CEC
中国电子
CHINA ELECTRONICS

China Electronics Corporation Holdings Company Limited

中國電子集團控股有限公司

(Stock Code : 00085)

Annual Report 2008

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

Ng Kui Kwan

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

INVESTOR RELATIONS

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Website: www.cecholding.com
Email: investor@cecholdings.com.hk

STOCK CODE

00085

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (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

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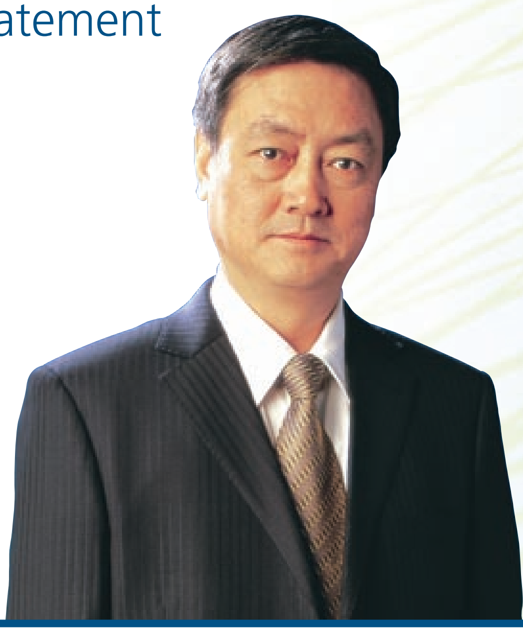
Chairman's Statement



Dear Shareholders,

Impacted by the global financial crisis, the plunge in consumer confidence worldwide resulted from the deteriorating global economy and the fierce competition in the global mobile handset industry, 2008 was one of the most difficult years for the Group. The Group achieved sales of 7 million units and recorded total revenue of HK$2,267.3 million.

Since the takeover of the management of *Philips* mobile handset business in 2007, the Group underwent a series of business operational restructuring to redefine and streamline its operations and to transform itself into a complete business solution provider in the mobile handset industry. The overall business reform was basically completed and will set a solid foundation for the future.

In June 2008, the Group took one significant step towards the diversification of its business by acquiring the entire equity interest in CEC Huada Electronic Design Co., Ltd. ("Huada Electronics"). Huada Electronics has a strong presence in the integrated circuits industry and is an industrial leader in the design and research and development of integrated circuits. The technologies and products of Huada Electronics have been widely applied in the areas of social security, electronic payments, telecommunications and consumer electronics. The acquisition provides the Group with a valuable opportunity to enter into the integrated circuits chips design market, which is a high-tech area with better profit margin, and enables the Group to leverage on Huada Electronics' expertise in the integrated circuits industry to enhance its capability in the consumer electronics and telecommunications products sector in the future. Through the acquisition of Huada Electronics, the Group intends to transform itself from a manufacturer of mobile handsets and other portable electronic products to an active player in the industry possessing more comprehensive capability in the upstream of the industry value chain. The PRC government and relevant regulatory authorities are in the course of approving the Company's acquisition of Huada Electronics.

The global information technology industry tends to focus on the advancement and development of their core technologies and businesses. The Group will seize this opportunity 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. The Group will seize the opportunities arising from the business restructuring in the global information technology industry to explore new businesses at the upstream of the industry value chain through merger and acquisition or business cooperation. Our management will continue to create value for the shareholders through careful planning and committed efforts for sustainable growth. Our ultimate objective is to bring the best returns to our shareholders.

2009 will continue to be a difficult year as a result of the global economic downturn. However, we believe that opportunities always come along with crisis. The governments worldwide have co-ordinated their efforts in coping with the economic downturn and the PRC government has also recently passed a massive stimulus program for the ten pillar industries (including IT industries) as one of its initiatives to boost internal demand. All of these will provide the Group with development opportunities. Leveraging on the opportunities to enter into the integrated circuits chips design market and market diversification, together with the Group's high-quality and innovative products and effective cost control measures, the Group is optimistic about its future business growth and is confident that it can overcome all the challenges lie ahead.

Year 2008 was an extraordinary year and made extraordinary demands on many of our staff member, on behalf of the Board, I would like to thank for their contributions and efforts made and to express our most sincere gratitude to our shareholders and business partners for their continued cooperation and support.

Sincerely yours,
Xiong Qunli
Chairman

Hong Kong, 14 April 2009

Management Discussion and Analysis

BUSINESS REVIEW

The environment of the mobile handset market remained tough during the year. Impacted by increasing cost, rapid evolution in products and technologies and plunge in consumer confidence worldwide resulted from the global economic and financial crisis, the operating environment was difficult in the PRC and particularly tough in most other economies around the world. In 2007, the Group took over the management of *Philips* mobile handset business and migrated from an OEM/ODM supplier that simply delivered products to its business partners, to a brand operator and emerging as one of the world's leading mobile handset industry players. Since then, the Group underwent a series of business operational restructuring to redefine and streamline its operations and sales network and to control operational risks. The overall progress of the business reform was however slower than expected. During the year, due to certain delay in product roll-out, new products were mostly launched in the second half of the year when consumer spending has significantly slowed down as a result of the global economic and financial crisis. Under these challenges, the performance of the Group was unsatisfactory.

During the year, the Group primarily focused on the clearance of old models or end-of-life products and the alignment of the *Philips* mobile handset business, which has resulted in a decrease in the sales of own-branded mobile handsets. Such decrease has been offset by the increase in the sales of other OEM mobile handsets and as a result, sales of own-branded and other OEM mobile handsets increased by 50% to 3 million units. However, as the sales of *Philips* mobile handsets has dropped by 43% to 2.1 million units, sales of mobile handsets had in total dropped by 11% to 5.1 million units. As a result of significant slowdown in consumer spending in the second half of the year, sales of portable media players also dropped by 32% to 1.9 million units. The overall sales of mobile handsets and portable media players dropped by 18% to 7 million units. Total revenue for the year dropped by 28% to HK$2,267.3 million. The overall gross profit margin of the Group during the year was 19% (2007:18%).

During the year, the Group incurred selling and marketing costs of HK$325.9 million and administrative expenses of HK$314.8 million, representing an increase of 26% and a decrease of 4% from last year, respectively. The increase in selling and marketing costs reflected the Group's commitment towards investing additional resources in developing the *Philips* mobile handset business. In the second half of 2007, the Group set up new functional units to handle the additional sales and marketing activities for the new business. During the year, tremendous amount of resources were invested by the Group in the sales and distribution functions in both PRC and overseas markets. To pave way for its global sales operation, the Group established two subsidiaries in Russia and Turkey in the second quarter of the year to strengthen its business operation in Europe. The Group also operates a sales co-ordination centre in Singapore to manage its sales activities in Asia and other overseas countries.

Finance costs increased from HK$9.1 million in 2007 to HK$33.6 million in 2008 due to the cost of financing for our operations in PRC, Russia and Turkey. The Group recorded an exchange loss of HK$111.7 million (2007: HK$4.9 million) primarily as a result of the devaluation of Euro, Russian Ruble and New Turkish Lira in the second half of 2008.

For the year ended 31 December 2008, the loss attributable to equity holders of the Company was HK$220 million (2007: profit of HK$8.1 million), and the basic loss per share was HK20.3 cents (2007: earning per share of HK0.75 cents).

The Board does not recommend the payment of a dividend for the year ended 31 December 2008 (2007: nil).

CAPITAL RESOURCES AND LIQUIDITY

The Group finances its operations primarily by internal resources and short term bank borrowings. As at 31 December 2008, the Group had cash and cash equivalent amounted to HK$343.1 million (2007: HK$391.7 million) which were primarily denominated in Hong Kong dollars, Renminbi and United States dollars.

As at 31 December 2008, the Group had short term bank borrowings of HK$450.8 million (2007: HK$394.1 million), which were denominated in Renminbi and United States dollars. Other than bank loans of HK$25.5 million which were pledged with trade receivables of HK$28.4 million, all other bank loans were unsecured (2007: unsecured bank loans of HK$394.1 million). The bank borrowings were borrowed at contracted fixed interest rate. The Group's available banking facilities were HK$456.4 million. As at 31 December 2008, other than the trade receivables of HK$28.4 million, the Group did not have any pledged assets or guarantee (2007: nil).

As at 31 December 2008, the Group had net current assets of HK$171.6 million (2007: HK$497 million). The overall gearing ratio, which is calculated as the total liabilities over total assets of the Group, was 80% (2007: 67%).

The Group's export sales are predominantly invoiced in United States dollars, Russian Ruble and New Turkish Lira 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 and Euro. The Group will make use of hedging contracts, when appropriate, to leverage the risk of foreign exchange fluctuation arising from its operations.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 31 December 2008, the Group had contracted but not provided for capital commitments of HK$2.1 million (2007: HK$2.5 million) for the acquisition of fixed assets and intangible assets. The Group did not have any material contingent liabilities outstanding as at 31 December 2008 (2007: nil).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2008, the Group had approximately 2,200 employees (2007: 2,400 employees), the majority of whom were based in China. Personnel expenses during the year were HK$197 million (2007: HK$173.2 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.

CONNECTED TRANSACTIONS

On 9 April 2008, the Group's principal operating subsidiary, Shenzhen Sang Fei Consumer Communications Company Ltd. ("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.

CONNECTED TRANSACTIONS *(Continued)*

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 ended 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 ended 31 December 2008	**For the year ending 31 December 2009**	**For the year ending 31 December 2010**	**For the four months ending 30 April 2011**
	RMB'000	RMB'000	RMB'000	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 caps for the transactions contemplated under the Sang Da Tenancy Agreement for the nine months ended 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 China Electronics Corporation ("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 ("Listing Rules"). The directors of the Company are of the view that the transactions contemplated under the Sang Da Tenancy Agreement are carried out in the ordinary and usual course of business of the Group and are on normal commercial terms which are fair and reasonable and in the interest of the Company and its shareholders as a whole.

On 20 June 2008, the Company entered into an acquisition agreement (the "China Huada Agreement") with China Huada Integrated Circuit Design (Group) Co., Ltd. ("China Huada"). Pursuant to the China Huada Agreement, the Company agreed to purchase a 64.75% equity interest in Huada Electronics at a consideration of HK$984.2 million (the "China Huada Acquisition"). On the same day, the Company also entered into acquisition agreements with Beijing Shoufa Xinan Data System Technology Company Limited and with eight individuals respectively to acquire all the remaining 35.25% equity interest in Huada Electronics at an aggregate consideration of HK$535.8 million. The aggregate consideration payable by the Company for the acquisition of Huada Electronics of HK$1,520 million shall be satisfied by the Company allotting and issuing an aggregate of 608,000,000 shares of the Company ("Consideration Share"), credited as fully paid, at an issue price of HK$2.50 per Consideration Share.

CONNECTED TRANSACTIONS *(Continued)*

The acquisition of all the equity interest in Huada Electronics constituted a major transaction of the Company. Moreover, as China Huada is owned as to 50% by CEC, China Huada is a connected person of the Company and the entering into the China Huada Agreement also constituted a connected transaction of the Company under the Listing Rules. The acquisition was approved by the independent shareholders of the Company at the special general meeting held on 21 July 2008. The PRC government and relevant regulatory authorities are in the course of approving the Company's acquisition of Huada Electronics.

