CHIINA ELECTRONICS

CHINA ELECTRONICS CORPORATION HOLDINGS COMPANY LIMITED

中國電子集團控股有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 0085)

2007 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the "Board") of China Electronics Corporation Holdings Company Limited (the "Company") is pleased to present the unaudited interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2007.

Condensed Consolidated Interim Income Statement

for the six months ended 30 June 2007

(All amounts expressed in HK dollar thousands unless otherwise stated)

	Unaudited six months ended 30 June	
	2007	*2006*
Sales	**1,313,382**	1,895,669
Cost of goods sold	**(1,145,520)**	(1,764,989)
Gross profit	**167,862**	130,680
Other gain – net	**7,000**	3,001
Selling and marketing costs	**(46,771)**	(26,779)
Administrative expenses	**(108,637)**	(62,491)
Operating profit	**19,454**	44,411
Finance income / (costs) - net	**3,620**	(1,446)
Profit before income tax	**23,074**	42,965
Income tax credit / (expense)	**4,180**	(2,509)
Profit for the period	**27,254**	40,456
Attributable to:		
- Equity holders of the Company	**16,988**	24,421
- Minority interests	**10,266**	16,035
	27,254	40,456
Earnings per share for profit attributable to the equity holders of the Company during the six months ended 30 June		
- Basic and diluted	**HK cents 1.57**	HK cents 2.25
Dividends	**N/A**	N/A

Condensed Consolidated Interim Balance Sheet
as at 30 June 2007
(All amounts expressed in HK dollar thousands unless otherwise stated)

	30 June 2007 (Unaudited)	*31 December 2006 (Audited)*
ASSETS		
Non-current assets		
Property, plant and equipment	**46,537**	61,685
Intangible assets	**14,909**	16,251
Deferred income tax assets	**14,982**	8,916
Total non-current assets	**76,428**	86,852
Current assets		
Inventories	**468,714**	335,802
Trade and other receivables	**508,391**	493,179
Cash and cash equivalents	**392,628**	419,809
Total current assets	**1,369,733**	1,248,790
Total assets	**1,446,161**	1,335,642
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Issued equity	**370,074**	370,074
Other reserves	**54,793**	55,137
Retained earnings		
- Proposed dividend	**-**	17,337
- Unappropriated retained earnings	**38,803**	21,815
	463,670	464,363
Minority interests	**126,642**	138,775
Total equity	**590,312**	603,138
LIABILITIES		
Current liabilities		
Trade and other payables	**718,512**	717,826
Current income tax liabilities	**819**	2,044
Short term bank loans	**120,000**	-
Provision for warranty	**16,518**	12,634
Total liabilities	**855,849**	732,504
Total equity and liabilities	**1,446,161**	1,335,642
Net current assets	**513,884**	516,286
Total assets less current liabilities	**590,312**	603,138

1. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2007 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

2. Accounting policies

The accounting policies adopted in this interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2006 as described in the 2006 annual report of the Company.

The following new standards, amendments to standards and interpretations of Hong Kong Financial Reporting Standards are mandatory for financial year ending 31 December 2007:

- HKAS 1 Amendment: 'Capital Disclosures';
- HKFRS 7: 'Financial Instruments-Disclosures';
- HK(IFRIC)-Int 7: 'Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies';
- HK(IFRIC)-Int 8: 'Scope of HKFRS 2, Share-based Payment';
- HK(IFRIC)-Int 9: 'Reassessment of Embedded Derivatives'; and
- HK(IFRIC)-Int 10: 'Interim Financial Reporting and Impairment'.

The Group has assessed the impact of the adoption of these new standard, amendment and interpretations and considered that there was no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies, whereas the adoption of HKAS 1 (Amendment) and HKFRS 7 requires additional disclosures to be made in annual consolidated financial statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007:

- HKFRS 8: 'Operating Segments', applicable for annual periods beginning on or after 1 January 2009;
- HK(IFRIC)-Int 11: 'HKFRS 2 – Group and Treasury Share Transactions', applicable for annual periods beginning on or after 1 March 2007;
- HK(IFRIC)-Int 12: 'Service Concession Arrangements', applicable for annual periods beginning on or after 1 January 2008; and
- HKAS 23 Revised: 'Borrowing costs', applicable for annual periods beginning on or after 1 January 2009.

The Group has not early adopted any of the above standards or interpretations. Management is in the process of making an assessment of their impact and is not yet in a position to state what impact they would have on the Group's results of operations and financial position.

3. Segment information

(a) Primary reporting format – business segment

The Group is principally engaged in manufacturing and sales of portable electronics products.

