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)

2009 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the "Board") of China Electronics Corporation Holdings Company Limited (the "Company") presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2009 together with comparative figures as follows:

Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2009

		Unaudited	
		Six months ended 30 June	
		2009	2008
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**877,883**	1,037,337
Cost of sales		**(772,615)**	(881,570)
Gross profit		**105,268**	155,767
Other (losses)/gains – net		**(8,574)**	16,133
Selling and marketing costs		**(91,368)**	(123,740)
Administrative expenses		**(91,594)**	(149,245)
Operating loss		**(86,268)**	(101,085)
Finance costs – net	*4*	**(9,828)**	(12,207)
Loss before income tax	*5*	**(96,096)**	(113,292)
Income tax credit	*6*	**–**	19,761
Loss for the period		**(96,096)**	(93,531)
Attributable to:			
– Equity holders of the Company		**(74,994)**	(60,605)
– Minority interests		**(21,102)**	(32,926)
		(96,096)	(93,531)
		HK cents	*HK cents*
Loss per share			
– Basic	*7*	**(6.92)**	(5.59)
– Diluted	*7*	**(6.92)**	(5.59)
Dividends	*8*	**–**	–

Condensed Consolidated Interim Statement of Comprehensive Income
For the six months ended 30 June 2009

	Unaudited	
	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Loss for the period	**(96,096)**	(93,531)
Other comprehensive income for the period:		
Exchange differences on translation of financial statements of foreign operations	**(2,391)**	21,126
Total comprehensive income for the period	**(98,487)**	(72,405)
Attributable to:		
– Equity holders of the Company	**(77,385)**	(46,626)
– Minority interests	**(21,102)**	(25,779)
	(98,487)	(72,405)

Condensed Consolidated Interim Balance Sheet
As at 30 June 2009

	Note	**30 June 2009 (Unaudited) *HK$'000***	31 December 2008 (Audited) *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**42,348**	47,125
Intangible assets		**13,081**	15,686
Deferred taxation assets		**49,259**	49,238
		104,688	112,049
Current assets			
Inventories		**362,243**	468,287
Trade and other receivables	*9*	**454,407**	485,760
Financial assets at fair value through profit or loss		**–**	1,271
Restricted bank deposits		**35,648**	–
Cash and cash equivalents		**435,445**	343,129
		1,287,743	1,298,447
Total assets		**1,392,431**	1,410,496
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Issued equity		**370,074**	370,074
Other reserves		**75,113**	77,756
Accumulated losses		**(260,066)**	(185,324)
		185,121	262,506
Minority interests		**–**	21,102
Total equity		**185,121**	283,608
LIABILITIES			
Current liabilities			
Trade and other payables	*10*	**611,318**	633,060
Short term bank loans	*11*	**557,303**	450,813
Provision for warranty		**38,689**	43,015
Total liabilities		**1,207,310**	1,126,888
Total equity and liabilities		**1,392,431**	1,410,496
Net current assets		**80,433**	171,559
Total assets less current liabilities		**185,121**	283,608

1 Basis of preparation

The condensed consolidated interim financial information have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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

(a) Going concern basis

The Group incurred loss attributable to the equity holders of the Company of HK$74,994,000 for the six months ended 30 June 2009 and had accumulated losses of HK$260,066,000 as at 30 June 2009. Notwithstanding the foregoing, the directors have adopted the going concern basis in the preparation of the condensed consolidated interim financial information based on the following:

- In March 2009, the ultimate holding company, China Electronics Corporation Limited ("CEC"), has agreed to provide financial assistance of RMB500,000,000 (equivalent to approximately HK$567,195,000) 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 30 June 2009, Sang Fei has obtained borrowing of RMB38,532,000 (equivalent to approximately HK$43,710,000) from CEC and utilised the guarantees from CEC to obtain banking facilities of RMB330,000,000 (equivalent to approximately HK$374,349,000), Sang Fei will utilise the remaining financial assistance of RMB131,468,000 (equivalent to approximately HK$149,136,000) to meet the future working capital and financial requirements of Sang Fei;

- With the banking facilities 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 condensed consolidated interim financial information on a going concern basis.