Huada Electronics has on-going transactions with CEC and its subsidiaries ("CEC Group") in its ordinary and usual course of business. These transactions will, after completion of the China Huada Acquisition, become continuing connected transactions of the Company. In this regard, Huada Electronics and CEC entered into certain continuing connected transactions agreements to regulate the continuing connected transactions between Huada Electronics and the CEC Group.

(1) Huada Business Services Agreement

On 20 June 2008, Huada Electronics entered into a business services agreement (the "Huada Business Services Agreement") with CEC which covers (i) the provision of products processing, testing and assembling services by the CEC Group and the purchase of raw materials and modules from the CEC Group; (ii) the sales of integrated circuit cards and smart cards modules, chips and electronic design automation ("EDA") tools to the CEC Group; and (iii) the provision of canteen services by the CEC Group to Huada Electronics. The Huada Business Services Agreement takes effect from the date of completion of the China Huada Acquisition and will be valid until 31 December 2010. The Huada Business Services Agreement was approved by the independent shareholders of the Company at the special general meeting held on 21 July 2008.

It is expected that for the period commencing from the completion of the China Huada Acquisition until 31 December 2008 and the two financial years ending 31 December 2009 and 2010, the amount of consideration payable by Huada Electronics to the CEC Group for the provision of products processing, testing and assembling services by the CEC Group and the purchase of raw materials and modules from the CEC Group, the amount of consideration receivable by Huada Electronics from the CEC Group for the sales of products and the amount of consideration payable by Huada Electronics to the CEC Group for the provision of canteen services are not expected to exceed the amounts set out in the following table. Accordingly, these amounts were set as the caps for the relevant continuing connected transactions.

CONNECTED TRANSACTIONS *(Continued)*

(1) Huada Business Services Agreement *(Continued)*

Type of transaction	For the period commencing from the completion of the China Huada Acquisition until 31 December 2008	For the year ending 31 December 2009	For the year ending 31 December 2010
	RMB'000	RMB'000	RMB'000
Processing, testing and assembling services and purchase of raw materials and modules			
– Service charges payable by Huada Electronics	284,640	293,310	421,140
Canteen services			
– Service charges payable by Huada Electronics	550	1,120	1,160
Total service charges payable by Huada Electronics	285,190	294,430	422,300
Sales of products			
– Charges receivable by Huada Electronics	19,620	36,000	43,200

(2) Huada Deposit Services Agreement

Huada Electronics and China Electronics Corporation Finance Co., Ltd. ("CEC Finance") entered into a deposit services agreement (the "Huada Deposit Services Agreement") on 20 June 2008. CEC Finance is a subsidiary of CEC and therefore a connected person of the Company. CEC Finance is a non-bank financial institution approved and regulated by the People's Bank of China and China Banking Regulatory Commission. CEC Finance was established for the purpose of enhancing the centralised management of funds among members of the CEC Group and for improving the fund utilisation efficiency of the CEC Group as a whole. As an intra-group service provider, CEC Finance generally has a better and more efficient communication with Huada Electronics which will allow expedient and efficient service provision by CEC Finance.

The Huada Deposit Services Agreement does not create any obligation on the part of Huada Electronics to utilise any particular services of CEC Finance. Other than the fixed deposits which have specified deposit terms, Huada Electronics may at any time withdraw the funds deposited with CEC Finance without incurring any penalty. CEC Finance is one of the financial institutions which provide deposit services to Huada Electronics. Huada Electronics may obtain deposit services available from any other financial institutions in addition to or instead of CEC Finance, as it sees fit.

CONNECTED TRANSACTIONS *(Continued)*

(2) Huada Deposit Services Agreement *(Continued)*

The interest rates for deposit shall be the standard rates promulgated by the People's Bank of China for the same type of deposits. Such interest rates will not be less than the rates offered to Huada Electronics by normal commercial banks in the PRC for comparable deposits. The Huada Deposit Services Agreement takes effect from the date of completion of the China Huada Acquisition and will be valid until 31 December 2010. Upon expiry of the initial term of the Huada Deposit Services Agreement, the agreement may be renewed for further terms of three years automatically unless either party objects by giving a written notice at least one month prior to the expiry of the Huada Deposit Services Agreement.

The Company proposed that for the period commencing from the completion of the China Huada Acquisition until 31 December 2010, the maximum balance of deposits (including the interests accrued thereon) maintained by Huada Electronics with CEC Finance shall not exceed RMB10 million on any given day. In determining the above proposed cap, the Company has taken into account the cashflow position of Huada Electronics and the treasury policy of the Group.

(3) Huada Tenancy Agreement

On 20 June 2008, Huada Electronics and Beijing Huada Zhibao Electronic System Co., Ltd. ("Beijing Huada Zhibao") entered into a tenancy agreement ("Huada Tenancy Agreement") pursuant to which Beijing Huada Zhibao agreed to lease to Huada Electronics the premises which is situated in Gaojiayuan, Beijing, PRC as its research and development centre and general offices. Beijing Huada Zhibao is a subsidiary of CEC and therefore a connected person of the Company. The lease term was for one year commencing from 1 July 2008 and expiring on 30 June 2009 (both days inclusive). Huada Electronics has the right to request for the renewal of the Huada Tenancy Agreement by giving a written notice to Beijing Huada Zhibao three months prior to the expiry of the Huada Tenancy Agreement. Huada Electronics shall have priority over the others to lease the premises.

The aggregate rentals payable by Huada Electronics to Beijing Huada Zhibao under the Huada Tenancy Agreement for the period commencing from the completion of the China Huada Acquisition until 31 December 2008 and for the six months ending 30 June 2009 are not expected to exceed RMB960,000 and RMB1,041,272, respectively. The caps for the transactions contemplated under the Huada Tenancy Agreement for the period commencing from the completion of the China Huada Acquisition until 31 December 2008 and for the six months ending 30 June 2009 were therefore set at such amounts accordingly.

CONNECTED TRANSACTIONS *(Continued)*

On 16 January 2009, CEC Finance proposed to provide financial assistance of RMB60 million to Sang Fei through a factoring agreement (the "Factoring Agreement"), which agreement has not been executed as at the date of this report. The principal terms of the Factoring Agreement are summarised as follows:

Loan amount:	A revolving factoring facility of up to RMB60 million
Factoring ratio:	Prior to each drawdown, Sang Fei is required to assign its account receivables to CEC Finance with recourse at a discount rate of 80%.
Availability period:	A period of one year commencing from the effective date of the Factoring Agreement (being the date on which the conditions precedent to the Factoring Agreement are fulfilled), during which period, Sang Fei may at any time make drawdown by assigning its account receivables which are repayable within the next 12 months to CEC Finance.
Factoring period and interest rate:	The factoring period of any account receivable shall not be longer than 11 months, which period refers to the period commencing from the date on which the account receivable is factored until the agreed settlement date of the account receivable. If the account receivable is not recovered after the expiry of the factoring period, an additional period of a maximum of one month may be allowed for the recovery of the account receivable. If the account receivable or any part of it still remains outstanding after the expiry of the additional period, CEC Finance may request Sang Fei to repurchase the outstanding account receivable. The interest rates applicable to the factoring period, the additional period and the period thereafter are set out below: Factoring period and additional period: the standard rate promulgated by the People's Bank of China from time to time for Renminbi short-term loans for a period of more than three months and up to and including six months. Thereafter: 130% of the standard rate promulgated by the People's Bank of China from time to time for Renminbi short-term loans for a period of more than three months and up to and including six months, or the interest rate payable at the expiry of the additional period, whichever is the higher.

As CEC Finance is a subsidiary of CEC and therefore a connected person of the Company, the Factoring Agreement constitutes a connected transaction of the Company under the Listing Rules. The Factoring agreement was approved by the independent shareholders of the Company at the special general meeting held on 26 February 2009. CEC Finance has commenced credit check on Sang Fei and will execute the Factoring Agreement upon being satisfied with the results of such check.

CONNECTED TRANSACTIONS *(Continued)*

On 16 January 2009, Sang Fei entered into a tenancy agreement ("2009 First Tenancy Agreement") with Sang Da pursuant to which Sang Fei agreed to lease certain factory premises in Shenzhen, PRC from Sang Da for a term of three years.

The aggregate rentals payable by Sang Fei to Sang Da under the 2009 First Tenancy Agreement for each of the three financial years ending 31 December 2009, 2010 and 2011 are not expected to exceed RMB5,292,000 per annum and such amount has been set as the annual cap for the transactions contemplated under the 2009 First Tenancy Agreement for each of the three financial years ending 31 December 2009, 2010 and 2011 accordingly.

On 16 January 2009, Sang Fei entered into another tenancy agreement ("2009 Second Tenancy Agreement") with Sang Da pursuant to which Sang Fei agreed to lease certain factory premises in Shenzhen, PRC from Sang Da for a term of three years.

The aggregate rentals payable by Sang Fei to Sang Da under the 2009 Second Tenancy Agreement for each of the three financial years ending 31 December 2009, 2010 and 2011 are not expected to exceed RMB1,684,800 per annum and such amount has been set as the annual cap for the transactions contemplated under the 2009 Second Tenancy Agreement for each of the three financial years ending 31 December 2009, 2010 and 2011 accordingly.

On 16 January 2009, Sang Fei entered into a third tenancy agreement ("2009 Third Tenancy Agreement") with Sang Da pursuant to which Sang Fei agreed to lease certain staff quarters in Shenzhen, PRC from Sang Da for a term of three years.

The aggregate rentals and management fees payable by Sang Fei to Sang Da under the 2009 Third Tenancy Agreement for each of the three financial years ending 31 December 2009, 2010 and 2011 are not expected to exceed RMB749,000 per annum and such amount has been set as the annual cap for the transactions contemplated thereunder for each of the three financial years ending 31 December 2009, 2010 and 2011 accordingly.

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. As such, Sang Da is a connected person of the Company and the transactions contemplated under the 2009 First Tenancy Agreement, 2009 Second Tenancy Agreement and 2009 Third Tenancy Agreement (collectively the "2009 Tenancy Agreements") constitute continuing connected transactions of the Company under the Listing Rules. The 2009 Tenancy Agreements was approved by the independent shareholders of the Company at the special general meeting held on 26 February 2009.

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 Listing Rules.

The Company has fully complied with the code provisions in the CG Code throughout 2008. 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 leading 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 financial, business, family or other material relationships 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 every three years 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 Board will take into consideration the candidate's skills, knowledge and experience appropriate for the requirements of the Company when considering a nomination. For the nomination and appointment of Mr. Xiong Qunli, these criteria and procedures have been applied. In 2008, one board meeting was held , at which all directors are present, to consider and approve the nomination and appointment of Mr. Xiong Qunli as Chairman of the Board and non-executive director of the Company.