	"Philips" Original Equipment Manufacturer ("OEM") products		Own branded and other Original Design Manufacturer products		OEM of other products and other operations		Total	
	Unaudited six months ended 30 June		*Unaudited six months ended 30 June*		*Unaudited six months ended 30 June*		*Unaudited six months ended 30 June*	
	2007	*2006*	***2007***	*2006*	***2007***	*2006*	***2007***	*2006*
Sales	**808,032**	1,135,349	**402,452**	741,477	**102,898**	18,843	**1,313,382**	1,895,669
Segment results	**119,293**	50,494	**35,613**	79,785	**12,956**	401	**167,862**	130,680
Other gains - net							**7,000**	3,001
Unallocated costs							**(155,408)**	(89,270)
Operating profit							**19,454**	44,411
Finance income / (costs) - net							**3,620**	(1,446)
Profit before income tax							**23,074**	42,965
Income tax credit / (expense)							**4,180**	(2,509)
Profit for the period							**27,254**	40,456

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

(b) Secondary reporting format – geographical segment

The Group's three business segments operate in four main geographical areas – Mainland China, Hong Kong, Asia excluding Mainland China and Hong Kong and Europe. The segment sales are allocated based on the places in which customers are located.

	Unaudited Six months ended 30 June	
	2007	*2006*
Sales		
Mainland China	**547,378**	997,458
Hong Kong	**435,849**	463,167
Asia excluding Mainland China and Hong Kong	**188,829**	427,630
Europe	**141,326**	7,414
	1,313,382	1,895,669

4. Expenses by nature

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

	Unaudited	
	Six months ended 30 June	
	2007	*2006*
Employee benefits expenses	**74,802**	74,127
Changes in inventories of finished goods and work in progress	**(108,633)**	29,310
Raw material and consumables used	**1,185,410**	1,625,396
Depreciation of property, plant and equipment	**22,318**	22,632
Amortisation of intangible assets	**2,611**	1,935
Written down of inventories to net realisable value	**931**	2,404
Provision for warranty	**17,791**	14,344
Operating lease expenses of buildings and equipment	**11,809**	8,108
Research and development costs	**19,721**	3,355
Directors' remuneration	**714**	995
Auditor's remuneration	**611**	490

5. Finance income / (costs) - net

	Unaudited	
	Six months ended 30 June	
	2007	*2006*
Interest income	**5,633**	2,842
Interest expenses on bank loans	**(2,013)**	(4,288)
	3,620	(1,446)

6. Income tax credit / (expense)

	Unaudited	
	Six months ended 30 June	
	2007	*2006*
Current taxation – PRC enterprise income tax *(Note (b))*	**(1,886)**	(4,680)
Deferred income tax *(Note (c))*	**6,066**	2,171
	4,180	(2,509)

(a) No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the six months ended 30 June 2007 (30 June 2006: Nil).

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

Sang Fei was certified as a high-tech enterprise from 2002 and as approved by the tax authorities in 2004, Sang Fei is entitled to 50% tax reduction from enterprise income tax for further three years starting from 2005. Consequently, enterprise income tax have been provided at the rate of 7.5% for the six months ended 30 June 2007 (30 June 2006: 7.5%). Such tax reduction will end at 31 December 2007.

(c) Deferred taxation was recognised for impairment provision of inventory, accelerated depreciation of property, plant and equipment and other timing differences.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law"), which is effective from 1 January 2008. Since the deferred tax assets shall be measured at the tax rates that are expected to apply to the period when the asset is realised, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets of the Group. Up to the approval date of this financial information, detailed measures of the New CIT Law have yet to be issued. Specific provisions concerning the applicable income tax rates, computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions for the periods from 2008 and onwards have not been clarified. Consequently, the Group is not in a position to reasonably assess the impact, if any, to the carrying values of deferred tax assets as the result of the implementation of the New CIT Law. Without taking into account of the impact of the New CIT Law, the enterprise income tax rate for Sang Fei will be 15% from 2008, and this rate was adopted in computing the deferred taxation as at 30 June 2007 (31 December 2006: 7.5%). The Group will further evaluate the impact to its operating results and financial positions of future periods as more detailed measures and other related regulations are announced.

7. Earnings per share

The calculation of the basic earnings per share is based on the Group's profit attributable to equity holders of the Company for the six months ended 30 June 2007 of HK$16,988,000 (30 June 2006: HK$24,421,000) and 1,083,560,000 (2006: 1,083,560,000) ordinary shares in issue during the six months ended 30 June 2007.

