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: 00085)

2008 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 2008.

Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2008

	Unaudited Six months ended 30 June 2008 (HK$'000)	*2007 (HK$'000)*
Sales	1,037,337	1,313,382
Cost of goods sold	(881,570)	(1,145,520)
Gross profit	155,767	167,862
Other gain – net	84	7,000
Selling and marketing costs	(123,740)	(46,771)
Administrative expenses	(133,196)	(108,637)
Operating (loss) / profit	(101,085)	19,454
Finance income	4,299	5,633
Finance costs	(16,506)	(2,013)
Finance (costs) / income - net	(12,207)	3,620
(Loss) / profit before income tax	(113,292)	23,074
Income tax credit	19,761	4,180
(Loss) / profit for the period	(93,531)	27,254
Attributable to:		
- Equity holders of the Company	(60,605)	16,988
- Minority interests	(32,926)	10,266
	(93,531)	27,254
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the six months ended 30 June		
- basic	HK cents (5.59)	HK cents 1.57
- diluted	HK cents (5.59)	HK cents 1.57
Dividends	N/A	N/A

Condensed Consolidated Interim Balance Sheet
As at 30 June 2008

	30 June 2008 (Unaudited) (HK$'000)	*31 December 2007 (Audited) (HK$'000)*
ASSETS		
Non-current assets		
Property, plant and equipment	52,289	41,047
Intangible assets	14,799	16,144
Deferred income tax assets	69,971	46,691
Total non-current assets	137,059	103,882
Current assets		
Inventories	510,139	444,189
Trade and other receivables	996,458	877,150
Cash and cash equivalents	426,258	391,741
Total current assets	1,932,855	1,713,080
Total assets	2,069,914	1,816,962
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Issued equity	370,074	370,074
Other reserves	85,786	71,807
(Accumulated loss)/retained earnings	(30,716)	29,889
	425,144	471,770
Minority interests	103,346	129,066
Total equity	528,490	600,836
LIABILITIES		
Current liabilities		
Trade and other payables	805,117	741,030
Current income tax liabilities	-	3,725
Short term bank loans	664,212	394,111
Provision for warranty	72,095	77,260
Total liabilities	1,541,424	1,216,126
Total equity and liabilities	2,069,914	1,816,962
Net current assets	391,431	496,954
Total assets less current liabilities	528,490	600,836

1. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2008 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 condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2. Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in the 2007 annual report of the Company.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008:

- HK(IFRIC) - Int 11, 'HKFRS 2 – Group and treasury share transactions'. This standard does not have any impact on the Group's financial statements.

- HK(IFRIC) - Int 12, 'Service concession arrangements'. This standard is not currently relevant for the Group.

- HK(IFRIC) - Int 14, 'HKAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction'. This standard is not relevant for the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- HKFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, 'Segment reporting', and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.

- HKAS 23 (revised), 'Borrowing costs', effective for annual periods beginning on or after 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) from 1 January 2009 but is not expected to have material impact on the Group's consolidated financial statements.

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

- HKFRS 3 (revised), 'Business combinations' and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates' and HKAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group. The Group does not have any joint ventures.

- HKAS 1 (revised), 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. The directors of the Group are assessing the impact and believe that the impact on the Group's consolidated financial statements is not significant.

- HKAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to HKAS 1, 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group as the Group does not have any puttable instruments.

- HK(IFRIC) – Int 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008. HK(IFRIC) - Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

3. Segment information

(a) Primary reporting format – business segment (unaudited)

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

	"Philips" mobile handsets		Own branded and other mobile handsets		Multimedia players		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover	**502,250**	808,032	**256,731**	240,066	**278,356**	265,284	**1,037,337**	1,313,382
Segment results	**(41,852)**	54,579	**(4,717)**	9,939	**21,970**	23,111	**(24,599)**	87,629
Other gains - net							**84**	7,000
Unallocated costs							**(76,570)**	(75,175)
Operating (loss) / profit							**(101,085)**	19,454
Finance (costs) / income - net							**(12,207)**	3,620
(Loss) / profit before income tax							**(113,292)**	23,074
Income tax credit							**19,761**	4,180
(Loss) / profit for the period							**(93,531)**	27,254

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

(b) Secondary reporting format – geographical segment (unaudited)

The Group's three business segments operate in the following geographical areas which are allocated based on the places in which customers are located:

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Sales		
Mainland China	**356,916**	547,378
Hong Kong	**471,842**	435,849
Europe	**126,958**	141,326
Asia (excluding Mainland China and Hong Kong)	**38,126**	188,829
North America	**43,455**	-
Others	**40**	-
	1,037,337	1,313,382

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	
	2008	*2007*
	HK$'000	*HK$'000*
Employee benefits expenses	**107,213**	74,802
Changes in inventories of finished goods and work in progress	**(72,126)**	(108,633)
Raw material and consumables used	**797,715**	1,185,410
Depreciation of property, plant and equipment	**15,164**	22,318
Amortisation of intangible assets	**3,092**	2,611
Written down of inventories to net realisable value	**5,299**	931
Provision for warranty	**20,015**	17,791
Operating lease expenses of buildings and equipment	**16,038**	11,809
Research and development costs	**43,322**	19,721
Directors' remuneration	**1,138**	714
Auditor's remuneration	**600**	611