BOARD OF DIRECTORS *(Continued)*

All directors have actively participated in the review and monitoring of the Company's business. A list of directors and their attendance record of the board meetings in 2008 are set out below:

Number of full board meetings held in 2008: 6

Member of the Board	Number of meetings attended
Non-executive directors	
Xiong Qunli *(Chairman) (Note 1)*	5
Chen Zhaoxiong *(Note 2)*	0
Tong Baoan *(Vice Chairman)*	6
Executive directors	
Fan Qingwu *(Managing Director)*	6
Hua Longxing	5
Independent non-executive directors	
Chan Kay Cheung	6
Wong Po Yan	6
Yin Yongli	6

Notes:

(1) Mr. Xiong Qunli was appointed 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 16 and 17 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 2008.

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.

REMUNERATION COMMITTEE *(Continued)*

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 three meetings in 2008 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:

Member of the remuneration committee	Number of meetings attended
Wong Po Yan *(Chairman)*	3
Chan Kay Cheung	3
Yin Yongli	3
Fan Qingwu	3

Details of the remuneration of the directors for the year ended 31 December 2008 and the interest of the directors in share options are set out on pages 79 and 21 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 the 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 2008 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 monitored the progress and results of the audit regularly. 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	2
Yin Yongli*	2

* *certified public accountant*

EXTERNAL AUDITORS

For the year ended 31 December 2008, the fees paid to the Company's external auditors in respect of audit and non-audit services provided to the Company and its subsidiaries is set out below:

	2008 HK$'000
Audit services	2,500
Non-audit services (included tax matters, review and other reporting services)	3,350
	5,850

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 pages 28 to 29 of the annual report. In preparing the financial statements for the year ended 31 December 2008, the directors have selected suitable accounting policies and applied them consistently and have made prudent and reasonable judgements 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, with the assistance of the external auditors, to ensure that a sound system is maintained and operated by the management in compliance with the agreed processes and standards.

Biographies of Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Xiong Qunli, aged 52, is the Chairman of the Company. Mr. Xiong graduated from the Faculty of Electromagnetic Engineering of Northwest Institute of Telecommunication Engineering and holds a postgraduate 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 No. 36 Research Institute 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 61, is the Vice Chairman of the Company. Mr. Tong graduated from Tianjin University in the PRC and is a senior engineer. Mr. Tong is the chairman of Shanghai Hua Hong (Group) Company Limited and an independent director of China Er Zhong Group (De Yang) Heavy Industries Co., Ltd. Mr. Tong was the deputy director of the Department of International Cooperation of the Ministry of Electronics Industry. Mr. Tong was the general manager of Shenzhen Sang Da Electronics Corporation from 1996 to 2001, the vice president of CEC from 2001 to 2005 and a director of CEC from 2005 to 2008. Mr. Tong joined the Company in September 2004.

EXECUTIVE DIRECTORS

Mr. Fan Qingwu, aged 45, is the Managing Director of the Company. Mr. Fan is also a director of Shenzhen Sang Fei Consumer Communications Company Ltd. ("Sang Fei"). Mr. Fan graduated from the Department of Aircraft Engineering of Beijing Institute of Technology and also holds a postgraduate degree in Economics 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 Chief Economist of CEC. Mr. Fan joined the Company in September 2004.

Mr. Hua Longxing, aged 67, is an Executive Director of the Company. 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 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 was also the chairman of Sang Fei from 1996 to 2008. Mr. Hua joined the Company in September 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Kay Cheung, aged 62, 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 85, 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. He is also an independent non-executive director of Shenzhen Investment Limited, Allied Group Limited, FinTronics Holdings Company Limited, Sinopec Kantons Holdings Limited and Alco Holdings Limited. Mr. Wong was appointed director of the Company in May 1997.

Mr. Yin Yongli, aged 69, graduated from Shandong Finance Institute in the PRC. Mr. Yin is a Certified Public Accountant in the PRC and has extensive experience in auditing and financial management. From 2005 to 2008, Mr. Yin was the chairman of Tianhua Certified Public Accountants. He was the chairman of China Rightson Certified Public Accountants and various audit firms in the PRC during the period from 1999 to 2005. Before that, Mr. Yin worked in the petrochemical industry in the PRC for over 35 years. From 1985 to 1999, he held various senior positions in the finance department of Sinopec Corporation. Mr.Yin is also an independent supervisor of Sinopec Shanghai Petrochemical Company Limited and an independent director of China Merchants Energy Shipping Co., Ltd. Mr. Yin was appointed director of the Company in September 2004.

SENIOR MANAGEMENT

Mr. Ng Kui Kwan, aged 47, is the Company Secretary of the Company. Mr. Ng holds a Bachelor of Arts degree in Accounting from the University of Liverpool in England. He is a member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Ng has many years of experience in auditing, finance and administration. Mr. Ng joined the Company in November 2008.

The directors submit their report together with the audited financial statements for the year ended 31 December 2008.

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 2008 (2007: nil).

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 13 to the financial statements.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 14 to the financial statements.

DISTRIBUTABLE RESERVES

The Company had no distributable reserves as at 31 December 2008 as calculated under the law of Bermuda and the Company's bye-laws (2007: HK$155,975,000).

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 94 of the annual report.

SHORT-TERM LOANS

Particular of the short-term loans of the Group are set out in Note 16 to the financial statements.

BORROWING COSTS

No interest was capitalised by the Group during the year (2007: nil).

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 87(1), Messrs. Chan Kay Cheung and Wong Po Yan shall retire by rotation at the annual general meeting and, being eligible, Messrs. Chan Kay Cheung and Wong Po Yan 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 16 to 17 of the annual report.

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

As at 31 December 2008, 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:

Long position in underlying 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	2,280,000	2,280,000	0.21%
Fan Qingwu *(Managing Director)*	Beneficial owner	2,160,000	2,160,000	0.20%
Hua Longxing	Beneficial owner	2,160,000	2,160,000	0.20%

Saved as disclosed above, as at 31 December 2008, 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.

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 share option scheme.

SHARE OPTION SCHEME *(Continued)*

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 2008, 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 1/1/2008**	**Options lapsed**	**Options outstanding as at 31/12/2008**
Directors			
Tong Baoan	3,800,000	(1,520,000)	2,280,000
Fan Qingwu *(Managing Director)*	3,600,000	(1,440,000)	2,160,000
Hua Longxing	3,600,000	(1,440,000)	2,160,000
Sub-total	11,000,000	(4,400,000)	6,600,000
Aggregate of employees and other participants	9,950,000	(5,480,000)	4,470,000
Total	20,950,000	(9,880,000)	11,070,000

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 a 50% of the options stated above, from 1 November 2006 to 31 October 2009; and

(ii) in respect of the remaining 50% of the options stated above, 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 AND CONTINUING CONNECTED TRANSACTIONS

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

Connected transactions

On 20 June 2008, the Company entered into an acquisition agreement (the "China Huada Agreement") with China Huada Integrated Circuit Design (Group) Co., Ltd. ("China Huada"). Pursuant to the China Huada Agreement, the Company agreed to purchase a 64.75% equity interest in CEC Huada Electronic Design Co., Ltd. ("Huada Electronics") at a consideration of HK$984.2 million (the "China Huada Acquisition"). On the same day, the Company also entered into acquisition agreements with Beijing Shoufa Xinan Data System Technology Company Limited and with eight individuals respectively to acquire all the remaining 35.25% equity interest in Huada Electronics at an aggregate consideration of HK$535.8 million. The aggregate consideration payable by the Company for the acquisition of Huada Electronics of HK$1,520 million shall be satisfied by the Company allotting and issuing an aggregate of 608,000,000 shares of the Company ("Consideration Share"), credited as fully paid, at an issue price of HK$2.50 per Consideration Share.

As China Huada is owned as to 50% by CEC, China Huada is a connected person of the Company and the entering into the China Huada Agreement constituted a connected transaction of the Company. The acquisition was approved by the shareholders of the Company at the special general meeting held on 21 July 2008. The PRC government and relevant regulatory authorities are in the course of approving the Company's acquisition of Huada Electronics.

Continuing connected transactions

Type of transaction	Note	Amount HK$'000
Sales of products, samples and raw materials to the CEC Group	i,ii	342,503
Purchases of raw materials from the CEC Group	i,iii	91,929
After sales repair and maintenance services by the CEC Group	i,iv	11,223
Provision of canteen services by the CEC Group	i,v	13,917
Fitment and decoration services from the CEC Group	i,vi	–
Rental arrangements with the CEC Group	vii	13,520
Processing arrangements with the CEC Group	viii	9,136
Licence of trademark from the CEC Group	ix	17,983
Comprehensive services from the CEC Group	x	34,837

Notes:

(i) China Electronics Corporation ("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.

On 21 December 2006, Sang Fei, the Company's operating subsidiary, entered into a supplemental business services agreement (the "Business Services Agreement") with CEC to set out the framework for the ongoing business relationship between the Group and the CEC Group. Pursuant to the Business Services Agreement, the Group supplies products, samples and raw materials to the CEC Group and the CEC Group supplies raw materials and provides after sales repair and maintenance services, canteen services and renovation services to the Group. The Business Services Agreement was approved by the shareholders at the special general meeting held on 26 January 2007, details of which are set out in the circular dated 8 January 2007. The annual caps for the transactions contemplated under the Business Services Agreement (save for the annual cap for the provision of canteen services by the CEC Group) were subsequently revised and such revision of annual caps was approved by the shareholders at the special general meeting held on 14 September 2007, details of which are set out in the circular dated 29 August 2007.

(ii) Members of the CEC Group are major customers of the Group. Sales of products, samples and raw materials to the CEC Group were based on the Business Services Agreement and were carried out on normal commercial terms and with reference to market rates.

(iii) 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 dated 3 March 2006 (details of which were set out in the circular dated 31 March 2006) and were carried out on normal commercial terms and with reference to market rates. The plastic supply agreement was approved by the shareholders at the special general meeting held on 21 April 2006.

(iv) The Group engaged 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 with reference to market rates.

(v) A member of the CEC Group provides canteen services to the 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 service fee. Such service fees were on normal commercial terms and with reference to market rates.

(vi) 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 with reference to market rates.

Continuing connected transactions *(Continued)*

(vii) 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 set out in the circular dated 21 June 2004). Such transactions were approved by the shareholders at the special general meeting held on 14 July 2004. The Group leased additional factory and office premises for its operation from a member of CEC Group pursuant to a tenancy agreement dated 9 April 2008, details of which were set out in the announcement dated 9 April 2008. The abovementioned rental arrangements were carried out on normal commercial terms and with reference to open market rent of comparable properties.

(viii) 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 with reference to market rates. Such transactions were approved by the shareholders at the special general meeting held on 26 January 2007, details of which were set out in the circular dated 8 January 2007.

(ix) 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 with reference to market rates. Such transactions were approved by the shareholders at the special general meeting held on 14 September 2007 and details of which were set out in the circular dated 29 August 2007.

(x) 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 the service charges shall be the actual costs incurred by members of the CEC Group for the provision of such services. Such transactions were approved by the shareholders at the special general meeting held on 14 September 2007 and details of which were set out in the circular dated 29 August 2007.

