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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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

The board of directors (the "Board") of China Electronics Corporation Holdings Company Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2008 as follows:

AUDITED CONSOLIDATED INCOME STATEMENT

	Year ended 31 December	
	2008	2007
	HK$'000	*HK$'000*
Revenue	**2,267,343**	3,167,708
Cost of sales	**(1,827,268)**	(2,608,047)
Gross profit	**440,075**	559,661
Other (losses)/gains – net	**(108,461)**	4,751
Selling and marketing costs	**(325,926)**	(259,104)
Administrative expenses	**(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	**(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
Attributable to:		
– Equity holders of the Company	**(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		
– basic	**HK cents (20.31)**	HK cents 0.75
– diluted	**HK cents (20.31)**	HK cents 0.74
Dividends	**–**	–

AUDITED CONSOLIDATED BALANCE SHEET

	As at 31 December	
	2008	2007
	HK$'000	*HK$'000*
ASSETS		
Non-current assets		
Property, plant and equipment	**47,125**	41,047
Intangible assets	**15,686**	16,144
Deferred income tax assets	**49,238**	46,691
	112,049	103,882
Current assets		
Inventories	**468,287**	444,189
Trade and other receivables	**485,760**	877,150
Financial assets at fair value through profit or loss	**1,271**	–
Cash and cash equivalents	**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	**370,074**	370,074
Other reserves	**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	**633,060**	741,030
Current income tax liabilities	**–**	3,725
Borrowings	**450,813**	394,111
Provision for warranty	**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

BASIS OF PREPARATION

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

(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 hereof, 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.

(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 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 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'

SEGMENT INFORMATION

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

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 expenditures information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

	2008	2007
	HK$'000	*HK$'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.

	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.

OTHER (LOSSES)/GAINS – NET

	2008 *HK$'000*	2007 *HK$'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

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	**36,038**	44,240
Employee benefit expenses	**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
Written down of inventories to net realisable value	**16,375**	27,908
Provision for warranty	**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

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

INCOME TAX CREDIT

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

(a) No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2007: nil).

(b) The principal subsidiary, Sang Fei, is a foreign investment production enterprise established in Shenzhen Special Economic Zone in the People's Republic of China ("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 have 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.

(c) 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	**75,684**	266
Effect on change of tax rates	**(15,994)**	(28,768)
Income tax credit	**–**	(31,640)

(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).

DIVIDENDS

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

TRADE RECEIVABLES

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. At 31 December 2008, the ageing analysis of the Group's gross trade receivables was as follows:

Ageing	**2008**	2007
	HK$'000	*HK$'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

TRADE PAYABLES

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

Ageing	**2008**	2007
	HK$'000	*HK$'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

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).

OUTLOOK

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.

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. 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%).

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.

AUDIT COMMITTEE

The audit committee examined the accounting principles and practices adopted by the Group and discussed with the management its internal controls and financial statements. The audit committee has reviewed the audited financial statements of the Group for the year ended 31 December 2008.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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 the Company's shares during the year ended 31 December 2008.

CODE ON CORPORATE GOVERNANCE PRACTICES

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 year.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2008 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF ANNUAL REPORT

The 2008 annual report will be published on the website of the Company (www.cecholding.com) and on the HKExnews website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) in due course.

By Order of the Board
China Electronics Corporation Holdings Company Limited
Xiong Qunli
Chairman

Hong Kong, 14 April 2009

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 purposes only*