(c) Share option

The Group operates a share option scheme. The fair value of the options granted during the year (Note 13 (c)) is determined by using valuation techniques. The Group uses its judgements to select the valuation method and make assumptions for the significant inputs into the valuation model. At each balance sheet date, the Group Reviews its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

(d) Provision for warranty

The Group generally offers warranties for its certain products and undertakes to repair and replace items that fail to operate satisfactorily. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs. The estimates and judgments used are however not expected to have a significant risk of causing a material adjustment to the carrying amounts of the provision for warranty within the next financial year.

Should the estimated annual warranty expenses rate differ by 10% from management's estimates, the Group would have charged additional warranty expenses amount to approximate HK$11,749,000 for the year ended 2007 (2006: HK$2,109,000).

(All amounts in HK dollars thousands unless otherwise stated)

5. Segment information

Primary reporting format – business segments

The Group is principally engaged in manufacturing and sale of mobile handsets and other portable electronics products.

	"*Philips*" mobile handsets (note a)		Own branded and other mobile handsets		Multi-media players		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Turnover	1,944,582	2,586,710	535,309	654,053	687,817	308,566	3,167,708	3,549,329
Segment results	168,719	132,765	36,400	82,320	28,717	17,212	233,836	232,297
Other gains, net							9,699	5,130
Unallocated costs							(265,019)	(167,575)
Operating (loss)/profit							(21,484)	69,852
Finance income – net							2,367	1,665
(Loss)/profit before income tax							(19,117)	71,517
Income tax credit/(expenses)							31,640	(2,358)
Profit for the year							12,523	69,159
Segment assets	698,636	358,700	56,748	118,693	139,481	38,040	894,865	515,433
Unallocated assets							922,097	820,209
Total assets							1,816,962	1,335,642
Segment liabilities	227,045	371,762	8,243	170,488	3,378	48,983	238,666	591,233
Unallocated liabilities							977,460	141,271
Total liabilities							1,216,126	732,504
Capital expenditures							19,931	32,260
Depreciation/amortisation charge							44,240	49,646
Impairment charge/(reversal)							28,174	(4,952)

(a) "*Philips*" mobile handsets were OEM products which all sold to Philips Group (See definition in Note 29 (a)) in 2006. During the year, the Group assumed the business of "*Philips*" mobile products and sold such products directly to distributors.

(All amounts in HK dollars thousands unless otherwise stated)

5. Segment information *(Continued)*

Primary reporting format – business segments (Continued)

Unallocated costs consist primarily of selling and marketing costs and administrative expenses, which contribute to all business segments.

Segment assets consist primarily of inventories and trade receivables. Unallocated assets comprise property, plant and equipment, intangible assets, deferred taxation, other receivables and cash and cash equivalents.

Segment liabilities comprise trading liabilities. Unallocated liabilities comprise items such as taxation, borrowings, provisions and other payables.

Secondary reporting format – geographical segments

The Group's three business segments operate in five main geographical areas – Mainland China, Europe, Hong Kong, Asia (excluding Mainland China and Hong Kong) and North America. The segment sales based on the geographical location of its customers are presented below:

	2007	2006
Sales		
Mainland China	1,243,354	1,676,916
Europe (Note b)	630,047	6,540
Asia excluding Mainland China and Hong Kong (Note b)	228,762	1,030,871
Hong Kong (Note b)	1,041,209	835,002
North America	24,336	–
	3,167,708	3,549,329

(b) In 2006, most of "*Philips*" branded mobile products for the Europe market was arranged through the Philips Group companies located in Asia. In 2007, sales to Europe market was mostly made to distributors located in Europe directly.

No segment assets and liabilities are presented as over 90% of the Group's assets are located in Mainland China.

(All amounts in HK dollars thousands unless otherwise stated)

6. Property, plant and equipment

Group

	Leasehold improvements	Plant and machinery	Motor vehicles	Furniture and fixtures	Total
At 1 January 2006					
Cost	37,834	286,627	3,265	29,068	356,794
Accumulated depreciation and impairment	(25,851)	(229,047)	(2,055)	(20,790)	(277,743)
Net book amount	11,983	57,580	1,210	8,278	79,051
Year ended 31 December 2006					
Opening net book amount	11,983	57,580	1,210	8,278	79,051
Exchange differences	342	1,259	17	154	1,772
Additions	2,853	19,024	1,375	2,982	26,234
Disposals	–	(12)	–	(36)	(48)
Depreciation charge	(4,323)	(34,792)	(592)	(5,617)	(45,324)
Closing net book amount	10,855	43,059	2,010	5,761	61,685
At 31 December 2006					
Cost	24,795	307,331	4,743	32,596	369,465
Accumulated depreciation and impairment	(13,940)	(264,272)	(2,733)	(26,835)	(307,780)
Net book amount	10,855	43,059	2,010	5,761	61,685
Year ended 31 December 2007					
Opening net book amount	10,855	43,059	2,010	5,761	61,685
Exchange differences	665	2,295	78	283	3,321
Additions	1,096	8,462	446	5,565	15,569
Disposals	–	(20)	–	(783)	(803)
Depreciation charge	(4,619)	(29,334)	(715)	(4,057)	(38,725)
Closing net book amount	7,997	24,462	1,819	6,769	41,047
At 31 December 2007					
Cost	27,197	336,411	5,458	38,487	407,553
Accumulated depreciation and impairment	(19,200)	(311,949)	(3,639)	(31,718)	(366,506)
Net book amount	7,997	24,462	1,819	6,769	41,047

Depreciation expense of HK$29,577,000 (2006: HK$35,415,000) has been expensed in cost of sales, HK$237,000 (2006: HK$200,000) in selling and marketing costs and HK$8,911,000 (2006: HK$9,709,000) in administrative expenses.