5. Finance (costs) / income - net

	Unaudited Six months ended 30 June	
	2008	*2007*
	HK$'000	*HK$'000*
Interest income	**4,299**	5,633
Interest expenses on bank loans	**(16,506)**	(2,013)
	(12,207)	3,620

6. Income tax credit

	Unaudited Six months ended 30 June	
	2008	*2007*
	HK$'000	*HK$'000*
Current taxation – PRC enterprise income tax *(Note b)*	**-**	(1,886)
Deferred income tax *(Note c)*	**19,761**	6,066
	19,761	4,180

(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 2008 (30 June 2007: Nil).

(b) The principal subsidiary, Shenzhen Sang Fei Consumer Communications Co., Ltd ("Sang Fei"), is a foreign investment production enterprise established in Shenzhen Special Economic Zone in the PRC, the prevailing enterprise income tax rate was 15% before 31 December 2007.

Sang Fei was certified as a high-tech enterprise from 2002 and as approved by the tax authorities in 2004, Sang Fei was entitled to 50% tax reduction from enterprise income tax for three years starting from 2005. Consequently, enterprise income tax had been provided at the rate of 7.5% for the six months ended 30 June 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.

No provision for PRC enterprise income tax has been made as the Group has no assessable tax profit for the six months ended 30 June 2008.

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

7. (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 six months ended 30 June 2008 of HK$60,605,000 (30 June 2007: Profit of HK$16,988,000) and 1,083,560,000 (30 June 2007: 1,083,560,000) ordinary shares in issue during the six months ended 30 June 2008.

(b) Diluted loss/earnings per share

As the impact of exercise of share options was anti-dilutive as at 30 June 2008 and 2007, the diluted loss/earnings per share is equal to the basic loss/earnings per share.

8. Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008 (30 June 2007: Nil).

9. Trade and other receivables

	As at 30 June 2008 (Unaudited) HK$'000	As at 31 December 2007 (Audited) HK$'000
Trade receivables *(Note (a))*	**821,407**	755,474
Less: provision for impairment	**(283)**	(266)
Trade receivables – net	**821,124**	755,208
Notes receivable	**36,885**	15,081
Prepayments and deposits	**80,962**	64,526
Value-added tax refundable	**30,734**	14,129
Other receivables	**26,753**	28,206
	996,458	877,150

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 2008 (Unaudited) HK$'000	As at 31 December 2007 (Audited) HK$'000
Current to 30 days	**387,892**	734,238
31- 60 days	**47,294**	12,151
Over 60 days and within 1 year	**383,697**	8,324
Over 1 year	**2,524**	761
	821,407	755,474

Including in the balance were trade and other receivables from related parties of HK$80,874,000 (31 December 2007: HK$61,305,000).

10. Trade and other payables

	As at 30 June 2008 (Unaudited) HK$'000	As at 31 December 2007 (Audited) HK$'000
Trade payables *(Note (a))*	**481,335**	381,597
Accrued expenses	**162,255**	192,149
Advance from customers	**69,863**	65,197
Other payables	**91,664**	102,087
	805,117	741,030

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 2008 (Unaudited) HK$'000	As at 31 December 2007 (Audited) HK$'000
Current to 30 days	**467,836**	367,655
31- 60 days	**2,502**	474
Over 60 days	**10,997**	13,468
	481,335	381,597

Included in the balance were trade and other payables due to related parties amounted to HK$29,356,000 (31 December 2007: HK$17,834,000).

Business Review

The first half of 2008 continued to be a difficult period for mobile handset players. Faced with the increasing domestic inflation and rising labour cost, the operating environment was particularly tough in the PRC market, and the competition was even more intense in emerging markets and other parts of the world. In late 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 whereby extending its footprint to the global consumer electronics market and emerging as one of the world's leading mobile handset industry players. Since then, the Group underwent a series of business reengineering to redefine and streamline its PRC and overseas sales network, and to re-establish the *Philips* distribution channel as well as to recover the market share of the business. The overall progress of the business reform was however slower than expected. During the period, sales order from distributors were substantially deferred and reduced which adversely affected the sales performance during the period. In addition, due to certain delay in product roll-out, new products were mostly launched in late second quarter and the result was not fully reflected.

Under these challenges, the performance of the Group in the first half of 2008 was unsatisfactory. Hampered by the business reengineering during the period, sales of Philips mobile handsets dropped by 53% to 807,000 units. Moreover, in order to make optimal use of its resources, the Group streamlined its brand portfolio and put more emphasis on the Philips mobile handset business. Sales of own-branded mobile handsets were primarily focused on the clearance of old models or end-of life products. As a result, sales of own-branded mobile handsets during the period dropped by 33% to 118,000 units. Despite the reduction in sales volume, the new business model after taking over the management of Philips mobile handset business offered a substantial improvement on the product margin which partially offset the impact of decline in business. The overall sales revenue of *Philips* and own-branded mobile handsets during the period was HK$518.4 million, representing a decrease of 42% from 2007.