On 20 September 2007, Sang Fei entered into a deposit services agreement with CEC Finance, a subsidiary of CEC, pursuant to which Sang Fei will utilise the deposit services offered by CEC Finance. The interest rate for Sang Fei's deposits with CEC Finance shall be the standard rates promulgated by the People's Bank of China for the same type of deposits and shall not be less than the rates offered to Sang Fei by normal commercial banks in the PRC for comparable deposits. The maximum balance of deposits (including the interests accrued thereon) maintained by the Group with CEC Finance shall not exceed RMB30 million on any given day and the Company's actual balance of deposits with CEC Finance has not exceeded such amount.

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.

Based on the result of agreed upon procedures performed, the auditors have confirmed that:

- the above transactions had been approved by the board of directors of the Company;
- the selected transactions were in accordance with the pricing policies of the Group;
- the selected transactions were entered into in accordance with the terms of the relevant agreements governing such transactions; and
- the above transactions 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 business of the Group:

Name of director	Name of entity	Principal business of the entity	Nature of director's interest in the entity
Xiong Qunli	CEC *(Note a)*	Investment holdings	Chairman
Tong Baoan *(Note b)*	CEC *(Note a)*	Investment holdings	Director

Notes:

(a) 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, directly or indirectly, with the business of the Group.

(b) Mr. Tong Baoan has ceased to be a director of CEC in April 2008.

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 of the abovementioned competing businesses. The board of the Company exercises 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 business independently of, and at arm's length from, the competing businesses mentioned above.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, 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 shares or underlying shares 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%
China Huada *(Note 2)*	393,680,000	36.33%
CEC *(Notes 1 and 2)*	1,206,180,000	111.32%
SDIC High-Tech Investment Co., Ltd. *(Note 2)*	393,680,000	36.33%
The State Development and Investment Corporation *(Note 2)*	393,680,000	36.33%
Devon Fortune Limited ("Devon Fortune")	71,129,358	6.56%
Chan Chak Shing ("Mr. Chan") *(Note 3)*	75,254,358	6.95%
Wang Qinsheng *(Note 4)*	55,733,840	5.14%

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 law of the PRC, as being the ultimate holding company of the Group.

(2) On 20 June 2008, the Company entered into the China Huada Agreement with China Huada in relation to the acquisition of 64.75% equity interest in Huada Electronics for a consideration of HK$984.2 million which shall be satisfied by the Company allotting and issuing 393,680,000 Consideration Shares at an issue price of HK$2.50 per Consideration Share.

The equity interest of China Huada is contributed as to 50% by CEC and as to 50% by SDIC High-Tech Investment Co., Ltd. SDIC High-Tech Investment Co., Ltd. is a wholly-owned subsidiary of The State Development and Investment Corporation, which is a state-owned investment holding company established under the law of the PRC. By virtue of the SFO, CEC, SDIC High-Tech Investment Co., Ltd. and The State Development and Investment Corporation are deemed to be interested in the 393,680,000 Consideration Shares (to be allotted and issued upon completion of the China Huada Acquisition) which China Huada is interested in.

(3) These 75,254,358 shares represent the aggregate of: (i) the family interest of Mr. Chan of 4,125,000 shares and (ii) the corporate interest of 71,129,358 shares held by Devon Fortune. As Mr. Chan holds 100% interest in Devon Fortune, Mr. Chan is deemed to be interested in the shares held by Devon Fortune.

(4) On 20 June 2008, the Company entered into an acquisition agreement with, among others, Ms. Wang Qinsheng, pursuant to which the Company agreed to purchase from Ms. Wang Qinsheng a 9.1668% equity interest in Huada Electronics for a consideration of HK$139,334,600 which shall be satisfied by the Company allotting and issuing 55,733,840 Consideration Shares at an issue price of HK$2.50 per Consideration Share.

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

Save as disclosed above, as at 31 December 2008, 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

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares and the Company has not redeemed any of its 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 18%
– five largest customers combined 51%

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

Purchases
– the largest supplier 9%
– five largest suppliers combined 30%

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

SUFFICIENCY OF 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.

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 2008 and the audited financial statements of the Group for the year ended 31 December 2008.

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, 14 April 2009

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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 93, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 towards 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.

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 2008 and of the Group's loss 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, 14 April 2009

Consolidated Balance Sheet

As at 31 December 2008

	Note	As at 31 December 2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**47,125**	41,047
Intangible assets	7	**15,686**	16,144
Deferred income tax assets	23(e)	**49,238**	46,691
		112,049	103,882
Current assets			
Inventories	9	**468,287**	444,189
Trade and other receivables	10	**485,760**	877,150
Financial assets at fair value through profit or loss	11	**1,271**	–
Cash and cash equivalents	12	**343,129**	391,741
		1,298,447	1,713,080
Total assets		**1,410,496**	1,816,962
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Issued equity	13	**370,074**	370,074
Other reserves	14	**77,756**	71,807
(Accumulated losses)/Retained earnings		**(185,324)**	29,889
		262,506	471,770
Minority interests in equity		**21,102**	129,066
Total equity		**283,608**	600,836
LIABILITIES			
Current liabilities			
Trade and other payables	15	**633,060**	741,030
Current income tax liabilities		**–**	3,725
Borrowings	16	**450,813**	394,111
Provision for warranty	17	**43,015**	77,260
Total liabilities		**1,126,888**	1,216,126
Total equity and liabilities		**1,410,496**	1,816,962
Net current assets		**171,559**	496,954
Total assets less current liabilities		**283,608**	600,836

The notes on pages 35 to 93 are an integral part of these financial statements.

Xiong Qunli
Director

Fan Qingwu
Director

Balance Sheet

As at 31 December 2008

	Note	As at 31 December 2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**587**	758
Investments in subsidiaries	8	**11,700**	271,700
		12,287	272,458
Current assets			
Trade and other receivables	10	**589**	918
Cash and cash equivalents	12	**215,870**	222,546
		216,459	223,464
Total assets		**228,746**	495,922
EQUITY			
Capital and reserves			
Share capital	13	**335,891**	335,891
Other reserves	14	**68,813**	73,635
(Accumulated losses)/Retained earnings		**(181,486)**	82,340
Total equity		**223,218**	491,866
LIABILITIES			
Current liabilities			
Trade and other payables	15	**5,528**	4,056
Total equity and liabilities		**228,746**	495,922
Net current assets		**210,931**	219,408
Total assets less current liabilities		**223,218**	491,866

The notes on pages 35 to 93 are an integral part of these financial statements.

Xiong Qunli
Director

Fan Qingwu
Director

Consolidated Income Statement

For the year ended 31 December 2008

	Note	Year ended 31 December **2008** **HK$'000**	2007 HK$'000
Revenue	5	**2,267,343**	3,167,708
Cost of sales	19	**(1,827,268)**	(2,608,047)
Gross profit		**440,075**	559,661
Other (losses)/gains – net	18	**(108,461)**	4,751
Selling and marketing costs	19	**(325,926)**	(259,104)
Administrative expenses	19	**(314,776)**	(326,792)
Operating loss		**(309,088)**	(21,484)
Finance income		**9,234**	11,442
Finance costs		**(33,605)**	(9,075)
Finance (costs)/income – net	22	**(24,371)**	2,367
Loss before income tax		**(333,459)**	(19,117)
Income tax credit	23	**–**	31,640
(Loss)/Profit for the year		**(333,459)**	12,523
Attributable to:			
Equity holders of the Company	24	**(220,035)**	8,074
Minority interests		**(113,424)**	4,449
		(333,459)	12,523
(Loss)/Earnings per share for (loss)/profit attributable to the equity holders of the Company during the year			
(expressed in HK cents per share)			
– basic	25	**(20.31)**	0.75
– diluted	25	**(20.31)**	0.74
Dividends	26	**–**	–

The notes on pages 35 to 93 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company					
	Issued equity (Note 13) HK$'000	**Other reserves** (Note 14) HK$'000	**Retained earnings/ (Accumulated losses)** HK$'000	**Total** HK$'000	**Minority interests** HK$'000	**Total equity** HK$'000
Balance at 1 January 2007	370,074	55,137	39,152	464,363	138,775	603,138
Dividends related to 2006	–	–	(17,337)	(17,337)	(21,748)	(39,085)
Share options granted	–	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
Balance at 1 January 2008	370,074	71,807	29,889	471,770	129,066	600,836
Share options lapsed	–	(4,822)	4,822	–	–	–
Currency translation differences	–	10,771	–	10,771	5,460	16,231
Loss for the year	–	–	(220,035)	(220,035)	(113,424)	(333,459)
Balance at 31 December 2008	370,074	77,756	(185,324)	262,506	21,102	283,608

The notes on pages 35 to 93 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	Year ended 31 December 2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Cash used in operations	27	**(38,487)**	(362,808)
Interest paid		**(33,605)**	(8,257)
Income tax paid		**(3,725)**	(4,454)
Net cash used in operating activities		**(75,817)**	(375,519)
Cash flows from investing activities			
Interest received		**9,234**	11,216
Purchase of property, plant and equipment and intangible assets		**(39,149)**	(19,931)
Proceeds on disposal of property, plant and equipment		**418**	1,140
Net cash used in investing activities		**(29,497)**	(7,575)
Cash flows from financing activities			
Dividend paid to the Company's shareholders		**–**	(17,337)
Dividend paid to minority interests		**–**	(21,748)
Proceeds from bank loans		**1,500,905**	1,387,440
Repayment of bank loans borrowed		**(1,444,203)**	(993,329)
Net cash generated from financing activities		**56,702**	355,026
Net decrease in cash and cash equivalents		**(48,612)**	(28,068)
Cash and cash equivalents at beginning of the year		**391,741**	419,809
Cash and cash equivalents at end of the year	12	**343,129**	391,741

The notes on page 35 to 93 are an integral part of these financial statements.

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 Hong Kong dollar (HK$), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 14 April 2009.

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 ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss.

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 consolidated financial statements, are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Going concern basis

The Group incurred losses attributable to the equity holders of the Company of HK$220,035,000 for the year ended 31 December 2008 and had accumulated losses of HK$185,324,000 as at 31 December 2008. Notwithstanding the foregoing, the directors have adopted the going concern basis in the preparation of the consolidated financial statements based on the following:

– In March 2009, the ultimate holding company, China Electronics Corporation ("CEC"), has agreed to provide financial assistance of RMB500,000,000 (equivalent to approximately HK$566,958,000) to Shenzhen Sang Fei Consumer Communications Company Limited ("Sang Fei"), a principal subsidiary of the Group. The financial assistance includes (i) guarantees of RMB400,000,000 granted to Sang Fei for obtaining short-term bank loans and (ii) financing facilities of up to RMB100,000,000 provided by CEC. Up to the date of this report, Sang Fei has utilised the guarantees from CEC to obtain banking facilities of RMB380,000,000 (equivalent to approximately HK$430,888,000) and will utilise the remaining financial assistance of RMB120,000,000 to meet the future working capital and financial requirements of Sang Fei;

– As at 31 December 2008, the Group had bank borrowings of HK$450,813,000 which the Group used to finance its day-to-day working capital requirements. These bank borrowings are due for repayment in 2009. Subsequent to the balance sheet date and up to 31 March 2009, bank borrowings of HK$348,755,000 have already been repaid. With the bank borrowings subsequently obtained and the financial assistance provided by CEC as mentioned in the paragraph above, the directors are of the opinion that the Group will have sufficient working capital to finance its operations and remain as a going concern; and

– Management have implemented stringent cost control measures, as well as new business strategies to improve profitability and cashflows.

