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 2009

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 2009 as follows:

AUDITED CONSOLIDATED INCOME STATEMENT

	Year ended 31 December	
	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Revenue	**460,533**	621,805
Cost of sales	**(287,848)**	(388,990)
Gross profit	**172,685**	232,815
Other gains – net	**38,297**	20,140
Selling and marketing costs	**(22,326)**	(15,948)
Administrative expenses	**(128,954)**	(117,516)
Operating profit	**59,702**	119,491
Finance income – net	**1,293**	2,080
Profit before income tax	**60,995**	121,571
Income tax expense	**(7,171)**	(16,997)
Profit for the year from continuing operations	**53,824**	104,574
Discontinued operation		
Loss for the year from discontinued operation	**(15,819)**	(324,068)
Profit/(Loss) for the year	**38,005**	(219,494)
Attributable to:		
– Shareholders of the Company	**41,072**	(146,327)
– Minority interests	**(3,067)**	(73,167)
	38,005	(219,494)

	Year ended 31 December	
	2009	2008
	HK cents	*HK cents*
		(Restated)
Earnings/(Loss) per share		
From continuing and discontinued operations		
– Basic	**2.66**	(9.91)
– Diluted	**2.66**	(9.91)
From continuing operations		
– Basic	**2.32**	4.35
– Diluted	**2.32**	4.35
Dividends	**–**	–

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Profit/(Loss) for the year	**38,005**	(219,494)
Other comprehensive income for the year:		
Exchange differences on translation of financial statements of foreign operations	**(7,242)**	32,331
Total comprehensive income for the year	**30,763**	(187,163)
Attributable to:		
– Shareholders of the Company	**33,830**	(124,849)
– Minority interests	**(3,067)**	(62,314)
	30,763	(187,163)

AUDITED CONSOLIDATED BALANCE SHEET

	31 December 2009 *HK$'000*	31 December 2008 *HK$'000* (Restated)
ASSETS		
Non-current assets		
Property, plant and equipment	**22,334**	68,080
Intangible assets	**3,984**	18,495
Deferred taxation assets	**12,921**	59,588
Interests in an associate	**741**	494
Available-for-sale financial assets	**2,271**	2,268
	42,251	148,925
Current assets		
Inventories	**84,610**	596,320
Trade and other receivables	**208,509**	694,687
Financial assets at fair value through profit or loss	**–**	1,271
Cash and cash equivalents	**397,420**	560,164
	690,539	1,852,442
Total assets	**732,790**	2,001,367
EQUITY		
Capital and reserves attributable to the Company's shareholders		
Issued equity	**889,171**	728,323
Other reserves	**(346,842)**	(205,203)
Accumulated losses	**(138,000)**	(84,045)
	404,329	439,075
Minority interests	**–**	117,226
Total equity	**404,329**	556,301
LIABILITIES		
Current liabilities		
Trade and other payables	**305,746**	905,881
Short term bank loans	**22,715**	496,170
Provision for warranty	**–**	43,015
Total liabilities	**328,461**	1,445,066
Total equity and liabilities	**732,790**	2,001,367
Net current assets	**362,078**	407,376
Total assets less current liabilities	**404,329**	556,301

GENERAL INFORMATION

China Electronics Corporation Holdings Company Limited (the "Company") was incorporated in the Cayman Islands and continued in Bermuda with limited liability. The Company has its shares listed on The Stock Exchange of Hong Kong Limited. The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The ultimate holding company of the Company is China Electronics Corporation Limited ("CEC"), which is established in the People's Republic of China ("PRC").

On 20 June 2008, the Company entered into agreements with the then shareholders of CEC Huada Electronic Design Co., Ltd. ("Huada Electronics") for the acquisition of the entire equity interests of Huada Electronics ("Huada Acquisition"). Huada Electronics is primarily engaged in the design, research and development and sales of integrated circuits. Completion of the Huada Acquisition took place on 9 September 2009 and Huada Electronics has become a wholly-owned subsidiary of the Company.

Prior to the Huada Acquisition, Huada Electronics was owned as to 64.75% by China Huada Integrated Circuit Design (Group) Co., Ltd. ("China Huada") which in turn is owned as to 50% by each of CEC and The State Development and Investment Corporation ("SDIC"). Both CEC and SDIC are state-owned enterprises and controlled by State-owned Assets Supervision and Administration Commission of the State Council. The Company applies the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" ("HKAG 5") issued by the Hong Kong Institute of Certified Public Accountants, in accounting for the Huada Acquisition. Financial statements of Huada Electronics have been included in the consolidated financial statements of the Company for the year ended 31 December 2009, and for any comparative periods disclosed as if the acquisition had occurred at the previous balance sheet dates presented.