The portable multimedia player business continued to give satisfactory performance. During the period, the Group sold 1.1 million units of portable multimedia players and recorded revenue of HK$278.4 million, which were in line with the corresponding period of last year. Besides, the Group has also been making progressive development in other ODM and EMS businesses. During the period under review, the business recorded sales revenue of HK$240.5 million, representing an increase of 55% over 2007.

The overall sales revenue during the period was HK$1,037.3 million, representing a decrease of 21% as compared to the same period of last year. The Group's gross profit for the period reduced from HK$167.9 million in 2007 to HK$155.8 million in 2008.

During the period under review, the Group incurred selling and marketing costs of HK$123.7 million and administrative expenses of HK$133.2 million, representing an increase of 1.6 times and 23% respectively over the same period of last year. The increase in these operating expenses reflected the additional resources invested in the Philips mobile handset operation. During the second half of 2007, the Group set up new functional units to handle the additional sales and marketing activities for the new business. In addition, to pave way for its global sales operation, the Group established two subsidiaries in Russia and Turkey in the second quarter of this year to strengthen its business operation in Europe. The Group also operates a sales coordination centre in Singapore to manage its sales activities in Asia and other overseas countries. The establishment of these offices improved the Group's overall operation efficiency and set a promising foundation for future business growth.

The Group incurred a net loss attributable to shareholders of HK$60.6 million during the period (2007: net profit of HK$17 million), and basic loss per share was HK cents 5.59 (2007: earnings per share of HK cents 1.57). The Board resolved not to pay any interim dividend for the six months ended 30 June 2008 (2007: Nil).

Outlook

Looking ahead, the competition will continue to be fierce in the PRC and overseas arena. The management is keen on minimising the risk arising from its single core operation through progressive business diversification, and is optimistic to the Group's overall performance for 2008. In terms of the mobile handset product roadmap, the Group has scheduled to launch 11 new models in the second half of the year, most of which will be mid-to-high end products. The Group will focus on product quality so as to enhance brand recognition and regain the growth momentum. In addition, the gradual rollout of the 3G projects in China as well as the ongoing growth of the emerging global markets gives new opportunities in favour of the Group's development. The Group will continue to implement proactive but prudent strategies in its mobile handset business with enhanced efforts towards rationalising its business model, streamlining its organisation structure and improving the overall operational efficiency, with an aim to materialise the synergies in the business reorganisation and capitalise the growth of the global telecommunication industry in the coming future.

During the period, the Group took one significant step towards the diversification of its business. In June 2008, the Company entered into the acquisition agreements to acquire all the equity interest in CEC Huada Electronic Design Co., Ltd. ("Huada Electronics"). Huada Electronics is a leading company in the design and sale of integrated circuits and the research and development of electronic design automation tools. The technologies and products of Huada Electronics have been widely applied in the areas of telecommunications, social security, electronic payments 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 offer products for a wider range of applications such as telecommunications, home network, consumer electronics in the future. Huada Electronics has a strong presence in the integrated circuits industry. Integrated circuits have been widely applied in a wide range of areas including communications, home and personal entertainment, social and public business. The Group intends to leverage off Huada Electronics' expertise in the integrated circuits industry to enhance its capability in the consumer electronics and communications products sector. 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 comprehensive capability in the upstream of the industry value chain. The acquisition is expected to be completed by the fourth quarter of 2008.

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 continue the business development in its existing mobile handset operations and at the same time 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 ultimate objective is to bring the best return to our shareholders.

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$426.3 million as at 30 June 2008 (31 December 2007: HK$391.7 million), which were primarily denominated in Hong Kong dollars, Renminbi and United States dollars.

As at 30 June 2008, the Group had unsecured short term bank borrowings of HK$664.2 million (31 December 2007: HK$394.1 million), which were all denominated in Renminbi and were borrowed at contracted fixed interest rate. The Group had undrawn borrowing facilities of approximately HK$226.9 million. As at 30 June 2008, the Group did not have any pledged assets or guarantee.

The Group's export sales are predominantly invoiced in Euro and 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 2008, the Group had net current assets of HK$391.4 million (31 December 2007: HK$497 million). The overall gearing ratio, which is calculated as the total liabilities over total assets of the Group, was 74% (31 December 2007: 67%).

As at 30 June 2008, the Group had contracted but not provided for capital commitments of HK$19.7 million (31 December 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 30 June 2008.

Employee and Remuneration Policies

As at 30 June 2008, the Group had approximately 1,500 employees (2007: 1,560 employees), who were primarily based in China, Singapore, Russia and Turkey. Personnel expenses during the period were HK$108.4 million (2007: HK$75.5 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 2008, 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 2008 to 30 June 2008.

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 2008 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 2008 and has recommended their adoption by the Board.

Publication of Interim Results Announcement and Interim Report

This announcement is published on the website of the Company (www.cecholding.com) and that of the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The 2008 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
Xiong Qunli
Chairman

Hong Kong, 26 September 2008

As at the date of this announcement, the Board comprises two non-executive directors, namely Messrs. Xiong Qunli (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*