In the opinion of the directors, in light of the above, the Group will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Amendments and interpretations effective in 2008

The HKAS 39, "Financial Instruments: Recognition and Measurement", amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, "Financial Instruments: Disclosures", introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's consolidated financial statements, as the Group has not reclassified any financial assets.

HK(IFRIC) – Int 11, "HKFRS 2 – Group and Treasury Share Transactions", 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 any impact on the Group's consolidated financial statements.

(c) Interpretations effective in 2008 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

- HK(IFRIC) – Int 12, "Service Concession Arrangements"
- HK(IFRIC) – Int 14, "HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

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 January 2009 or later periods, but the Group has not early adopted them:

HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009.

HKAS 23 (Revised), "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 (Revised) retrospectively from 1 January 2009 but it is not expected to have any material impact on the Group's consolidated financial statements.

HKAS 27 (Revised), "Consolidated and Separate Financial Statements" (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests (i.e. minority interests) to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively from 1 January 2010 but it is not expected to have any material impact on the Group's consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

HKAS 32 (Amendment), "Financial Instruments: Presentation", and HKAS 1 (Amendment), "Presentation of Financial Statements" – "Puttable Financial Instruments and Obligations Arising on Liquidation" (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the HKAS 32 (Amendment) and HKAS 1(Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's consolidated financial statements.

HKFRS 1 (Amendment), "First-time Adoption of HKFRS" and HKAS 27 "Consolidated and Separate Financial Statements" (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply HKAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements. This amendment is not relevant to the Group.

HKFRS 2 (Amendment), "Share-based Payment" (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have any material impact on the Group's consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

HKFRS 3 (Revised), "Business Combinations" (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

HKFRS 8, "Operating Segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14. 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.

HK(IFRIC) – Int 16, "Hedges of a Net Investment in a Foreign Operation" (effective from 1 October 2008). HK(IFRIC) – Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, "The Effects of Changes in Foreign Exchange Rates", do apply to the hedged item. The Group will apply HK(IFRIC) – Int 16 from 1 January 2009. It is not expected to have any material impact on the Group's consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

HKICPA's improvements to HKFRS published in October 2008:

In October 2008, HKICPA published its annual improvements to HKFRS to clarify some accounting treatments/disclosure requirements under new/revised HKFRS and eliminate inconsistence. Management do not expect these amendments have any material impact on the Group's consolidated financial statements.

– HKAS 1 (Amendment), "Presentation of Financial Statements" (effective from 1 January 2009).

– HKAS 19 (Amendment), "Employee Benefits" (effective from 1 January 2009).

– HKAS 23 (Amendment), "Borrowing Costs" (effective from 1 January 2009).

– HKAS 28 (Amendment), "Investments in Associates" (and consequential amendments to HKAS 32, "Financial Instruments: Presentation" and HKFRS 7, "Financial Instruments: Disclosures") (effective from 1 January 2009).

– HKAS 36 (Amendment), "Impairment of Assets" (effective from 1 January 2009).

– HKAS 38 (Amendment), "Intangible Assets" (effective from 1 January 2009).

– HKAS 39 (Amendment), "Financial Instruments: Recognition and Measurement" (effective from 1 January 2009).

– HKFRS 5 (Amendment), "Non-current Assets Held for Sale and Discontinued Operations" (and consequential amendment to HKFRS 1, "First-time Adoption of HKFRS") (effective from 1 July 2009).

– There are a number of minor amendments to HKFRS 7, "Financial Instruments: Disclosures", HKAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", HKAS 10, "Events after the Balance Sheet Date", HKAS 18, "Revenue" and HKAS 34, "Interim Financial Reporting" which are not addressed above. These amendments are unlikely to have any impact on the Group's consolidated financial statements and have therefore not been analysed in detail.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(e) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

HKAS 39 (Amendment) "Financial Instruments: Recognition and Measurement" – "Eligible Hedged Items" (effective from 1 July 2009).

HK(IFRIC) – Int 13, "Customer Loyalty Programmes" (effective from 1 July 2008).

HK(IFRIC) – Int 15, "Agreements for Construction of Real Estates" (effective from 1 January 2009), supercedes HK Int-3, "Revenue – Pre-completion Contracts for the Sale of Development Properties".

HK(IFRIC) – Int 17 – "Distributions of Non-cash Assets to Owners" (effective from 1 July 2009).

HKICPA's improvements to HKFRS published in October 2008:

– HKAS 16 (Amendment), "Property, Plant and Equipment" (and consequential amendment to HKAS 7, "Cash Flows Statements") (effective from 1 January 2009).

– HKAS 20 (Amendment), "Accounting for Government Grants and Disclosure of Government Assistance" (effective from 1 January 2009).

– HKAS 27 (Amendment), "Consolidated and Separate Financial Statements" (effective from 1 January 2009).

– HKAS 28 (Amendment), "Investments in Associates" (and consequential amendments to HKAS 32, "Financial Instruments: Presentation" and HKFRS 7, "Financial Instruments: Disclosures") (effective from 1 January 2009).

– HKAS 29 (Amendment), "Financial Reporting in Hyperinflationary Economies" (effective from 1 January 2009).

– HKAS 31 (Amendment), "Interests in Joint Ventures" (and consequential amendments to HKAS 32 and HKFRS 7) (effective from 1 January 2009).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(e) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations (Continued)

HKICPA's improvements to HKFRS published in October 2008: *(Continued)*

- HKAS 38 (Amendment), "Intangible Assets" (effective from 1 January 2009).
- HKAS 40 (Amendment), "Investment Property" (and consequential amendments to HKAS 16) (effective from 1 January 2009).
- HKAS 41 (Amendment), "Agriculture" (effective from 1 January 2009).
- The minor amendments to HKAS 20 "Accounting for Government Grants and Disclosure of Government Assistance", HKAS 29, "Financial Reporting in Hyperinflationary Economies", HKAS 40, "Investment Property" and HKAS 41, "Agriculture", which are not addressed above. These amendments will not have any impact on the Group's operations as described above.

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 at 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 consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(a) *Subsidiaries (Continued)*

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements 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.

(b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is equity. Gains or losses on disposals to minority interests are also recorded in equity.

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 the Company's functional and the Group's presentation currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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 consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within "finance income or cost". All other foreign exchange gains and losses are presented in the consolidated income statement within "other (losses)/gains – net".

(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 consolidated 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 consolidated 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimate useful life used for these purposes are 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 within "other (losses)/gains – net", in the consolidated 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Intangible assets *(Continued)*

(a) Goodwill (Continued)

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 consolidated income statement.

(b) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

– it is technically feasible to complete the software product so that it will be available for use;

– management intends to complete the software product and use or sell it;

– there is an ability to use or sell the software product;

– it can be demonstrated how the software product will generate probable future economic benefits;

– adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

– the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed five years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets 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

2.8.1 Classification

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

(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. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet (Notes 2.11 and 2.12).

(c) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Financial assets *(Continued)*

2.8.2 Recognition and measurement

Purchases and sales of financial assets are recognised on the 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 consolidated 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 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 presented in the consolidated income statement within "other (losses)/gains – net", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

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 trade receivables is described in Note 2.11.

2.9 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged. The Group's derivative instruments do not qualify for hedging accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments are recognised immediately in the consolidated income statement within "other (losses)/gains – net".

2.10 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 selling expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 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 consolidated income statement within administrative expenses. When the receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents includes 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. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.13 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.

2.14 Trade payables

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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.

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, 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. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 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.

2.18 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 consolidated income statement on a straight-line basis over the period of the lease.

2.19 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)*

2.20 Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

2.21 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 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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Employee benefits *(Continued)*

(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 is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. 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 consolidated 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.

2.22 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 collectability 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.

2.23 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"), Renminbi ("RMB"), Euro, Russian Ruble ("RUR") and New Turkish Lira ("TRY"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. Nevertheless, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group use forward contracts to hedge anticipated cash flows in major foreign currencies.

At 31 December 2008, if RMB had strengthened/weakened by 5% against US dollar with all other variables held constant, post-tax profit for the year would have been HK$1,600,000 lower/higher (2007: HK$3,678,000 higher/lower), 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 2008, if RMB had strengthened/weakened by 5% against HK dollar with all other variables held constant, post-tax profit for the year would have been HK$3,881,000 higher/lower (2007: HK$5,086,000 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 2008, 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$2,051,000 lower/higher (2007: HK$24,064,000 lower/higher), mainly as a result of foreign exchange gains or losses on translation of Euro denominated trade receivables, cash and cash equivalents and financial liabilities.

At 31 December 2008, if RMB had strengthened/weakened by 5% against RUR with all other variables held constant, post-tax profit for the year would have been HK$5,921,000 lower/higher (2007: nil), mainly as a result of foreign exchange gains or losses on translation of RUR denominated trade receivables, cash and cash equivalents and financial liabilities.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) *Foreign exchange risk* (Continued)

At 31 December 2008, if RMB had strengthened/weakened by 5% against TRY with all other variables held constant, post-tax profit for the year would have been HK$2,007,000 lower/higher (2007: nil), mainly as a result of foreign exchange gains or losses on translation of TRY denominated trade receivables, cash and cash equivalents and financial liabilities.

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

(b) *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 2008 was approximately 0.49% per annum (2007: 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.

(c) *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 2008, 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. Please refer to Note 10 for further disclosure on credit risk.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) 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	**2008** **HK$'000**	2007 HK$'000
Group		
Short term bank loans	**450,813**	394,111
Interest payment on short term bank loans	**10,953**	7,935
Trade and other payables	**633,060**	741,030
Provision for warranty	**43,015**	77,260
Current income tax liabilities	**–**	3,725
	1,137,841	1,224,061
Company		
Trade and other payables	**5,528**	4,056

The directors, having considered the current operation and business plan of the Group as well as the available funding sources, are of the opinion that the Group will have sufficient working capital to enable it to operate as a going concern.

– In March 2009, CEC has agreed to provide financial assistance of RMB500,000,000 (equivalent to approximately HK$566,958,000) in total to the Group (see details in Note 2.1(a)); and

– Management monitors rolling forecasts of the Group's liquidity reserve and cash and cash equivalents on the basis of expected cash flow. The Group has implemented stringent cost controls and will monitor balance sheet liquidity ratios to maintain a safe liquidity to operate as a going concern.

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 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 2008 was 28% (2007: 0.4%). The increase in gearing ratio during 2008 resulted primarily from increased borrowings to finance the Group's operations and decreased equity due to loss incurred for the year. 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 and deferred taxation

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.

Deferred income tax assets are recognised for tax loss carry-forwards based on the estimated recoverable future taxable profits and applicable tax rates. The Group reassessed deferred taxation assets as of 31 December 2008 based on the profit forecast in the next 5 years, and recognised deferred taxation assets of HK$49,238,000.

(c) Share option

The Group operates a share option scheme. The fair value of the options granted during the year (Note 14(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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(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 amounting to HK$3,407,000 for the year ended 31 December 2008 (2007: HK$11,749,000).