On 9 November 2009, the Company entered into a sale and purchase agreement with P-Marshall Hong Kong Limited and Shenzhen SED Electronics Group Co., Ltd. for the disposal of the entire issued share capital of Sang Fei (BVI) Company Limited ("Sang Fei (BVI)") for a cash consideration of HK$10,000,000. P-Marshall Hong Kong Limited is a subsidiary of CEC, the ultimate holding company of the Company. Sang Fei (BVI)'s principal asset is the holding of 65% equity interest in Shenzhen Sang Fei Consumer Communications Company Limited ("Sang Fei"). The disposal was completed on 29 December 2009. The principal activities of Sang Fei are the manufacturing and sales of mobile handsets and other portable electronics products.

Following completion of the disposal of Sang Fei (BVI), Huada Electronics is the principal operating subsidiary of the Company and the principal activities of the Group are the design, research and development and sales of integrated circuits.

BASIS OF PREPARATION

(a) Compliance with HKFRS

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.

These consolidated financial statements have also been prepared using the principles of merger accounting, as prescribed in HKAG 5. These consolidated financial statements include the financial position, results and cash flows of the companies comprising Huada Electronics and its subsidiaries ("Huada Electronics Group") as if the Huada Acquisition had occurred at previous balance sheet dates presented. Comparative figures at 31 December 2008 and for the year ended 31 December 2008 have been restated on such basis.

The effects arising from the common control combination and the disposal of Sang Fei (BVI) and its subsidiaries on the consolidated balance sheet at 31 December 2008, consolidated income statement and consolidated cash flow statement for the year ended 31 December 2008 are summarised as follows:

	Amount previously reported (Audited)	**Merger of the Huada Electronics Group**	**Disposal of Sang Fei (BVI)**	**Restated (Audited)**
	HK$'000	*HK$'000* *(1)*	*HK$'000* *(2)*	*HK$'000*
(i) The consolidated income statement for the year ended 31 December 2008:				
Continuing operations:				
Revenue	2,267,343	621,805	(2,267,343)	621,805
Profit for the year from continuing operations	(333,459)	113,965	324,068	104,574
Discontinued operation:				
Loss from discontinued operation	–	–	(324,068)	(324,068)
(Loss)/Profit for the year	**(333,459)**	**113,965**	**–**	**(219,494)**

	Amount previously reported (Audited) *HK$'000*	Merger of the Huada Electronics Group *HK$'000* *(1)*	Restated (Audited) *HK$'000*
(ii) The consolidated balance sheet at 31 December 2008:			
Total current assets	1,298,447	553,995	1,852,442
Total assets	1,410,496	590,871	2,001,367
Total current liabilities and liabilities	1,126,888	318,178	1,445,066
Total equity	283,608	272,693	556,301
(iii) The consolidated cash flow statement for the year ended 31 December 2008:			
Net cash (used in)/generated from operating activities	(75,817)	210,091	134,274
Net cash used in investing activities	(29,497)	(13,397)	(42,894)
Net cash generated from/(used in) financing activities	56,702	(179,023)	(122,321)

(1) The financial information of the Huada Electronics Group at 31 December 2008 and for the year ended 31 December 2008 are included using the principles of merger accounting as prescribed in HKAG 5 as stated above.

(2) The audited revenue and loss related to the operating result of the Sang Fei (BVI) and its subsidiaries for the year ended 31 December 2008 are presented under "loss from discontinued operation" as required by HKFRS 5.

(b) New standards, amendments to standards and interpretations

During the year ended 31 December 2009, the Group has adopted all of the following new or revised HKFRS, which term collectively includes Hong Kong Accounting Standards ("HKAS") and related interpretations, that are relevant to its operations and effective for the accounting period beginning on 1 January 2009:

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 year. 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 year.

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 early adopted HKAS 24 (Revised) “Related Party Disclosures” for the current year’s financial statements in advance of its effective date which is 1 January 2011. The revised standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government and clarifies the definition of a related party. The 2008 comparatives have been restated on the new basis.

At the date of authorisation of this consolidated financial statements, the following new or revised standards, amendments to standards and interpretations to existing standard have been issued but are not yet effective:

HKAS 27 (Revised)	Consolidated and Separate Financial Statements (effective from 1 July 2009)
HKAS 32 (Amendment)	Financial Instruments: Presentation – Classification of Rights Issues (effective from 1 February 2010)
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective from 1 January 2010)
HKFRS 2 (Amendment)	Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective from 1 January 2010)
HKFRS 3 (Revised)	Business Combinations (effective from 1 July 2009)
HKFRS 9	Financial Instruments (effective from 1 January 2013)
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement (effective from 1 January 2011)
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners (effective from 1 July 2009)
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments (effective from 1 July 2010)
Annual Improvements Project	Improvements to HKFRSs 2009

The Group did not early adopt any of these new or revised standards, amendments to standards and interpretations to existing standards. Management is currently assessing the financial impact of these revisions to the Group’s financial position and performance.