2 Principal accounting policies

Except as described below, the accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those used in the annual financial statements of the Group for the year ended 31 December 2008. In 2009, the Group has adopted the following new standard and amendments to existing standards below, which are relevant to its operations. Where applicable, the 2008 comparatives have been amended as required.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
Amendments to HKFRS 1 and HKAS 27	Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 8	Operating Segments
Amendments to HKFRS 7	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
Amendment to HKFRS 2	Share-based Payment – Vesting Conditions and Cancellations

Improvements to HKFRSs (October 2008)

The adoption of such standards did not have any significant effect on results or financial positions of the Group for the current period. However, as a result of the adoption of HKAS 1 (Revised) "Presentation of Financial Statements", changes in equity arising from transactions with shareholders in their capacity as shareholders are presented separately in a revised statement of changes in equity. All other items of income and expenses are presented in the consolidated statement of comprehensive income, if they are recognised as part of profit or loss for the period.

HKFRS 8 "Operating Segments" replaces HKAS 14 "Segment Reporting". It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. On first-time adoption of HKFRS 8 "Operating Segments", the Group determined that the operating segments were the same as the business segments previously identified under HKAS 14 "Segment Reporting".

The Group has not early applied the new or revised standards, amendments and interpretations that have been issued by the HKICPA but are not yet effective. The directors of the Company anticipate that the application of these standards and interpretations will have no material impact on the results and financial positions of the Group.

3 Revenue and segment information

Management has determined the operating segments based on the reports reviewed by the directors (the Group's chief operating decision maker) that are used to assess performance and allocate resources. The Group is principally engaged in manufacturing and sales of mobile handsets and other portable electronics products. The segment information provided to the directors for the reportable segments for the period ended is as follows:

	***Philips* mobile handsets Six months ended 30 June**		**Own-branded and other ODM/EMS mobile handsets Six months ended 30 June**		**Multi-media player Six months ended 30 June**		**Total Six months ended 30 June**	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**455,317**	502,250	**209,682**	256,731	**212,884**	278,356	**877,883**	1,037,337
Segment results	**(761)**	(41,852)	**(9,337)**	(4,717)	**5,636**	21,970	**(4,462)**	(24,599)
Other (losses)/gains – net							**(8,574)**	16,133
Unallocated costs							**(73,232)**	(92,619)
Operating loss							**(86,268)**	(101,085)
Finance costs – net							**(9,828)**	(12,207)
Loss before income tax							**(96,096)**	(113,292)

All segment revenues were from external customers and there was no inter-segment sales during the period (2008: nil). Unallocated costs consist primarily of selling and marketing costs and administrative expenses, which contribute to all operating segments.

Segment assets and reconciliation to total assets are as follows:

	At 30 June 2009 (Unaudited)	At 31 December 2008 (Audited)
	HK$'000	*HK$'000*
Philips mobile handsets	**276,290**	466,946
Own-branded and other ODM/EMS mobile handsets	**77,970**	80,901
Multi-media player	**183,087**	78,938
Unallocated assets	**855,084**	783,711
	1,392,431	1,410,496

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.

4 Finance costs – net

	Unaudited Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Interest income	**1,818**	4,299
Interest on bank loans	**(11,646)**	(16,506)
	(9,828)	(12,207)

5 Loss before taxation

The Group's loss before taxation has been arrived at after charging:

	Unaudited Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**12,451**	15,164
Amortisation of intangible assets	**3,323**	3,092
Written down of inventories to net realisable value	**3,876**	5,299
Provision for warranty	**24,079**	20,015
Operating lease expenses of property and equipment	**17,606**	16,038

6 Income tax credit

	Unaudited Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Deferred taxation *(Note (d))*	**–**	19,761

(a) Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) on the estimated assessable profits for the period.

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit arising in Hong Kong for the six months ended 30 June 2009 (30 June 2008: nil).

(b) PRC enterprise income tax has been provided for based on the estimated assessable profits in accordance with the relevant tax laws applicable to the subsidiaries in the PRC. The Law of the PRC on Enterprise Income Tax (the "New Law") and Implementation Regulations of the New Law has changed the tax rate of those PRC subsidiaries to 25% from 1 January 2008 with certain transitional arrangement.

No provision for PRC enterprise income tax has been made as the Group has no assessable profit for the six months ended 30 June 2009 (30 June 2008: nil).