(e) Write-down of inventories to net realisable values

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less applicable selling expenses. A considerable amount of estimation is required in assessing the selling price and related expenses.

During the year ended 31 December 2008, write-down of inventories to net realisable values with amount of HK$16,375,000 (2007: HK$27,908,000) has been made. In the opinion of the directors, the write-down is considered to be adequate.

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 products**		**Own-branded and other OEM mobile handsets**		**Multi-media player**		**Total**	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue	**1,305,842**	1,944,582	**472,424**	535,309	**489,077**	687,817	**2,267,343**	3,167,708
Segment results	**(17,614)**	168,719	**(9,968)**	36,400	**7,315**	28,717	**(20,267)**	233,836
Other (losses)/gains – net							**(108,461)**	4,751
Unallocated costs							**(180,360)**	(260,071)
Operating loss							**(309,088)**	(21,484)
Finance (costs)/income – net							**(24,371)**	2,367
Loss before income tax							**(333,459)**	(19,117)
Income tax credit							**–**	31,640
(Loss)/Profit for the year							**(333,459)**	12,523
Segment assets	**466,946**	698,636	**80,901**	56,748	**78,938**	139,481	**626,785**	894,865
Unallocated assets							**783,711**	922,097
Total assets							**1,410,496**	1,816,962
Segment liabilities	**218,414**	227,045	**4,535**	8,243	**8,735**	3,378	**231,684**	238,666
Unallocated liabilities							**895,204**	977,460
Total liabilities							**1,126,888**	1,216,126
Capital expenditures							**39,149**	19,931
Depreciation/ amortisation charge							**36,038**	44,240
Impairment charge							**16,375**	28,174

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 trade payables. 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 following tables present revenue and total assets and capital expenditure information for the Group's geographical segments for the year ended 31 December 2008:

	2008 **HK$'000**	2007 HK$'000
Revenue		
Mainland China	**836,320**	1,243,354
Europe	**489,377**	630,047
Hong Kong	**769,891**	1,041,209
Asia excluding Mainland China and Hong Kong	**97,939**	228,762
North America	**73,816**	24,336
	2,267,343	3,167,708

Revenue is allocated based on the country in which the customer is located.

5. SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments *(Continued)*

	2008	2007
	HK$'000	HK$'000
Total assets		
Mainland China	**1,028,449**	1,656,582
Europe	**272,041**	–
Hong Kong	**110,006**	160,380
	1,410,496	1,816,962

Total assets are allocated based on where the assets are located.

	2008	2007
	HK$'000	HK$'000
Capital expenditures		
Mainland China	**38,823**	19,794
Europe	**313**	–
Hong Kong	**13**	137
	39,149	19,931

Capital expenditures are allocated based on where the assets are located.

6. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements	Plant and machinery	Motor vehicles	Furniture and fixtures	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007					
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
Year ended 31 December 2008					
Opening net book amount	7,997	24,462	1,819	6,769	41,047
Exchange differences	422	1,177	59	350	2,008
Additions	9,133	10,113	616	14,088	33,950
Disposals	(151)	(15)	–	(157)	(323)
Depreciation charge	(5,382)	(17,702)	(773)	(5,700)	(29,557)
Closing net book amount	12,019	18,035	1,721	15,350	47,125
At 31 December 2008					
Cost	37,654	340,668	6,300	51,551	436,173
Accumulated depreciation and impairment	(25,635)	(322,633)	(4,579)	(36,201)	(389,048)
Net book amount	12,019	18,035	1,721	15,350	47,125

6. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group *(Continued)*

Depreciation expense of HK$17,417,000 (2007: HK$29,577,000) has been expensed in cost of sales, HK$660,000 (2007: HK$237,000) in selling and marketing costs and HK$11,480,000 (2007: HK$8,911,000) in administrative expenses.

Lease rental expense amounting to HK$29,531,000 (2007: HK$25,791,000) relating to the lease of property and machinery are included in the income statement.

Company

	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Leasehold improvements HK$'000	Total HK$'000
At 1 January 2007				
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
Year ended 31 December 2008				
Opening net book amount	659	99	–	758
Additions	3	35	220	258
Depreciation charge	(278)	(42)	(109)	(429)
Closing net book amount	384	92	111	587
At 31 December 2008				
Cost	1,310	199	220	1,729
Accumulated depreciation	(926)	(107)	(109)	(1,142)
Net book amount	384	92	111	587

7. INTANGIBLE ASSETS – GROUP

	Computer software HK$'000
At 1 January 2007	
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
Year ended 31 December 2008	
Opening net book amount	16,144
Exchange differences	824
Additions	5,199
Amortisation charge	(6,481)
Closing net book amount	15,686
At 31 December 2008	
Cost	38,417
Accumulated amortisation and impairment	(22,731)
Net book amount	15,686

Amortisation of HK$1,021,000 (2007: HK$1,778,000) has been expensed in cost of sales, HK$45,000 (2007: HK$42,000) in selling and marketing costs and HK$5,415,000 (2007: HK$3,695,000) in administrative expenses.

8. INVESTMENTS IN SUBSIDIARIES – COMPANY

	2008 HK$'000	2007 HK$'000
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
Less: provision for impairment (Note (c))	**(260,000)**	–
	11,700	271,700

(a) The following is a list of the principal subsidiaries as at 31 December 2008.

Name	Place of incorporation and type of legal entity	Place of operation and principal activities	Particulars of issued share capital	Interest held
Directly held:				
Sang Fei (BVI) Co., Ltd	British Virgin Islands ("BVI"), limited company	BVI, investment holding	1 ordinary share of US$1	100%
Indirectly held:				
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%
Sangfei CEC Electronics Rus LLC ("Sangfei Russia") (Note (d))	Russia, limited company	Russia, sales of mobile handsets	Registered capital of US$700,000	65%
Sangfei CEC Elektronik Ticaret Anonim Sirketi ("Sangfei Turkey") (Note (d))	Turkey, limited company	Turkey, sales of mobile handsets	Registered capital of Eur300,000	61%

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

(c) Provision for impairment has been made for investment in Sang Fei with full amount.

(d) During the year, Sangfei Russia and Sangfei Turkey were established by Sang Fei in which Sang Fei owns 100% and 95% equity interests respectively.

9. INVENTORIES – GROUP

	2008 HK$'000	2007 HK$'000
Raw materials	**230,118**	257,504
Work in progress	**52,978**	46,950
Finished goods	**185,191**	139,735
	468,287	444,189

The cost of inventories recognised as expense and included in cost of sales amounted to HK$1,725,375,000 (2007: HK$2,400,076,000).

Write-down of inventories to net realisable value of HK$16,375,000 (2007: HK$27,908,000) has been included in cost of sales during the year.

10. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Trade receivables (Note (a))	**417,753**	755,474	**–**	–
Less: provision for impairment	**(266)**	(266)	**–**	–
Trade receivables – net	**417,487**	755,208	**–**	–
Notes receivables	**13,843**	15,081	**–**	–
Other receivables from related parties	**560**	7,091	**–**	–
Prepayments and deposits	**14,923**	64,526	**490**	428
Value-added tax refundable	**18,753**	14,129	**–**	–
Other receivables	**20,194**	21,115	**99**	490
	485,760	877,150	**589**	918

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. As at 31 December 2008, trade receivables of HK$28,373,000 (2007: nil) have been pledged for bank loans of HK$25,536,000 (Note 16).

10. TRADE AND OTHER RECEIVABLES *(Continued)*

(a) The majority of the Group's sales are on letter of credit or documents against payment. The remaining are with credit term of 30 to 120 days. As at 31 December 2008, the ageing analysis of the Group's gross trade receivables was as follows:

Ageing	**2008** **HK$'000**	2007 HK$'000
Current to 30 days	**338,970**	734,238
31 – 60 days	**51,361**	12,151
Over 60 days and within 1 year	**27,151**	8,324
Over 1 year	**271**	761
	417,753	755,474

Including in the balance were trade and other receivables from related parties of HK$56,879,000 (2007: HK$61,305,000) (Note 30(c)).

(b) The maximum exposure to credit risk at 31 December 2008 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:

	2008 **HK$'000**	2007 HK$'000
At 1 January	**266**	–
Provision for impairment	**–**	266
At 31 December	**266**	266

10. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) *(Continued)*

As at 31 December 2008, trade receivables of HK$146,611,000 (2007: HK$31,063,000) 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 receivables is as follows:

Ageing	**2008** **HK$'000**	2007 HK$'000
Within 30 days	**68,094**	10,093
31 – 60 days	**51,361**	12,151
Over 60 days and within 1 year	**27,151**	8,324
Over 1 year	**5**	495
	146,611	31,063

As at 31 December 2008, trade receivables of HK$266,000 were impaired and fully provided for (2007: HK$266,000).

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

Currency	**2008** **HK$'000**	2007 HK$'000
Renminbi	**106,764**	170,672
HK dollar	**2,786**	918
US dollar	**112,892**	165,208
Euro	**82,208**	540,225
TRY	**44,579**	–
RUR	**131,913**	–
Other currencies	**4,618**	127
	485,760	877,150

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

	2008	2007
	HK$'000	HK$'000
Forward foreign exchange contracts	**1,271**	–

The fair value is based on the amount bid prices in an active market.

12. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**124,935**	163,841	**9,256**	6,105
Short-term bank deposits	**218,194**	227,900	**206,614**	216,441
	343,129	391,741	**215,870**	222,546

The effective interest rate on short-term bank deposits was 0.49% per annum (2007: 1.68%). The maturity days of these deposits ranged from 6 to 61 days (2007: 2 to 18 days).

13. ISSUED EQUITY/SHARE CAPITAL

(a) Issued equity – Group

	Number of shares	Issued equity HK$'000
At 1 January and 31 December 2007	1,083,560,000	370,074
At 1 January and 31 December 2008	**1,083,560,000**	**370,074**

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

(ii) On 10 December 2003, 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.

(b) Share capital – Company

	Number of shares – ordinary share of HK$0.01 each				
	Authorised	Issued and fully paid	Share capital HK$'000	Share premium HK$'000	Total HK$'000
At 1 January and 31 December 2007	30,000,000,000	1,083,560,000	10,836	325,055	335,891
At 1 January and 31 December 2008	**30,000,000,000**	**1,083,560,000**	**10,836**	**325,055**	**335,891**

14. OTHER RESERVES

Group

	Capital reserve (Note (a)) HK$'000	Surplus reserves (Note (b)) HK$'000	Share option reserve (Note (c)) HK$'000	Translation reserve HK$'000	Total HK$'000
At 1 January 2007	(1,806)	33,325	10,226	13,392	55,137
Share options 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
At 1 January 2008	(1,806)	33,325	11,963	28,325	71,807
Share options lapsed	–	–	(4,822)	–	(4,822)
Currency translation differences	–	–	–	10,771	10,771
At 31 December 2008	(1,806)	33,325	7,141	39,096	77,756

(a) Capital reserve

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

(b) Surplus reserves

In accordance with the "Law 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.