Lease rental expense amounting to HK$25,791,000 (2006: HK$14,860,000) relating to the lease of property and machinery are included in the income statement.

(All amounts in HK dollars thousands unless otherwise stated)

6. Property, plant and equipment *(Continued)*

Company

	Motor vehicles	Furniture and fixtures	Total
At 1 January 2006			
Cost	684	124	808
Accumulated depreciation	(182)	(21)	(203)
Net book amount	502	103	605
Year ended 31 December 2006			
Opening net book amount	502	103	605
Additions	488	57	545
Disposal	–	(10)	(10)
Depreciation charge	(211)	(29)	(240)
Closing net book amount	779	121	900
At 31 December 2006			
Cost	1,172	166	1,338
Accumulated depreciation	(393)	(45)	(438)
Net book amount	779	121	900
Year ended 31 December 2007			
Opening net book amount	779	121	900
Additions	134	24	158
Disposal	–	(17)	(17)
Depreciation charge	(254)	(29)	(283)
Closing net book amount	659	99	758
At 31 December 2007			
Cost	1,307	164	1,471
Accumulated depreciation	(648)	(65)	(713)
Net book amount	659	99	758

(All amounts in HK dollars thousands unless otherwise stated)

7. Intangible assets – Group

	Computer software
At 1 January 2006	
Cost	23,918
Accumulated amortisation and impairment	(9,805)
Net book amount	14,113
Year ended 31 December 2006	
Opening net book amount	14,113
Exchange differences	434
Additions	6,026
Amortisation charge	(4,322)
Closing net book amount	16,251
At 31 December 2006	
Cost	30,900
Accumulated amortisation and impairment	(14,649)
Net book amount	16,251
Year ended 31 December 2007	
Opening net book amount	16,251
Exchange differences	1,046
Additions	4,362
Amortisation charge	(5,515)
Closing net book amount	16,144
At 31 December 2007	
Cost	37,588
Accumulated amortisation and impairment	(21,444)
Net book amount	16,144

Amortisation of HK$1,778,000 (2006: HK$634,000) has been expensed in cost of sales, HK$42,000 (2006: HK$32,000) in selling and marketing costs and HK$3,695,000 (2006: HK$3,649,000) in administrative expenses.

(All amounts in HK dollars thousands unless otherwise stated)

8. Investments in subsidiaries – Company

	2007	2006
Investments – unlisted shares, at cost (Note(a))	**260,000**	260,000
Amounts due from subsidiaries (Note(b))	**11,700**	11,700
	271,700	271,700

(a) The following is a list of the principal subsidiaries as at 31 December 2007.

Name	Place of Incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest held
Indirectly held:				
Shenzhen Sang Fei Consumer Communications Co., Ltd. ("Sang Fei")	PRC, a Sino-foreign equity joint venture company	PRC, manufacture and sale of mobile handsets and other portable electronics products	Registered capital of US$33,000,000	65%
China Electronics Corporation Management Limited	Hong Kong, limited company	Hong Kong, provision of group management services	2 ordinary shares of HK$1 each	100%

(b) The balance is unsecured, interest free and has no fixed repayment term. It is classified as investment in subsidiaries.

9. Inventories – Group

	2007	2006
Raw materials	**257,504**	230,856
Work in progress	**46,950**	54,850
Finished goods	**139,735**	50,096
	444,189	335,802

The cost of inventories recognised as expense and included in cost of sales amounted to HK$2,400,076,000 (2006: HK$3,127,030,000).

Written down of inventories to net realisable value of HK$27,908,000 (2006: reversal of written down with amount of HK$4,952,000) has been included in cost of sales during the year.

(All amounts in HK dollars thousands unless otherwise stated)

10. Trade and other receivables

	Group		Company	
	2007	2006	2007	2006
Trade receivables (Note (a))	755,474	415,932	–	–
Less: provision for impairment	(266)	–	–	–
Trade receivables – net	755,208	415,932	–	–
Notes receivables	15,081	799	–	–
Other receivables from related parties	7,091	24,026	–	–
Prepayments and deposits	64,526	21,011	428	219
Value-added tax refundable	14,129	25,739	–	–
Other receivables	21,115	5,672	490	250
	877,150	493,179	918	469

The Directors are of the opinion that the carrying amounts of trade and other receivables approximate their fair values. All trade and other receivables are due within 1 year and non interest-bearing.

(a) The majority of the Group's sales are on letter of credit or documents against payment. The remaining amounts are with credit term of 30 to 60 days. At 31 December 2007, the ageing analysis of the Group's gross trade receivables was as follows:

Ageing	2007	2006
Current to 30 days	734,238	410,109
31 – 60 days	12,151	2,561
Over 60 days and within 1 year	8,324	1,725
Over 1 year	761	1,537
	755,474	415,932

Including in the balance were trade and other receivables from related parties of HK$61,305,000 (2006: HK$382,828,000) *(Note 29(c))*.

(b) The maximum exposure to credit risk at 31 December 2007 and 2006 is the fair value of the trade receivables mentioned above. The Group does not hold any collateral as security.

Movement on the provision for impairment at the Group's trade receivables are as follows:

	2007	2006
At 1 January	–	–
Provision for impairment	266	–
At 31 December	266	–

(All amounts in HK dollars thousands unless otherwise stated)

10. Trade and other receivables *(Continued)*

At 31 December 2007, trade receivables of HK$31,063,000 (2006: HK$7,888,000) were past due but not impaired. These related to a number of customers which had no history of default, the ageing analysis of these trade receivable is as follows:

Ageing	2007	2006
Current to 30 days	10,093	2,065
31 - 60 days	12,151	2,561
Over 60 days and within 1 year	8,324	1,725
Over 1 year	495	1,537
	31,063	7,888

As at 31 December 2007, trade receivables of HK$266,000 were impaired and fully provided for (2006: nil).