For the six months ended 30 June 2007, because the exercise of the share option granted under the share option scheme of the Company would have an anti-dilutive effect, the potential ordinary shares so arising are not included in calculating the earnings per share. Other than that, the Company does not have any diluted shares and accordingly the basic and diluted earnings per share are the same.

8. Dividends

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

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (30 June 2006: Nil).

9. Trade and other receivables

	As at	
	30 June 2007	*31 December 2006*
	(Unaudited)	*(Audited)*
Trade receivables *(Note (a))*	**367,855**	415,932
Notes receivable	**28,190**	799
Other receivables due from related parties	**6,782**	24,026
Prepayments and deposits	**60,240**	21,011
Value-added tax refundable	**13,582**	25,739
Other receivables	**31,742**	5,672
	508,391	493,179

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 are non interest-bearing.

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

	As at	
	30 June 2007	*31 December 2006*
	(Unaudited)	*(Audited)*
Current to 30 days	**324,214**	410,109
31- 60 days	**893**	2,561
Over 60 days	**42,748**	3,262
	367,855	415,932

Including in the balance were trade receivables from related parties of HK$25,744,000 (31 December 2006: HK$352,597,000).

10. Trade and other payables

	As at 30 June 2007 (Unaudited)	As at 31 December 2006 (Audited)
Trade payables *(Note (a))*	**474,274**	511,472
Other payables due to related parties	**1,400**	17,072
Accrued expenses	**82,424**	47,205
Advance from customers	**50,320**	52,870
Other payables	**110,094**	89,207
	718,512	717,826

The directors are of the opinion that the carrying amounts of trade and other payables approximate their fair values. All trade and other payables are non interest-bearing.

(a) The ageing analysis of trade payables was as follows:

	As at 30 June 2007 (Unaudited)	As at 31 December 2006 (Audited)
Current to 30 days	**438,129**	487,812
31- 60 days	**1,415**	14
Over 60 days	**34,730**	23,646
	474,274	511,472

Included in the balance were trade payables due to related parties amounted to HK$6,779,000 (31 December 2006: HK$29,060,000).

Business Review

The Group faced with a very tough operating environment during the first half of 2007. The fierce competition and the ever changing market secures the top tier brands with the leading position in the market, whereas smaller mobile handset manufacturers actively underwent merger and acquisitions and business reorganisation so as to maintain their competitive advantages and strengthen their market position. This global landscape makes it difficult for the industry players to counter against this trend. In late 2006, the Philips Group announced its intention to dispose of its mobile handset business. Since then, the Philips Group carried out a series of business restructuring to prepare for the business transfer. During this transitional period, the sales and marketing activities of "*Philips*" mobile handsets were downscaled, launch of new products were postponed and a substantial proportion of orders from the distributors were deferred due to the uncertainties towards the business development.

The Philips Group was one of major OEM/ODM customers of the Group. The business reorganisation of the Philips Group and the interference so caused to its operation resulted in unfavourable impact on the performance of the Group during the first half of 2007. During the period under review, sales of *"Philips"* mobile handsets had reduced by 25% to 1.7 million units as a result of deferred orders from the distributors. Sales of own-branded and other OEM mobile handsets also reduced to 0.7 million units, primarily due to the realignment of the Group's business whereby additional resources were allocated to the *"Philips"* mobile handset operation with an aim to minimise the impact from the Philips Group's business reorganisation and to keep the business on track. Sales of mobile handsets had in total dropped by 34% to 2.4 million units. On the other hand, the portable multimedia player business continued to perform well. During the period, the Group sold 1.2 million units of portable multimedia players, representing more than double the sales during the corresponding period last year. The overall sales of mobile handsets and portable multimedia players were 3.6 million units, representing a decrease of 13% over the same period last year. In addition that the mobile handsets being sold during the period were primarily old models or end of life products which further reduced the average selling price, the sales revenue for the six months ended 30 June 2007 were HK$1,313.4 million, representing 31% less than the corresponding period in 2006. Despite the reduction in sales revenue, the Group's global material souring channels and inventory control policies effectively minimised the overall impact. The encouraging growth in portable multimedia player business also improved the overall revenue margin of the Group. The resulting gross profit during the period under review was HK$167.9 million, representing an increase of 28% over the same period last year.

During the period, the Group incurred selling and marketing costs of HK$46.8 million and administrative expenses of HK$108.6 million, representing an increase of 75% and 74% over same period last year respectively. Since the Philips Group announced its intention to dispose of its mobile handset business, the Group implemented various measures to prepare for the change in its business model. New functional units including the Mould and Tooling Centre, the Product Research and Development Centre and the Logistics Centre were set up in 2006. These functional units not only streamlined the Group's operation flow and enhanced the business efficiency through economies of scale, they also enable the Group to establish a complete value chain in mobile handset manufacturing which extends the operation of the Group to a comprehensive scope. The increase in selling and marketing costs and administrative expenses was due to the additional costs incurred in these functional units.