14. OTHER RESERVES *(Continued)*

(c) Share option reserve

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 2007 to 31 October 2009 and the remaining 30% are exercisable from 1 November 2008 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:

	2008	2007
At 1 January	**20,950,000**	21,150,000
Lapsed	**(9,880,000)**	(200,000)
At 31 December	**11,070,000**	20,950,000

All share options outstanding as at 31 December 2008 were exercisable.

Share options outstanding as at 31 December 2008 and 2007 have the following expiry date:

	2008	2007
Expiry date – 31 October		
2008	**–**	8,380,000
2009	**5,535,000**	6,285,000
2010	**5,535,000**	6,285,000
	11,070,000	20,950,000

During the year ended 31 December 2008, 9,880,000 options lapsed and an amount of HK$4,822,000 was transferred from share option reserve to retained earnings (2007: expense of HK$1,737,000 was recognised for share options granted).

14. OTHER RESERVES *(Continued)*

Company

	Contributed surplus HK$'000	Share option reserve HK$'000	Total HK$'000
At 1 January 2007	61,672	10,226	71,898
Share options granted	–	1,737	1,737
At 31 December 2007	61,672	11,963	73,635
At 1 January 2008	61,672	11,963	73,635
Share options lapsed	–	(4,822)	(4,822)
At 31 December 2008	61,672	7,141	68,813

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**316,536**	381,597	**–**	–
Other payables from related parties (Note 30(c))	**4,086**	1,332	**–**	–
Accrued expenses	**131,896**	192,149	**5,521**	4,040
Advance from customers	**71,009**	65,197	**–**	–
Other payables	**109,533**	100,755	**7**	16
	633,060	741,030	**5,528**	4,056

As at 31 December 2008, the ageing analysis of the Group's trade payables was as follows:

	2008 **HK$'000**	2007 HK$'000
Current to 30 days	**299,448**	367,655
31 – 60 days	**8,788**	474
Over 60 days	**8,300**	13,468
	316,536	381,597

Included in the balance of trade and other payables to related parties amounted to HK$38,725,000 (2007: HK$17,834,000) (Note 30(c)).

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

16. SHORT TERM BANK LOANS – GROUP

	2008	2007
	HK$'000	HK$'000
Unsecured	**425,277**	394,111
Secured	**25,536**	–
	450,813	394,111

Secured bank loans of HK$25,536,000 was pledged with trade receivables of HK$28,373,000 (Note 10). The bank loans as at 31 December 2008 were repayable within one year and bear interest at the average borrowing rate of 6.21% per annum(2007:6.19%).

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

	2008	2007
	HK$'000	HK$'000
Renminbi	**425,277**	354,839
US dollar	**25,536**	39,272
	450,813	394,111

The Group has undrawn borrowing facilities of approximately HK$5,616,000 as at 31 December 2008 (2007: HK$466,104,000). Such undrawn facilities are at floating rate and expiring within one year which are subject to review within the next three months.

17. 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 2008, the Group had provided for expected warranty claims on own mobile products and certain ODM/OEM products based on past experience of the level of repairs and returns.

	2008	2007
	HK$'000	HK$'000
At 1 January	**77,260**	12,634
Charged for the year (Note (a))	**34,065**	64,437
Provision related to OEM products (Note (b))	**–**	53,055
Less: utilised during the year	**(68,310)**	(52,866)
At 31 December	**43,015**	77,260

(a) Provision for warranty of HK$34,065,000 (2007: HK$64,437,000) 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. In this respect, Philips Group reimbursed nearly the same amount to the Group.

18. OTHER (LOSSES)/GAINS – NET

	2008	2007
	HK$'000	HK$'000
Foreign exchange loss – net	**(111,680)**	(4,948)
Sales of samples and materials	**1,487**	1,633
Fair value gain from foreign exchange forward contracts	**1,271**	–
Written off of payables	**–**	7,504
Others	**461**	562
	(108,461)	4,751

19. EXPENSES BY NATURE

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

	2008 **HK$'000**	2007 HK$'000
Depreciation and amortisation expenses (Notes 6 and 7)	**36,038**	44,240
Employee benefit expenses (Note 20)	**196,993**	173,221
Changes in inventories of finished goods and work in progress	**55,618**	(91,023)
Raw materials and consumables used	**1,669,757**	2,491,099
Impairment provision for receivables	**–**	266
Write-down of inventories to net realisable value (Note 9)	**16,375**	27,908
Provision for warranty (Note 17)	**34,065**	64,437
Operating lease expenses on property and machinery	**29,531**	25,791
Research and development costs	**82,414**	49,071
Auditor's remuneration	**2,500**	1,890

20. EMPLOYEE BENEFIT EXPENSES

	2008 **HK$'000**	2007 HK$'000
Salaries, allowances and benefits in kind	**183,974**	156,359
Contributions to retirement schemes (Notes (a) and (b))	**13,019**	15,125
Share based compensation (Note 14(c))	**–**	1,737
	196,993	173,221

(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 and are expensed as incurred.

(b) The principal subsidiary, Sang Fei, participates in a defined contribution retirement scheme based on laws and regulations 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% (2007: 8%) of the salaries of employees in the PRC.

21. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the year ended 31 December 2008 is set out below:

Name of Director	Fees HK$'000	Salaries, allowance and benefits in kind HK$'000	Employer's contribution to pension scheme HK$'000	Share-based compensation HK$'000	Total HK$'000
Mr. Xiong Qunli	**624**	**–**	**–**	**–**	**624**
Mr. Chen Zhaoxiong*	**–**	**–**	**–**	**–**	**–**
Mr. Tong Baoan	**550**	**–**	**–**	**–**	**550**
Mr. Fan Qingwu	**–**	**521**	**60**	**–**	**581**
Mr. Hua Longxing	**–**	**483**	**–**	**–**	**483**
Mr. Chan Kay Cheung	**200**	**–**	**–**	**–**	**200**
Mr. Wong Po Yan	**200**	**–**	**–**	**–**	**200**
Mr. Yin Yongli	**200**	**–**	**–**	**–**	**200**
	1,774	**1,004**	**60**	**–**	**2,838**

During the year, no director has waived emolument or has agreed to waive the directors' emolument (2007: nil).

* Resigned on 14 January 2008.

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

Name of Director	Fees HK$'000	Salaries, allowance and benefits in kind HK$'000	Employer's contribution to pension scheme HK$'000	Share-based compensation HK$'000	Total HK$'000
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

21. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The emoluments payable to the five individuals whose emoluments were the highest in the Group during the year are as follows:

	2008 HK$'000	2007 HK$'000
Salaries, allowances and benefits in kind	**9,678**	12,434
Bonuses	**1,162**	2,192
Contributions to retirement schemes	**204**	460
Share-based compensation (Note 14(c))	**–**	109
	11,044	15,195

(c) The emoluments fell within the following band:

	Number of individuals 2008	2007
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	**2**	–
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	5

22. FINANCE (COSTS)/INCOME – NET

	2008 HK$'000	2007 HK$'000
Interest income on short-term deposits	**9,234**	11,442
Interest on bank loans	**(33,605)**	(9,075)
Finance (costs)/income-net	**(24,371)**	2,367

23. TAXATION

(a) Income tax credit

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

	2008	2007
	HK$'000	HK$'000
Current taxation – PRC enterprise income tax	**–**	6,135
Deferred taxation	**–**	(37,775)
	–	(31,640)

(b) No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2007: 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 before 2008 was 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. Such 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% for the year ended 31 December 2007. Such tax reduction ended at 31 December 2007.

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. Accordingly, the applicable tax rate for the year ended 31 December 2008 was 18%.

No provision for PRC enterprise income tax has been made as the Group has no assessable tax profit for the year ended 31 December 2008.

23. TAXATION *(Continued)*

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

	2008	2007
	HK$'000	HK$'000
Loss before income tax	**(333,459)**	(19,117)
Calculated at a taxation rate of 18% (2007: 15%)	**(60,023)**	(2,868)
Effect of tax concession	**–**	(406)
Expenses not deductible for taxation purposes	**333**	136
Tax losses for which no deferred income tax asset was recognised (Note (e))	**75,684**	266
Effect on change of tax rates	**(15,994)**	(28,768)
Income tax credit	**–**	(31,640)

(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**	**Tax losses**	**Others**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007	2,534	4,717	948	–	717	8,916
(Charged)/credited 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
At 1 January 2008	11,562	13,031	22,098	–	–	46,691
Exchange differences	524	590	1,433	–	–	2,547
(Charged)/credited to the income statement	(12,086)	(13,621)	(23,531)	49,238	–	–
At 31 December 2008	–	–	–	49,238	–	49,238

23. TAXATION *(Continued)*

(e) Deferred taxation *(Continued)*

The amounts shown in the balance sheet include the following:

	2008	2007
	HK$'000	HK$'000
Deferred tax assets to be recovered after more than 12 months	**49,238**	10,879
Deferred tax assets to be recovered within 12 months	**–**	35,812
	49,238	46,691

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$79,934,000 (2007: HK$4,250,000) in respect of losses amounted to HK$418,892,000 (2007: HK$23,210,000) that can be carried forward against future taxable income.

24. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of the HK$268,648,000 (2007: profit of HK$40,985,000).

25. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of the basic (loss)/earnings per share is based on the Group's loss attributable to equity holders of the Company for the year ended 31 December 2008 of HK$220,035,000 (2007: profit of HK$8,074,000) and the 1,083,560,000 (2007: 1,083,560,000) ordinary shares in issue during the year.

(b) Diluted (loss)/earnings per share

As the impact of exercise of share option was anti-dilutive as at 31 December 2008, the diluted loss per share is equal to the basic loss per share. (2007: Diluted earnings per share was calculated by adjusting the number of 1,083,560,000 ordinary shares by adding 6,405,096 ordinary shares to assume conversion of all dilutive potential ordinary shares granted).

26. DIVIDENDS

The Board does not recommend the payment of a dividend for the year ended 31 December 2008 (2007: nil).

27. CASH USED IN OPERATIONS

	2008 HK$'000	2007 HK$'000
Loss before income tax	**(333,459)**	(19,117)
Adjustment for:		
Depreciation of owned property, plant and equipment	**29,557**	38,725
Amortisation of intangible assets	**6,481**	5,515
Gain on disposal of property, plant and equipment	**(95)**	(337)
Interest income	**(9,234)**	(11,442)
Interest expense	**33,605**	9,075
Share-based compensation	**–**	1,737
	(273,145)	24,156
Changes in working capital		
Inventories	**(24,098)**	(108,387)
Trade and other receivables	**402,242**	(365,589)
Financial assets at fair value through profit or loss	**(1,271)**	–
Trade and other payables	**(107,970)**	22,386
Provision for warranty	**(34,245)**	64,626
Cash used in operations	**(38,487)**	(362,808)

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

	2008 HK$'000	2007 HK$'000
Net book value (Note 6)	**323**	803
Gain on disposal of property, plant and equipment	**95**	337
Cash proceeds from disposal of property, plant and equipment	**418**	1,140

28. COMMITMENTS

(a) Capital commitments – Group

As at 31 December 2008, the Group's capital commitments which were contracted but not provided for were as follows:

	2008	2007
	HK$'000	HK$'000
Purchase of property, plant and equipment and computer software	**2,094**	2,502

(b) Operating lease commitments

As at 31 December 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases for factories and office premises as follows:

	Group		**Company**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Not later than one year	**31,913**	30,612	**359**	343
In the second to fifth years	**32,207**	21,901	**30**	344
	64,120	52,513	**389**	687

29. CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities outstanding as at 31 December 2008 (2007: nil).

30. RELATED-PARTY TRANSACTIONS AND BALANCES

In addition to those transactions and balances disclosed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

The Group entered into transactions with companies under common control of CEC, the ultimate holding company of the Company. These companies are denoted by * below.