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

Currency	2007	2006
Renminbi	170,672	156,454
HK dollar	918	469
US dollar	165,208	336,256
Euro	540,225	–
Other currencies	127	–
	877,150	493,179

11. Cash and cash equivalents

	Group		Company	
	2007	2006	2007	2006
Cash at bank and in hand				
China Electronics Corporation				
Finance Co., Ltd. (Note 29(c))	–	51,595	–	–
Other banks and financial institutions	163,841	170,131	6,105	9,151
	163,841	221,726	6,105	9,151
Short-term bank deposits	227,900	198,083	216,441	187,005
	391,741	419,809	222,546	196,156

(All amounts in HK dollars thousands unless otherwise stated)

11. Cash and cash equivalents *(Continued)*

China Electronics Corporation Finance Co., Ltd. is a non-bank financial institution approved by the People's Bank of China. The deposits yield interest at prevailing saving deposit rates.

The effective interest rate on short-term bank deposits was 1.68% per annum (2006: 2.46%). The maturity days of these deposits ranged from 2 to 18 days (2006: 5 to 29 days).

12. Issued equity/share capital

(a) Issued equity – Group

	Number of shares	Issued equity
As 1 January and 31 December 2006	1,083,560,000	370,074
As 1 January and 31 December 2007	1,083,560,000	370,074

(i) The number of share reflect the company's ordinary share of HK$0.01 each issued and fully paid.

(ii) On 10 December 2003, China Electronics Corporation ("CEC"), the Company, the Company's then holding company, Winsan International Holdings Limited entered into a sale and purchase agreement. Pursuant to the agreement, the Company acquired CEC's 65% equity interest in Sang Fei (the "Acquisition") and the consideration was satisfied by the issuance of the Company's 6,500,000,000 shares to CEC. The Acquisition was completed on 24 September 2004 and has been accounted for as a reverse acquisition. For accounting purpose, Sang Fei is regarded as the acquirer while the Company and its then subsidiaries are deemed to have been acquired by Sang Fei. Accordingly, the amount recognised as issued equity of the Group, which consists of share capital and share premium, has been determined by adding to the issued equity of Sang Fei immediately before the completion of the Acquisition the cost of the acquisition of the Company and its then subsidiaries.

(All amounts in HK dollars thousands unless otherwise stated)

12. Issued equity/share capital *(Continued)*

(b) Share capital – Company

	Number of shares – ordinary share of HK$0.01 each				
	Authorised	Issued and fully paid	Share capital	Share premium	Total
At 1 January and 31 December 2006	30,000,000,000	1,083,560,000	10,836	325,055	335,891
At 1 January and 31 December 2007	30,000,000,000	1,083,560,000	10,836	325,055	335,891

13. Other reserves

Group

	Capital reserve *(Note (a))*	Surplus reserves *(Note (b))*	Share option *(Note (c))*	Translation reserve	Total
At 1 January 2006	(1,806)	25,992	6,572	4,304	35,062
Share option granted	–	–	3,654	–	3,654
Appropriation from retained earnings	–	7,333	–	–	7,333
Currency translation differences	–	–	–	9,088	9,088
At 31 December 2006	(1,806)	33,325	10,226	13,392	55,137
At 1 January 2007	(1,806)	33,325	10,226	13,392	55,137
Share option granted	–	–	1,737	–	1,737
Currency translation differences	–	–	–	14,933	14,933
At 31 December 2007	(1,806)	33,325	11,963	28,325	71,807

(a) Capital reserve

Capital reserve represents the exchange differences arising from paid-in capital paid by foreign currencies in the principal subsidiary, Sang Fei.

(All amounts in HK dollars thousands unless otherwise stated)

13. Other reserves *(Continued)*

(b) *Surplus reserves*

In accordance with the "Laws of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment" and Sang Fei's Articles of Association, appropriations of the reserve fund and the enterprise expansion fund from profit after taxation have to be made prior to profit distribution to the equity owners. The percentage of appropriation of reserve fund and the enterprise expansion fund is approved by the board of directors.

Upon approval from the board of directors, the reserve fund can be used to offset against accumulated losses or to increase capital while the enterprise expansion fund can be used to expand production and to increase capital.

Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is distributable to shareholders in certain circumstances as specified in section 54 thereof.

(c) *Share option*

On 25 October 2005, 28,450,000 options were granted to certain directors, employees and other participants at an exercise price of HK$1.488 under the Share Option Scheme. 40% of the options granted are exercisable from 1 November 2005 to 31 October 2008, another 30% are exercisable from 1 November 2006 to 31 October 2009 and the remaining 30% are exercisable from 1 November 2007 to 31 October 2010. The options have an option term of 3 years commencing from the exercisable date. No option was exercised during the year.

Movements in the number of share options outstanding are as follows:

	2007	2006
At 1 January	**21,150,000**	28,450,000
Lapsed	**(200,000)**	(7,300,000)
At 31 December	**20,950,000**	21,150,000

All share options outstanding as at 31 December 2007 were exercisable (2006: 14,805,000).

Share options outstanding at 31 December 2007 and 2006 have the following expiry date:

	2007	2006
Expiry date – 31 October		
2008	**8,380,000**	8,460,000
2009	**6,285,000**	6,345,000
2010	**6,285,000**	6,345,000
	20,950,000	21,150,000

Expense arising from the Share Option Scheme recognised in administrative expenses during the year amounted to HK$1,737,000 (2006: HK$3,654,000).