REVENUE AND SEGMENT INFORMATION

(a) Revenue

	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Integrated circuits products	**460,533**	621,805
Discontinued operation		
"Philips" mobile handsets	**1,113,972**	1,305,842
Own-branded and other OEM/ODM/EMS mobile handsets	**398,397**	472,424
Multi-media players	**446,903**	489,077
	1,959,272	2,267,343

(b) Operating segments

Management has determined the operating segments based on the reports reviewed by the directors (the chief operating decision maker) that are used to assess performance and allocate resources.

The directors consider that the Group's continuing operations are operated and managed as a single segment, accordingly no segment information is presented for the continuing operations.

The Group's discontinued operation has three reportable operating segments: *"Philips"* mobile handsets, own-branded and other OEM/ODM/EMS mobile handsets and multi-media players. Management assesses the performance of the operating segments based on segment results, which is measured by revenues and related material costs and contributable expenses. Segment information is reported in a manner consistent with that provided to the chief operating decision maker for decision making.

Segment results and reconciliation to loss before income tax for the discontinued operation are as follows:

	"Philips" mobile handsets		Own-branded and other OEM/ODM/ EMS mobile handsets		Multi-media players		Total	
	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	**1,113,972**	1,305,842	**398,397**	472,424	**446,903**	489,077	**1,959,272**	2,267,343
Segment (losses)/profit	**(2,266)**	(17,614)	**10,931**	(9,968)	**6,308**	7,315	**14,973**	(20,267)
Other gains/(losses) – net							**5,936**	(108,385)
Unallocated costs							**(99,678)**	(165,900)
Finance costs – net							**(29,253)**	(29,516)
Loss before income tax							**(108,022)**	(324,068)

The revenues by location are as follows:

	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Mainland China	**460,533**	621,805
Discontinued operation		
Mainland China	**811,294**	836,320
Hong Kong	**672,882**	769,891
Europe	**395,432**	489,377
Asia excluding Mainland China and Hong Kong	**43,956**	97,939
North America	**35,708**	73,816
	1,959,272	2,267,343

Total non-current assets by location are as follows:

	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Mainland China	**29,112**	88,854
Hong Kong	**218**	170
Europe	**–**	313
	29,330	89,337
Deferred taxation assets	**12,921**	59,588
Total non-current assets per consolidated balance sheets	**42,251**	148,925

OTHER GAINS/(LOSSES) – NET

	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Government grants	**38,563**	17,107
Share of profit/(loss) of the associate	**246**	(38)
Others	**(512)**	3,071
	38,297	20,140
Discontinued operation		
Foreign exchange loss – net	**(513)**	(111,680)
Sales of samples and materials	**3,509**	1,487
Fair value gain from foreign exchange forward contracts	**2,833**	1,271
Others	**107**	537
	5,936	(108,385)

EXPENSES BY NATURE

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

	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Depreciation and amortisation expenses	**5,034**	8,117
Employee benefit expenses	**78,871**	74,449
Changes in inventories of finished goods and work in progress	**31,636**	29,850
Raw materials and consumables used	**252,119**	355,971
Impairment provision for receivables	**1,618**	278
Write-down of inventories to net realisable value	**1,808**	1,532
Operating lease expenses on property	**3,274**	4,091
Research and development costs	**25,386**	20,937
Auditor's remuneration	**2,157**	2,160
Discontinued operation		
Depreciation and amortisation expenses	**30,051**	35,497
Employee benefit expenses	**144,604**	191,541
Changes in inventories of finished goods and work in progress	**(112,943)**	55,618
Raw materials and consumables used	**1,370,349**	1,669,757
Impairment provision for receivables	**18,313**	–
Write-down of inventories to net realisable value	**4,480**	16,375
Provision for warranty	**31,290**	34,065
Operating lease expenses on property and machinery	**30,514**	28,812
Research and development costs	**45,928**	82,414
Auditor's remuneration	**340**	340

FINANCE INCOME/(COSTS) – NET

	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Interest income on short-term deposits	**3,568**	6,373
Interest on bank loans	**(2,275)**	(4,293)
	1,293	2,080
Discontinued operation		
Interest income on short-term deposits	**766**	4,089
Interest on bank loans	**(30,019)**	(33,605)
	(29,253)	(29,516)

TAXATION

Income tax expense/(credit)

	2009 *HK$'000*	2008 *HK$'000* (Restated)
Continuing operations		
Current taxation		
– PRC enterprise income tax	**9,723**	17,989
Deferred taxation	**(2,552)**	(992)
	7,171	16,997
Discontinued operation		
Current taxation		
– PRC enterprise income tax	**–**	–
Deferred taxation	**(15,043)**	–
	(15,043)	–

(a) No provision for profits tax in the Bermuda, Hong Kong, Russia and Turkey has been made as the Group has no assessable profit in these jurisdictions for the year (2008: nil)

(b) In accordance with the enterprise income tax laws in the PRC, Huada Electronics' applicable statutory tax rate is 25% from 1 January 2008. However, as Huada Electronics was certified as a high/new technology enterprise established in Beijing New Technology Industry Development Zone in the PRC in December 2008, the tax authorities approved Huada Electronics a 15% preferential tax rate which took effect from 1 January 2008.