During the year ended 31 December 2007, the Group also entered into transactions with companies under common control of 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 before 31 March 2007. These companies are denoted by # below. 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 CEC 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 2008 and 2007 are not disclosed as related party transactions and balances.

(a) Sales of products, samples and materials

Sales of products:		**2008** **HK$'000**	2007 HK$'000
Philips (China) Investment Co., Ltd	#	**–**	207,345
Philips Electronics Singapore Pte. Ltd	#	**–**	171,609
Philips Electronics Hong Kong Ltd	#	**–**	67,253
Shenzhen SED Coalition Electronics Co., Ltd	*	**193,778**	330,310
Philips Consumer Electronics B.V.	#	**–**	156
Shenzhen SED Electronics Sales Corporation	*	**6,130**	8,136
Shenzhen SED Electronics Group Company Ltd	*	**–**	51
Shanghai SED ARC Co., Ltd	*	**–**	8
China Electronic Appliance Corporation	*	**139,901**	78,033
Shenzhen Sang Da Baili Electronics Co., Ltd	*	**889**	–
Shenzhen SED Industry Co., Ltd	*	**1,031**	–
Shenzhen SED Wireless Communication Technology Co., Ltd	*	**574**	–

30. RELATED-PARTY TRANSACTIONS AND BALANCES *(Continued)*

(a) Sales of products, samples and materials *(Continued)*

Sales of samples and materials:		**2008** **HK$'000**	2007 HK$'000
Philips Consumer Electronics B.V.	#	**–**	336
Philips (China) Investment Co., Ltd	#	**–**	311
Philips Electronics Singapore Pte Ltd	#	**–**	660
Philips Electronics Hong Kong Ltd	#	**–**	81
Shenzhen SED Coalition Electronics Co., Ltd	*	**–**	40
Shenzhen Sang Da Baili Electronics Co., Ltd	*	**–**	1,822
Shenzhen SED Electronics Sales Corporation	*	**106**	64
Shanghai SED ARC Co., Ltd	*	**45**	–
P-Marshall Singapore Pte. Ltd	*	**24**	–
Shenzhen SED Wireless Communication Technology Co., Ltd	*	**25**	–
Sales of maintenance services:			
Philips (China) Investment Co., Ltd	#	**–**	3,158

Members of CEC and its group companies (the "CEC Group") are the major customers of the Group. Sales to CEC Group were carried out on normal commercial terms and with reference to market rates.

30. RELATED-PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Other transactions

		2008 HK$'000	2007 HK$'000
Purchase of goods:	(i)		
Philips Electronics Hong Kong Ltd	#	–	288
Philips (China) Investment Co., Ltd	#	–	559
Shenzhen SED Electronics Sales Corporation	*	687	867
Shenzhen Sang Da Baili Electronics Co., Ltd	*	69,691	75,726
SED (Hong Kong) Company Limited	*	21,514	44,178
Shenzhen SED Fitment & Decoration Co., Ltd	*	37	–
Processing services:	(ii)		
Shenzhen Sang Da Baili Electronics Co., Ltd	*	5,743	6,532
Shenzhen SED Industry Co., Ltd	*	3,393	4,379
Fitment and decoration services:	(iii)		
Shenzhen SED Fitment & Decoration Co., Ltd	*	–	221
Canteen services:	(iv)		
Shenzhen Sang Da Baili Electronics Co., Ltd	*	13,917	11,899
Repair and maintenance services:	(v)		
Shenzhen SED Coalition Electronics Co., Ltd	*	–	26
Shanghai SED ARC Co., Ltd	*	3,354	1,321
Shenzhen SED ARC Co., Ltd	*	7,869	11,088
Rental:	(vi)		
Shenzhen SED Industry Co., Ltd	*	13,520	8,018
China Great Wall Computer Shenzhen Co., Ltd	*	–	1,762
Great Wall Technology Company Limited	*	–	1,250
Licence fee:	(vii)		
Shenzhen SED Electronics Group Co., Ltd	*	17,983	14,063
Comprehensive services:	(viii)		
P-Marshall Hong Kong Ltd.	*	17,860	26,910
P-Marshall Singapore Pte. Ltd.	*	16,977	13,149

30. RELATED-PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Other transactions *(Continued)*

(i) 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 on normal commercial terms and with reference to market rates.

(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 normal commercial terms and with reference to market rates.

(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 on normal commercial terms and with reference to market rates.

(iv) A member of the CEC Group 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 service fee, such service fees were carried out on normal commercial terms and with reference to market rates.

(v) The Group engaged members of the CEC Group to provide for after sales product repair and maintenance services in respect of its products. The repair and maintenance services were carried out on normal commercial terms and with reference to market rates.

(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 carried out on normal commercial terms and with reference to market rates.

(vii) Members of the CEC Group license 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 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. The service charges shall be the actual costs incurred by members of CEC Group for the provision of such services.

30. RELATED-PARTY TRANSACTIONS AND BALANCES *(Continued)*

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

		2008 HK$'000	2007 HK$'000
Trade receivables due from related parties:			
Shenzhen SED Coalition Electronics Co., Ltd	*	**22,783**	5,503
Shenzhen SED Electronics Sales Corporation	*	**321**	737
Shenzhen Sang Da Baili Electronics Co., Ltd	*	**–**	695
China Electronic Appliance Corporation	*	**27,699**	24,483
Shenzhen SED Industry Co., Ltd	*	**908**	–
		51,711	31,418
Other receivables due from related parties:			
Shenzhen SED Coalition Electronics Co., Ltd	*	**–**	23
Shenzhen SED Electronics Sales Corporation	*	**16**	16
Shenzhen SED International Electronic Device Co., Ltd	*	**129**	141
Shenzhen SED Electronics Group Company Limited	*	**–**	6,667
Shenzhen Sang Da Baili Electronics Co., Ltd	*	**415**	244
		560	7,091
Prepayments:			
Shenzhen Sang Da Baili Electronics Co., Ltd	*	**–**	15,411
SED (Hong Kong) Company Limited	*	**–**	7,385
P-Marshall Hong Kong Ltd	*	**2,055**	–
P-Marshall Singapore Pte. Ltd	*	**2,553**	–
		4,608	22,796
Trade and other receivables due from related parties in total (Note 10)		**56,879**	61,305

30. RELATED-PARTY TRANSACTIONS AND BALANCES *(Continued)*

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

		2008 HK$'000	2007 HK$'000
Trade payables due to related parties:			
Shenzhen SED Electronics Sales Corporation	*	–	150
SED (Hong Kong) Company Limited	*	4,399	2,283
Shenzhen Sang Da Baili Electronics Co., Ltd	*	4,686	11
Shenzhen SED Industry Co., Ltd	*	557	–
		9,642	2,444
Other payables due to related parties:			
Shenzhen Sang Da Baili Electronics Co., Ltd	*	448	461
Shenzhen SED ARC Co., Ltd	*	415	864
Shanghai SED ARC Co., Ltd	*	–	7
Shenzhen SED Industry Co., Ltd	*	18	–
P-Marshall Singapore Pte. Ltd	*	3,205	–
		4,086	1,332
Advance from customers:			
China Electronic Appliance Corporation	*	11,339	10,753
Shenzhen SED Electronics Group Company Ltd	*	–	261
Shenzhen SED Electronics Sales Corporation	*	227	2,158
Shanghai SED ARC Co., Ltd	*	158	102
Shenzhen SED Coalition Electronics Co., Ltd	*	11,991	784
Shenzhen SED ARC Co., Ltd	*	6	–
Shenzhen SED Wireless Communication Technology Co.,Ltd	*	1,198	–
P-Marshall Singapore Pte. Ltd	*	78	–
		24,997	14,058
Trade and other payables due to related parties in total (Note 15)		38,725	17,834

30. 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", 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

	2008 **HK$'000**	2007 HK$'000
Sales of products and materials	**448,419**	428,418
Purchase of materials	**23,651**	24,431
Interest income from state-owned banks	**8,840**	9,955
Interest expenses to state-owned banks	**33,605**	9,075

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

	2008 **HK$'000**	2007 HK$'000
Trade receivables	**13,843**	13,383
Trade and other payables	**3,127**	170
Bank deposits in state-owned banks	**322,129**	311,477
Bank borrowings from state-owned banks	**450,813**	394,111

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

31. ACQUISITION OF CEC HUADA ELECTRONIC DESIGN CO., LTD.

Pursuant to agreements entered into with the shareholders of CEC Huada Electronic Design Co., Ltd. ("Huada Electronics") on 20 June 2008, the Company has conditionally agreed to purchase the entire equity interest in Huada Electronics by issuing an aggregate of 608,000,000 new shares at the price of HK$2.50 for settlement of the consideration for the acquisition. After completion of the acquisition, Huada Electronics will be converted into a wholly foreign-owned enterprise and will become a wholly-owned subsidiary of the Company and the financial statements of Huada Electronics will be consolidated into those of the Group.

The acquisition of Huada Electronics has been approved by the shareholders of the Company on 21 July 2008. Up to the date of this report, the acquisition has not yet been completed.

32. EVENTS AFTER THE BALANCE SHEET DATE

In March 2009, CEC has agreed to provide financial assistance of RMB500,000,000 (equivalent to approximately HK$566,958,000) in total to the Group. The financial assistance includes (i) guarantees of RMB400,000,000 granted to the Group for obtaining short-term bank loans and (ii) financing facilities of up to RMB100,000,000 provided by CEC. Up to the date of this report, the Group has utilised the guarantees from CEC to obtain banking facilities of RMB380,000,000 (equivalent to approximately HK$430,888,000).

Financial Summary

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

RESULTS

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**2,267,343**	3,167,708	3,549,329	4,768,526	4,590,123
(Loss)/profit before income tax	**(333,459)**	(19,117)	71,517	89,946	14,959
Income tax credit/(expenses)	**–**	31,640	(2,358)	(5,598)	(8,518)
(Loss)/profit for the year	**(333,459)**	12,523	69,159	84,348	6,441
Attributable to :					
Equity holders of the Company	**(220,035)**	8,074	43,276	49,899	(19,263)
Minority interests	**(113,424)**	4,449	25,883	34,449	25,704
	(333,459)	12,523	69,159	84,348	6,441

ASSETS AND LIABILITIES

	As at 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,410,496**	1,816,962	1,335,642	1,936,037	1,660,344
Total liabilities	**(1,126,888)**	(1,216,126)	(732,504)	(1,367,642)	(1,166,219)
Minority interests	**(21,102)**	(129,066)	(138,775)	(138,379)	(124,884)
	262,506	471,770	464,363	430,016	369,241