(All amounts in HK dollars thousands unless otherwise stated)

13. Other reserves *(Continued)*

Company

	Contributed surplus	Share option	Total
At 1 January 2006	61,672	6,572	68,244
Share option granted	–	3,654	3,654
At 31 December 2006	61,672	10,226	71,898
At 1 January 2007	61,672	10,226	71,898
Share option granted	–	1,737	1,737
At 31 December 2007	61,672	11,963	73,635

14. Trade and other payables

	Group		Company	
	2007	2006	**2007**	2006
Trade payables	**381,597**	511,472	**–**	–
Other payables from related parties (Note 29(c))	**1,332**	17,072	**–**	–
Accrued expenses	**192,149**	47,205	**4,040**	2,744
Advance from customers	**65,197**	52,870	**–**	–
Other payables	**100,755**	89,207	**16**	–
	741,030	717,826	**4,056**	2,744

At 31 December 2007, the ageing analysis of the Group's trade payables was as follows:

	2007	2006
Current to 30 days	**367,655**	487,812
31 – 60 days	**474**	14
Over 60 days	**13,468**	23,646
	381,597	511,472

Included in the balance of trade and other payables to related parties amounted to HK$17,834,000 (2006: HK$48,159,000) (Note 29(c)).

The Directors are of the opinion that the carrying amount of trade and other payables approximate their fair values.

(All amounts in HK dollars thousands unless otherwise stated)

15. Short term bank loans – Group

The bank loans as at 31 December 2007 were unsecured, repayable within one year and bear interest at the average borrowing rate of 6.19% per annum.

The Group's bank loans as at 31 December 2007 exposured to interest rate changes and the contractual repricing dates within 6 months.

The carrying amounts of the short term bank loans approximate their fair value, which are denominated in the following currencies:

	2007	2006
Renminbi	354,839	–
US dollar	39,272	–
	394,111	–

The Group has undrawn borrowing facilities of approximately HK$466,104,000 as at 31 December 2007 (2006: HK$1,000,000,000). The facilities are at floating rate and expiring within one year which are subject to review at various dates during 2008.

16. Provision for warranty – Group

The Group provides free repair and replacement services ranging from 12 to 15 months after sales. The cost of the warranty obligation under which the Group agrees to remedy defects in its products is accrued at the time the related sales are recognised. As at 31 December 2007, the Group had provided for expected warranty claims on own mobile products and certain ODM products based on past experience of the level of repairs and returns.

	2007	2006
At 1 January	12,634	2,106
Charged for the year (a)	64,437	21,089
Provision related to OEM products (b)	53,055	–
Less: utilised during the year	(52,866)	(10,561)
At 31 December	77,260	12,634

(a) Provision for warranty of HK$64,437,000 (2006: HK$21,089,000) has been charged to selling and marketing costs;

(b) Provision for warranty of HK$53,055,000 was related to OEM products which were sold to Philips Group before 1 April 2007 (see Note 5(a)). In this respect, Philips Group reimbursed nearly the same amount to the Group.

(All amounts in HK dollars thousands unless otherwise stated)

17. Other gains – net

	2007	2006
Sales of samples and materials	1,633	5,355
Written off of payables (Note a)	7,504	–
Others	562	(225)
	9,699	5,130

(a) These represented long-aged trade payables which the Directors are of the opinion that the obligation for future settlement is remote and therefore write off them in current year.

18. Expenses by nature

Expenses included in cost of sales, selling and marketing costs and administrative expenses are analysed as follows:

	2007	2006
Depreciation and amortisation expenses (Notes 6 and 7)	44,240	49,646
Employee benefit expenses (Note 19)	173,221	149,056
Changes in inventories of finished goods and work in progress	(91,023)	61,363
Raw materials and consumables used	2,491,099	3,065,667
Impairment provision for receivables	266	–
Written down/(reversal) of inventories to net realisable value (Note 9)	27,908	(4,952)
Provision for warranty (Note 16)	64,437	21,089
Operating lease expenses on property and machinery	25,791	14,860
Research and development costs	49,071	34,667
Auditors' remuneration	1,890	1,247

19. Employee benefit expense

	2007	2006
Basic salaries, allowances and benefits in kind	156,359	137,000
Contributions to retirement schemes (Note (a) and (b))	15,125	8,402
Share-based compensation (Note 13(c))	1,737	3,654
	173,221	149,056

(a) The Group operates a MPF for the eligible employees in Hong Kong. The Group's contributions to MPF are set at 5% of employees' salaries, including basic salaries and other cash allowances and expensed as incurred.

(b) The principal subsidiary, Sang Fei, participates in a defined contribution retirement scheme based on laws and regulations in the PRC. Each employee covered by the scheme is entitled, after their retirement from Sang Fei, to a pension equal to the basis salary of the employees as at their retirement dates in the PRC. The local government authority of the PRC is responsible for the pension liabilities to these retired employees in the PRC. Sang Fei made monthly contributions to the retirement scheme at a minimum rate of 8% (2006: 8%) of the basis salaries of employees in the PRC.

(All amounts in HK dollars thousands unless otherwise stated)

20. Directors' and senior management's emoluments

(a) *Directors' emoluments*

The remuneration of every director for the year ended 31 December 2007 is set out below:

Name of Director	Fees	Salaries, allowance and benefits in kind	Employer's contribution to pension scheme	Share-based payment	Total
Mr. Chen Zhaoxiong*	–	–	–	–	–
Mr. Tong Baoan	500	–	–	333	833
Mr. Fan Qingwu	–	400	49	315	764
Mr. Hua Longxing	–	526	–	315	841
Mr. Chan Kay Cheung	180	–	–	–	180
Mr. Wong Po Yan	180	–	–	–	180
Mr. Yin Yongli	180	–	–	–	180
	1,040	926	49	963	2,978

During the year, no director has waived emolument or has agreed to waived the directors' emolument (2006: nil).