(c) Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

(d) Deferred taxation was recognised for tax losses carrying forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

7 Loss per share

(a) Basic loss per share

The calculation of the basic loss per share is based on the Group's loss attributable to equity holders of the Company for the six months ended 30 June 2009 of HK$74,994,000 (30 June 2008: Loss of HK$60,605,000) and 1,083,560,000 (30 June 2008: 1,083,560,000) ordinary shares in issue during the six months ended 30 June 2009.

(b) Diluted loss per share

As the impact of exercise of share options was anti-dilutive as at 30 June 2009 and 2008, the diluted loss per share is equal to the basic loss per share.

8 Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009 (30 June 2008: nil).

9 Trade and other receivables

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 120 days. Included in trade and other receivables are trade receivables of HK$384,088,000 (31 December 2008: HK$417,487,000) and their ageing analysis is as follows:

	At 30 June 2009 (Unaudited) ***HK$'000***	At 31 December 2008 (Audited) *HK$'000*
Current to 30 days	**278,150**	338,970
31-60 days	**32,478**	51,361
Over 60 days and within 1 year	**47,893**	27,151
Over 1 year	**25,567**	5
	384,088	417,487

10 Trade and other payables

Included in trade and other payables are trade payables of HK$363,160,000 (31 December 2008: HK$316,536,000) and their ageing analysis is as follows:

	At 30 June 2009 (Unaudited) ***HK$'000***	At 31 December 2008 (Audited) *HK$'000*
Current to 30 days	**338,810**	299,448
31-60 days	**5,403**	8,788
Over 60 days	**18,947**	8,300
	363,160	316,536

11 Short term bank loans

	At 30 June 2009 (Unaudited) *HK$'000*	At 31 December 2008 (Audited) *HK$'000*
Secured *(Note (a))*	**140,269**	25,536
Guaranteed *(Note (b))*	**373,324**	–
Unsecured	**43,710**	425,277
	557,303	450,813

(a) Short term bank loans are secured by:

	At 30 June 2009 (Unaudited) *HK$'000*	At 31 December 2008 (Audited) *HK$'000*
Trade receivables	**168,157**	28,373
Bank deposits	**19,345**	–
	187,502	28,373

(b) Such short term bank loans are guaranteed by CEC.

(c) The bank loans as at 30 June 2009 were repayable within one year and bore interest at the average borrowing rate of 5.25% per annum (31 December 2008: 6.21% per annum).

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

	At 30 June 2009 (Unaudited) *HK$'000*	At 31 December 2008 (Audited) *HK$'000*
Renminbi	**412,615**	425,277
US dollar	**144,688**	25,536
	557,303	450,813

12 Events after the balance sheet date

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. The acquisition of Huada Electronics has been approved by the independent shareholders of the Company on 21 July 2008 and was completed in September 2009. After completion of the acquisition, Huada Electronics becomes a wholly-owned subsidiary of the Company and the financial statements of Huada Electronics will be consolidated into those of the Group. Details of acquisition of Huada Electronics were set out in the Company's circular dated 30 June 2008.

BUSINESS REVIEW

Affected by the weakening of the PRC domestic market and the recession in many other parts of the world, the Group's performance, and business alike, was inevitably affected. Amidst such difficult operating environment, the management, in addition to the continuous implementation of stringent cost control measures, further intensified control in risk management and cash management. During the period, the Group continued to focus on the development of *Philips* mobile handset business and targeting at both the mid-tier and high end segments of the market. As a result of the slow down in consumer spending and majority of the new products will be released in the second half of the year, sales of *Philips* mobile handsets and portable multimedia players dropped by 12% and 24% to 0.7 million units and 0.9 million units respectively. Such reduction in sales volume has been offset by the increase in sales of ODM and EMS mobile handsets and as a result, the Group was able to maintain similar level of overall sales of 3.4 million units as those of the corresponding period in 2008. During the six months ended 30 June 2009, the Group recorded a sales revenue of HK$877.9 million, a decrease of 15% compared to the same period last year. Gross profit for the period reduced from HK$155.8 million in 2008 to HK$105.3 million in 2009. The overall gross profit margin of the Group dropped from 15% in 2008 to 12% in 2009.