Profit attributable to equity holders for the six months ended 30 June 2007 were HK$17 million (2006: HK$24.4 million). Basic earnings per share for the period was HK cents 1.57 (2006: HK cents 2.25). The Board resolved not to pay any interim dividend for the period (2006: Nil).

Prospect

In February 2007, China Electronics Corporation (together with its subsidiaries, the "CEC Group"), the ultimate controlling shareholder of the Company, announced that it had entered into an acquisition agreement with the Philips Group. As part of the acquisition, CEC Group acquired the mobile handset business of the Philips Group together with the ownership of the *"Xenium"* mark. In August 2007, the Group entered into a licence agreement with the Philips Group, pursuant to which the Philips Group agreed to grant an exclusive right to the Group to use certain of its trademark, including the *"Philips"* brand name and logo, in its manufacture and sales of mobile handsets. At the same time, the Group also entered into a licence agreement with CEC Group for the exclusive right to use *"Xenium"* brand name and logo in its manufacture and sales of mobile handsets.

These arrangements not only conclude the business reorganisation of the *"Philips"* mobile handset business, they also set out the roadmap of the future development of mobile handset business of the Group. The licence of *"Philips"* and *"Xenium"* mark sets a major milestone to the Group for stepping into the global mobile handset market. Originally a local OEM/ODM product solution provider, the Group will become one of the major global mobile handset manufacturers under the new business model. By leveraging on the vast industrial resources and market experience of CEC Group and the strong market recognition of the *"Philips"* brand, the management is confident to bring back the growing momentum to the Group's mobile handset business and to capitalise the rapid growth of the global telecommunications market in the foreseeable future. The Group will endeavour to promote its mobile handset business as one of the leading industry player in the world.

Financial Review

The Group generally finances its operation by internal resources and short term bank facilities. The Group had cash and bank balances of HK$392.6 million as at 30 June 2007 (31.12.2006: HK$419.8 million), which were primarily denominated in Hong Kong dollars, Renminbi and United States dollars.

As at 30 June 2007, the Group had unsecured short term bank borrowings of HK$120 million (31.12.2006: Nil), which were all denominated in Renminbi and were borrowed at contracted fixed interest rate. The Group's total bank facilities were approximately HK$700 million. As at 30 June 2007, the Group did not have any pledged assets or guarantee.

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

As at 30 June 2007, the Group had net current assets of HK$513.9 million (31.12.2006: HK$516.3 million). The overall gearing ratio, which is calculated as the total liabilities over total assets of the Group, was 59% (31.12.2006: 55%).

As at 30 June 2007, the Group had contracted but not provided for capital commitments of HK$1.6 million (31.12.2006 : HK$1.3 million) for the acquisition of fixed assets and intangible assets. The Group did not have any material contingent liabilities outstanding as at 30 June 2007.

Employee and Remuneration Policies

As at 30 June 2007, the Group had approximately 3,000 employees, the majority of whom were based in China. Personnel expenses during the period were HK$75.5 million (2006: HK$75.1 million).

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

Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 June 2007, the Company has not redeemed any of its shares. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

Code on Corporate Governance Practices

In the opinion of the directors, the Company has complied with all the code provisions of the Code on Corporate Governance Practices, as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, throughout the period from 1 January 2007 to 30 June 2007.

Audit Committee

The Audit Committee of the Company comprises Messrs. Chan Kay Cheung, Wong Po Yan and Yin Yongli, being all independent non-executive directors of the Company. The Company's audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters. The unaudited interim results for the six months ended 30 June 2007 have been reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The audit committee has reviewed the unaudited interim results for the six months ended 30 June 2007 and has recommended their adoption by the Board.

Publication of Interim Results Announcement and Interim Report

This announcement is published on the websites of the Company (www.cecholding.com) and Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk). The 2007 interim report will be dispatched to shareholders of the Company and available on the above websites in due course.

By Order of the Board
China Electronics Corporation Holdings Company Limited
Chen Zhaoxiong
Chairman

Hong Kong, 21 September 2007

As at the date of this announcement, the Board comprises two non-executive directors, namely Messrs. Chen Zhaoxiong (Chairman) and Tong Baoan (Vice-Chairman), two executive directors, namely Messrs. Fan Qingwu (Managing Director) and Hua Longxing, and three independent non-executive directors, namely Messrs. Chan Kay Cheung, Wong Po Yan and Yin Yongli.

** For identification purpose only*