* Resigned on 14 January 2008

The remuneration of every director for the year ended 31 December 2006 is set out below:

Name of Director	Fees	Salaries, allowance and benefits in kind	Employer's contribution to pension scheme	Share-based payment	Total
Mr. Chen Zhaoxiong	–	–	–	–	–
Mr. Yang Xiaotang	167	–	8	–	175
Mr. Tong Baoan	500	–	19	960	1,479
Mr. Fan Qingwu	–	400	20	909	1,329
Mr. Hua Longxing	–	404	–	909	1,313
Mr. Chan Kay Cheung	180	–	–	–	180
Mr. Wong Po Yan	180	–	–	–	180
Mr. Yin Yongli	180	–	–	–	180
	1,207	804	47	2,778	4,836

(All amounts in HK dollars thousands unless otherwise stated)

20. Directors' and senior management's emoluments *(Continued)*

(b) *Five highest paid individuals*

The emoluments payable to the five individuals (2006: three individuals, and two directors whose emoluments are reflected in the analysis presented above) whose emoluments were the highest in the Group during the year are as follows :

	2007	2006
Basic salaries, allowances and benefits in kind	12,434	4,064
Bonuses	2,192	1,194
Contributions to retirement schemes	460	179
Share-based compensation *(Note 13(c))*	109	315
	15,195	5,752

(c) The emoluments fell within the following band:

	Number of individuals	
	2007	2006
HK$1,000,001 – HK$1,500,000	1	1
HK$1,500,001 – HK$2,000,000	–	–
HK$2,000,001 – HK$2,500,000	2	2
HK$2,500,001 – HK$3,000,000	–	–
HK$3,000,001 – HK$3,500,000	–	–
HK$3,500,001 – HK$4,000,000	1	–
HK$4,000,001 – HK$4,500,000	–	–
HK$4,500,001 – HK$5,000,000	–	–
HK$5,000,001 – HK$5,500,000	1	–
	5	3

21. Finance income – net

	2007	2006
Interest income on short-term deposits	11,442	8,109
Interest on bank loans	(9,075)	(6,444)
Net finance income	2,367	1,665

(All amounts in HK dollars thousands unless otherwise stated)

22. Taxation

(a) *Income tax (credit)/expense*

The amount of taxation (credited)/charged to the consolidated income statement represents:

	2007	2006
Current taxation – PRC enterprise income tax	6,135	6,760
Deferred taxation	(37,775)	(4,402)
	(31,640)	2,358

(b) No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2006: nil).

(c) The principal subsidiary, Sang Fei, is a foreign investment production enterprise established in Shenzhen Special Economic Zone in the PRC, the prevailing PRC enterprise income tax rate is 15%. As approved by the tax authorities in 1998, Sang Fei is entitled to exemption from income tax for two years followed by a 50% tax reduction for three years, commencing from the year ended 31 December 2000, the first cumulative profit-making year net of losses carried forward. Accordingly, the tax holiday ended at 31 December 2004.

Sang Fei was certified as a high-tech enterprise from 2002 and as approved by the tax authorities in 2004, Sang Fei is entitled to 50% tax reduction from enterprise income tax for further three years starting from 2005. Consequently, enterprise income tax has been provided at the rate of 7.5% (2006: 7.5%) for the year. Such tax reduction ended at 31 December 2007.

(d) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate in the PRC as follows:

	2007	2006
(Loss)/profit before income tax	(19,117)	71,517
Calculated at a taxation rate of 15% (2006: 15%)	(2,868)	10,728
Effect of tax concession	(406)	(9,804)
Expenses not deductible for taxation purposes	136	313
Tax losses for which no deferred income tax asset was recognised	266	1,121
Effect on change of tax rate (Note (e))	(28,768)	–
Income tax (credit)/expense	(31,640)	2,358

(All amounts in HK dollars thousands unless otherwise stated)

22. Taxation *(Continued)*

(e) *Deferred taxation*

The movement on the deferred tax assets during the year is as follows:

	Impairment of inventories	Accelerated depreciation of property, plant and equipment	Provision for warranty and other accruals	Others	Total
At 1 January 2006	2,939	540	158	877	4,514
(Charged)/credited to the income statement	(405)	4,177	790	(160)	4,402
At 31 December 2006	2,534	4,717	948	717	8,916
At 1 January 2007	2,534	4,717	948	717	8,916
Credited/(charged) to the income statement	9,028	8,314	21,150	(717)	37,775
At 31 December 2007	11,562	13,031	22,098	–	46,691

The amounts shown in the balance sheet include the following:

	2007	2006
Deferred tax assets to be recovered after more than 12 months	**10,879**	7,251
Deferred tax assets to be recovered within 12 months	**35,812**	1,665
	46,691	**8,916**

Deferred income tax assets are recognised for tax loss carrying-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$4,250,000 (2006: HK$3,984,000) in respect of losses amounted to HK$23,210,000 (2006: HK$22,184,000) that can be carried forward against future taxable income.

On 16 March 2007, the Corporate Income Tax Law of the PRC (the "new CIT Law") was approved and became effective 1 January 2008. In accordance with the new CIT law, Sang Fei's applicable tax rate will be changed to 25% with a transitional period of 5 years from 2008 in which the tax rate will be changed to 18%, 20%, 22%, 24% and 25% for the five years from 2008 to 2012 respectively. In this regard, the new applicable tax rates are adopted in computing the deferred taxation as at 31 December 2007 (31 December 2006: 7.5%). The change of tax rates resulted a tax credit of HK$28,768,000 in 2007.