In order to mitigate the impact of the slowing down of the global economy following the global financial crisis, the Group has implemented various emergency measures to re-align our resources deployment and as a result the selling and marketing costs and the administrative expenses were reduced by 26% and 39% to HK$91.4 million and HK$91.6 million respectively. The Group recorded an exchange loss of HK$7.0 million (2008: exchange gain of HK$16.0 million) primarily as a result of the devaluation of Russian Ruble.

The Group incurred loss attributable to the equity holders of the Company of HK$75.0 million during the period (2008: loss of HK$60.6 million) and basic loss per share was HK cents 6.92 (2008: loss per share of HK cents 5.59). The Board resolved not to pay any interim dividend for the six months ended 30 June 2009 (2008: nil).

PROSPECTS

Despite that many countries have introduced emergency economic measures to cope with the deteriorating economy and that there are signs that the magnitude of economic recession has subsided, 2009 will turn out to be one of the most challenging years; fraught with difficulties and uncertainties resulting from the global financial crisis. In line with this global trend, the PRC's economic growth is expected to slow down. However, driven by the PRC government's initiatives to adjust its macro policies and encourage domestic consumption, the PRC economy is considered to be better-positioned to recover faster and earlier than the other major economies. The Group believes that the demand for mobile handset will rebound to relatively normal level in the years ahead.

The acquisition of Huada Electronics was completed in September 2009. The Group has successfully extended its business into the integrated circuits chips design sector, which is a high-tech area with better profit margin, and broadens the Group's revenue sources and provides a stable earning to the Group. 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. Through the acquisition of Huada Electronics, the Group intends to transform itself to an active player in the industry possessing more comprehensive capability in the upstream of the industry value chain.

Looking forward, the Group will continue to manage the potential challenges with care and diligence and focus on the business in the high-tech area with better profit margin. The Group will position itself to explore new business opportunities at the upstream of the industry value chain through merger and acquisition, restructuring or business cooperation to strengthen and broaden its mid to high end stream business platform.

FINANCIAL REVIEW

The Group finances its operations primarily by internal resources and short term bank borrowings. As at 30 June 2009, the Group had cash and cash equivalents amounted to HK$435.4 million (31 December 2008: HK$343.1 million) which were primarily denominated in Hong Kong dollars, Renminbi and United States dollars.

As at 30 June 2009, the Group had short term bank borrowings of HK$557.3 million (31 December 2008: HK$450.8 million), which were denominated in Renminbi and United States dollars.

As at 30 June 2009, assets with a carrying value of HK$187.5 million (31 December 2008: HK$28.4 million) were pledged for total borrowings of HK$140.3 million (31 December 2008: HK$25.5 million). The bank borrowings were borrowed at contracted fixed interest rate. The Group's available banking facilities were HK$600.5 million.

As at 30 June 2009, the Group had net current assets of HK$80.4 million (31 December 2008: HK$171.6 million). The overall gearing ratio, which is calculated as the total liabilities over total assets of the Group, was 87% (31 December 2008: 80%).

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.

As at 30 June 2009, the Group had contracted but not provided for capital commitments of HK$0.7 million (31 December 2008: HK$2.1 million) for the acquisition of fixed assets and intangible assets. The Group did not have any material contingent liabilities outstanding as at 30 June 2009 (31 December 2008: nil).

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2009, the Group had approximately 1,900 employees (31 December 2008: 2,200 employees), the majority of whom were based in China. Personnel expenses during the period were HK$73.2 million (2008: HK$108.4 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

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 six months ended 30 June 2009.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2009, except for the following deviation:

The Chairman of the Board, Mr. Xiong Qunli did not attend the Annual General Meeting on 27 May 2009 (the "AGM") due to other crucial business on that date. The Chairman is aware that his absence constituted deviation from the code provision E.1.2 of the CG Code which stipulates that the chairman of the board should attend the annual general meeting of the company. However, the Chairman has asked Vice Chairman, Mr. Tong Baoan to chair the AGM in his stead. Vice Chairman, the Chairman of Audit Committee, member of Remuneration Committee and the Managing Director attended the meeting and were available to answer questions at the AGM, so effective communication with shareholders was ensured.

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 has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with management. The audit committee has reviewed the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2009.

PUBLICATION OF INTERIM REPORT

The 2009 interim 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 September 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*