(All amounts in HK dollars thousands unless otherwise stated)

23. Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with the financial statements of the Company to the extent of the HK$40,985,000 (2006: HK$58,692,000).

24. Earnings per share

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the Group's profit attributable to equity holders of the Company for the year ended 31 December 2007 of HK$8,074,000 (2006: HK$43,276,000) and the 1,083,560,000 (2006: 1,083,560,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2007 is calculated by adjusting the number of 1,083,560,000 ordinary shares by adding 6,405,096 to assume conversion of all dilutive potential ordinary shares granted under the Share Option Scheme of the Company. A calculation is done to determine the number of shares that could have been acquired at fair value (determine as the average market price during the year) based on the monetary value of subscription rights attached to outstanding share options as following:

Profit attributable to equity holders of the Company *(HK$)*	8,074,000
Weighted average number of shares outstanding	1,083,560,000
Weighted average number of shares under Share Option Scheme	15,712,500
Weighted average number of shares that would have been issued at average market price	(9,307,404)
Weighted average number of ordinary shares in issue on fully diluted basis	1,089,965,096
Diluted earnings per share *(HK$)*	0.0074

For the year ended 31 December 2006, potential diluted ordinary shares were not included in the calculation of diluted earnings per share because they were anti-dilutive.

25. Dividends

2006 final dividend of HK$0.016 (2005 final: HK$0.02) per ordinary share totalling HK$17,337,000 (2005 final: HK$21,671,000) was declared in March 2007 and paid in June 2007.

The Board does not recommend the payment of a dividend for the year ended 31 December 2007 (2006: HK$0.016 per share).

(All amounts in HK dollars thousands unless otherwise stated)

26. Cash generated from operations

	2007	2006
(Loss)/profit before income tax	(19,117)	71,517
Adjustment for:		
Depreciation of owned property, plant and equipment	38,725	45,324
Amortisation of intangible assets	5,515	4,322
(Gain)/loss on disposal of property, plant and equipment	(337)	6
Interest income	(11,442)	(8,109)
Interest expense	9,075	6,444
Share-based compensation	1,737	3,654
Effect of foreign exchange translation	18,156	6,844
Changes in working capital		
Inventories	(108,387)	111,232
Trade and other receivables	(383,745)	591,765
Trade and other payables	22,386	(411,368)
Provision for warranty	64,626	10,528
Net cash (used in)/generated from operations	(362,808)	432,159

(a) Proceeds from disposal of property, plant and equipment include:

	2007	2006
Net book value (Note 6)	803	48
Gain/(loss) on disposal of property, plant and equipment	337	(6)
Cash proceeds from disposal of property, plant and equipment	1,140	42

(All amounts in HK dollars thousands unless otherwise stated)

27. Commitments

(a) *Capital commitments – Group*

At 31 December 2007, the Group's capital commitment which were contracted but not provided for were as follows:

	2007	2006
Purchase of property, plant and equipment and computer software	**2,502**	1,259

(b) *Operating lease commitments*

As at 31 December 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases for factories and office premises as follows:

	Group		Company	
	2007	2006	2007	2006
Not later than one year	**30,612**	26,218	**343**	651
In the second to fifth years	**21,901**	19,774	**344**	–
	52,513	45,992	**687**	651

28. Contingent liability

The Group did not have any material contingent liabilities outstanding as at 31 December 2007 (2006: nil).

29. Related-party transactions and balances

Parties are considered to be related if one company has the ability, directly or indirectly, to control the other company or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

During the year, the Group entered into transactions with companies under common control of:

– China Electronics Corporation, the ultimate holding company. These companies are denoted by * below;

– Koninklijke Philips Electronics N.V. ("KPE") (a company incorporated in Holland), the ultimate holding company of the minority shareholder with significant influence on operation of the principal subsidiary, Sang Fei. These companies are denoted by # below.

(All amounts in HK dollars thousands unless otherwise stated)

29. Related-party transactions and balances *(Continued)*

In March 2007, KPE disposed of its equity interests, through its subsidiary in Sang Fei to Shenzhen SED Electronics Group Co., Ltd., a subsidiary of China Electronics Corporation and ceased its significant influence on Sang Fei. From then onward, KPE and the companies under its common control are not the Group's related parties. Consequently, the Group's transactions with them since 1 April 2007 and the balances with them as at 31 December 2007 are not disclosed as related party transactions and balances.

(a) Sales of products, samples and materials:

		2007	2006
Sales of products:			
Philips (China) Investment Co., Ltd	#	207,345	1,561,368
Philips Electronics Singapore Pte. Ltd.	#	171,609	1,014,335
Philips Electronics Hong Kong Ltd.	#	67,253	273,944
Shenzhen SED Coalition Electronics Co., Ltd.	*	330,310	2,448
Philips Consumer Electronics B.V.	#	156	949
Philips France S.A.S.	#	–	2,175
Philips Electronics Trading Services (Shanghai) Co., Ltd.	#	–	1,241
Shenzhen SED Electronics Sales Corporation	*	8,136	–
Shenzhen SED Electronics Group Company Ltd	*	51	–
Shanghai SED ARC Co., Ltd.	*	8	–
China Electronic Appliance Corporation	*	78,033	–

		2007	2006
Sales of samples and materials:			
Philips Consumer Electronics B.V.	#	336	4,353
Philips (China) Investment Co., Ltd.	#	311	34,494
Philips Electronics Singapore Pte Ltd.	#	660	950
Philips Electronics Hong Kong Ltd.	#	81	682
Shenzhen SED Coalition Electronics Co., Ltd.	*	40	860
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	1,822	407
Shenzhen SED International Electronic Device Co., Ltd.	*	–	713
Shenzhen SED Electronics Sales Corporation	*	64	–
Philips Group, others	#	–	24
Sales of maintenance services:			
Philips (China) Investment Co., Ltd	#	3,158	25,338

Members of KPE and its subsidiaries (the "Philips Group") and members of CEC and its group companies (the "CEC Group") are the major customers of the Group.

(All amounts in HK dollars thousands unless otherwise stated)

29. Related-party transactions and balances *(Continued)*

(b) *Other transactions*

		2007	2006
Receipt of interests:			
China Electronics Corporation Finance Co., Ltd.	*	–	214
Purchase of goods:	(i)		
Philips Electronics Hong Kong Ltd.	#	288	214,168
Philips (China) Investment Co., Ltd.	#	559	1,085
Philips France S.A.S.	#	–	2,531
Philips Electronics Trading Services (Shanghai) Co., Ltd.	#	–	946
Philips Electronics Beijing Co., Ltd.	#	–	646
Shenzhen SED Electronics Sales Corporation	*	867	–
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	75,726	20,895
SED (Hong Kong) Company Limited	*	44,178	–
CEC Group, others	*	–	638
Philips Group, others	#	–	42
Processing services:	(ii)		
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	6,532	6,645
Shenzhen SED Industry Co., Ltd.	*	4,379	4,898
Fitment and decoration services:	(iii)		
Shenzhen SED Fitment & Decoration Co., Ltd.	*	221	1,820
Canteen services:	(iv)		
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	11,899	10,918
Repair and maintenance services:	(v)		
Shenzhen SED Coalition Electronics Co., Ltd.	*	26	–
Shanghai SED ARC Co., Ltd.	*	1,321	2,144
Shenzhen SED ARC Co., Ltd.	*	11,088	628
Rental:	(vi)		
Shenzhen SED Industry Co., Ltd.	*	8,018	7,473
China Great Wall Computer Shenzhen Co., Ltd.	*	1,762	493
Great Wall Technology Company Limited	*	1,250	655
Licence fee:	(vii)		
Shenzhen SED Electronics Group Co., Ltd	*	14,063	–
Comprehensive services:	(viii)		
P-Marshall Hong Kong Limited	*	26,910	–
P-Marshall Singapore Pte. Limited	*	13,149	–

(All amounts in HK dollars thousands unless otherwise stated)

29. Related-party transactions and balances *(Continued)*

(b) *Other transactions (Continued)*

(i) Members of the Philips Group are the suppliers of raw materials. Purchases of raw materials from the Philips Group were carried out in the ordinary course of business and on commercial terms and conditions.

The Group from time to time purchases raw materials from members of the CEC Group. Purchases of goods from the CEC Group were carried out in the ordinary course of business and on commercial terms and conditions.

(ii) The Group secured dedicated processing services of surface mount assembly production lines from members of the CEC Group. The processing services were carried out on commercial terms and conditions.

(iii) The Group engaged members of the CEC Group to undertake renovation works in connection with the expansion of the Group's production premises. The fitment and decoration services were carried out in the ordinary course of business and were on commercial terms and conditions.

(iv) Shenzhen Sang Da Baili Electronics Co., Ltd. provides canteen services to the production staff of the Group. The fee of the canteen services were calculated by reference to actual consumption and an agreed fixed premium and were carried out on commercial terms and conditions.

(v) The Group engaged Shenzhen SED ARC Co., Ltd. and Shanghai SED ARC Co., Ltd. for after sales product repair services in respect of its own-branded products. The repair and maintenance services were carried out on commercial terms and conditions.

(vi) The production facilities and some of the staff quarters of the Group were located within an industrial complex owned by members of the CEC Group. The rentals were based on lease agreements entered into by the relevant parties and the Group and were calculated on commercial terms and conditions.

(vii) Members of the CEC Group licence the "*Xenium*" trademark to the Group for use. The licensing were based on the licence agreement and were carried out on normal commercial terms and conditions with reference to market rates.

(viii) The Group engaged members of the CEC Group to provide various business support services in relation to sales of products. The business support services were based on the comprehensive services agreements and were carried out on normal commercial terms and conditions with reference to market rates.

(c) *Year-end balance arising from sales and other transactions*

		2007	2006
Trade receivables due from related parties:			
Philips Electronics Singapore Pte. Ltd.	#, (i)	–	223,114
Philips (China) Investment Co., Ltd.	#, (i)	–	93,525
Philips Electronics Hong Kong Ltd.	#, (i)	–	35,407
Philips Electronics Trading Services (Shanghai) Co., Ltd.	#, (i)	–	551
Shenzhen SED Coalition Electronics Co., Ltd.	*	5,503	–
Shenzhen SED Electronics Sales Corporation	*	737	–
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	695	–
China Electronic Appliance Corporation	*	24,483	–
		31,418	352,597

(All amounts in HK dollars thousands unless otherwise stated)

29. Related-party transactions and balances *(Continued)*

(c) *Year-end balance arising from sales and other transactions (Continued)*

		2007	2006
Other receivables due from related parties:			
Philips Electronics Hong Kong Ltd.	#, (i)	–	11,621
Philips (China) Investment Co., Ltd.	#, (i)	–	10,035
Philips Consumer Electronics B.V	#, (i)	–	1,867
Philips France S.A.S.	#, (i)	–	164
Philips Electronics Singapore Pte. Ltd.	#, (i)	–	139
Shenzhen SED Coalition Electronics Co., Ltd.	*	23	–
Shenzhen SED Electronics Sales Corporation	*	16	–
Shenzhen SED International Electronic Device Co., Ltd.	*	141	101
Shenzhen SED Electronics Group Company Ltd.	*	6,667	–
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	244	99
		7,091	24,026
Prepayments:			
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	15,411	6,205
SED (Hong Kong) Company Limited	*	7,385	–
		22,796	6,205
Trade and other receivables due from related parties in total (Note 10)		61,305	382,828
Trade payables due to related parties:			
Philips Electronics Hong Kong Ltd.	#, (i)	–	16,263
Philips (China) Investment Co., Ltd.	#, (i)	–	6,223
Philips France S.A.S.	#, (i)	–	4,248
Philips Electronics Singapore Pte. Ltd.	#, (i)	–	287
Philips Electronics (Beijing) Co., Ltd.	#, (i)	–	180
Philips Electronics Trading Services (Shanghai) Co., Ltd.	#, (i)	–	22
Shenzhen SED Electronics Sales Corporation	*	150	–
SED (Hong Kong) Company Limited	*	2,283	–
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	11	1,823
Langfang CEC Dacheng Electronic Co., Ltd.	*	–	14
		2,444	29,060

(All amounts in HK dollars thousands unless otherwise stated)

29. Related-party transactions and balances *(Continued)*

(c) *Year-end balance arising from sales and other transactions (Continued)*

		2007	2006
Other payables due to related parties:			
Philips France S.A.S.	#, (i)	–	6,244
Philips Electronics Hong Kong Ltd.	#, (i)	–	6,197
Philips Electronics Singapore Pte. Ltd.	#, (i)	–	2,408
Philips (China) Investment Co., Ltd.	#, (i)	–	399
Philips Electronics Trading Services (Shanghai) Co., Ltd.	#, (i)	–	285
Shenzhen Sang Da Baili Electronics Co., Ltd.	*	461	998
Shenzhen SED ARC Co., Ltd.	*	864	448
Shanghai SED ARC Co., Ltd.	*	7	–
Shenzhen SED Fitment and Decoration Co., Ltd.	*	–	93
		1,332	17,072
Advance from customers:			
China Electronic Appliance Corporation	*	10,753	–
Shenzhen SED Electronics Group Company Ltd.	*	261	–
Shenzhen SED Electronics Sales Corporation	*	2,158	–
Shanghai SED ARC Co., Ltd.	*	102	–
Shenzhen SED Coalition Electronics Co., Ltd.	*	784	2,027
		14,058	2,027
Trade and other payables due to related parties in total (Note 14)		17,834	48,159
Deposits:			
China Electronics Corporation Finance Co., Ltd.	*	–	51,595

(i) As detailed above, KPE and the companies under its common control are not the Group's related parties since 1 April 2007. Consequently, the balances with them as at 31 December 2007 are not disclosed as related party balances.

(All amounts in HK dollars thousands unless otherwise stated)

29. Related-party transactions and balances *(Continued)*

(d) Additional information on other state-owned enterprises

The Company is controlled by CEC, and is ultimately controlled by Mainland China government, which also controls a significant portion of the productive assets and entities in the Mainland China. In accordance with Hong Kong Accounting Standard 24 "Related Party Disclosures" ("HKAS 24"), state-owned enterprises and their subsidiaries, other than CEC Group, are also defined as related parties of the Company ("Other State-owned Enterprises").

(i) Summary of significant transactions with Other State-owned Enterprises

	2007	2006
Sales of products and materials	428,418	85
Purchase of materials	24,431	–
Interest income from state-owned banks	9,955	6,982
Interest expenses to state-owned banks	9,075	6,444

(ii) Summary of balances with Other State-owned Enterprises

	2007	2006
Trade receivables	13,383	394
Trade payables	170	–
Bank deposits in state-owned banks	311,477	341,292
Bank borrowings from state-owned banks	394,111	–

Balances with Other State-owned Enterprises, except for bank deposits and bank borrowings, were unsecured and interest-free.

Financial Summary

For the Year Ended 31 December 2007
(All amounts in HK dollars thousands unless otherwise stated)

Set out below is a summary of the financial information of the Group for the last five yeas.

RESULT

	Year ended 31 December				
	2007	2006	2005	2004	2003 *(Note)*
Sales	**3,167,708**	3,549,329	4,768,526	4,590,123	3,369
(Loss)/profit before income tax	**(19,117)**	71,517	89,946	14,959	(85,756)
Income tax credit/(expenses)	**31,640**	(2,358)	(5,598)	(8,518)	–
Profit/(loss) for the year	**12,523**	69,159	84,348	6,441	(85,756)
Attributable to :					
Equity holders of the Company	**8,074**	43,276	49,899	(19,263)	(85,756)
Minority interests	**4,449**	25,883	34,449	25,704	–
	12,523	69,159	84,348	6,441	(85,756)

ASSETS AND LIABILITIES

	As at 31 December				
	2007	2006	2005	2004	2003 *(Note)*
Total assets	**1,816,962**	1,335,642	1,936,037	1,660,344	7,534
Total liabilities	**(1,216,126)**	(732,504)	(1,367,642)	(1,166,219)	(74,757)
Minority interests	**(129,066)**	(138,775)	(138,379)	(124,884)	–
	471,770	464,363	430,016	369,241	(67,223)

Note :

The financial information as at 31 December 2003 for the year then ended as set out above is that of the Winsan Group, and are not comparable to the basis of preparation of accounts as at 31 December 2004, 2005, 2006 and 2007.