(c) In accordance with the enterprise income tax laws in the PRC, Sang Fei's applicable statutory tax rate 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 2009 was 20%.

(d) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable taxation rates are as follows:

	2009 *HK$'000*	2008 *HK$'000* (Restated)
Profit before income tax	**60,995**	121,571
Calculated at respective applicable statutory tax rates	**16,209**	31,032
Effect of tax concession	**(4,781)**	(9,657)
Realisation of tax losses on disposal of subsidiaries	**–**	(1,198)
Research and development costs additional deductions	**(9,872)**	(8,534)
Expenses not deductible for taxation purposes	**3,430**	1,021
Tax losses for which no deferred taxation asset was recognised	**2,185**	2,028
Effect on change of tax rates	**–**	2,305
Income tax expense	**7,171**	16,997

DISCONTINUED OPERATION

The Company completed the disposal of its manufacturing and sales of mobile handsets and other portable electronics products business at a cash consideration of HK$10 million on 29 December 2009 to a subsidiary of CEC.

The results and cash flows of the discontinued operation are set out below:

	2009	2008
	HK$'000	*HK$'000*
Loss for the year from discontinued operation		
Revenue	**1,959,272**	2,267,343
Costs and expenses	**(2,043,977)**	(2,453,510)
	(84,705)	(186,167)
Other gains/(losses) – net	**5,936**	(108,385)
Finance costs – net	**(29,253)**	(29,516)
Loss before income tax	**(108,022)**	(324,068)
Income tax credit	**15,043**	–
Loss for the year	**(92,979)**	(324,068)
Gain on disposal of discontinued operation	**77,160**	–
Loss for the year from discontinued operation	**(15,819)**	(324,068)
Attributable to:		
– Shareholders of the Company	**5,283**	(210,644)
– Minority interests	**(21,102)**	(113,424)
	(15,819)	(324,068)
Cash flows from discontinued operation		
Net cash generated from/(used in) operating activities	**73,117**	(64,525)
Net cash used in investing activities	**(40,005)**	(34,211)
Net cash generated from financing activities	**70,767**	56,702
Net cash flows	**103,879**	(42,034)

Details of the gain and net cash outflow on disposal of Sang Fei (BVI) and its subsidiaries are as follows:

	HK$'000
Net liabilities disposed of:	
Property, plant and equipment	(28,493)
Intangible assets	(9,932)
Deferred taxation assets	(64,374)
Inventories	(349,045)
Trade and other receivables	(436,743)
Financial assets at fair value through profit or loss	(4,109)
Restricted bank deposits	(52,327)
Cash and cash equivalents	(219,487)
Trade and other payables	657,716
Short term bank loans	521,580
Provision for warranty	25,429
	40,215
Release of translation reserve	29,653
Sale consideration less transaction costs	7,292
Gain on disposal of subsidiaries	77,160
Net cash outflow from disposal:	
Cash consideration received less transaction costs	3,424
Cash and cash equivalents disposed of	(219,487)
	(216,063)

EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share is based on the following data:

	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Profit for the year from continuing operations attributable to shareholders of the Company	**35,789**	64,317
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**1,544,178,301**	1,477,240,000
Basic/diluted earnings per share (HK cents)	**2.32**	4.35
Discontinued operation		
Profit/(loss) for the year from discontinued operation attributable to shareholders of the Company	**5,283**	(210,644)
Weighted average number of ordinary shares for the purposes of basic and diluted earnings/(loss) per share	**1,544,178,301**	1,477,240,000
Basic/diluted earnings/(loss) per share (HK cents)	**0.34**	(14.26)
Continuing and discontinued operations		
Profit/(loss) for the year attributable to shareholders of the Company	**41,072**	(146,327)
Weighted average number of ordinary shares for the purposes of basic and diluted earnings/(loss) per share	**1,544,178,301**	1,477,240,000
Basic/diluted earnings/(loss) per share (HK cents)	**2.66**	(9.91)

(a) On 9 September 2009, 608,000,000 shares were allotted and issued to the then shareholders of Huada Electronics as consideration shares upon the completion of the Huada Acquisition. The 393,680,000 shares issued to China Huada are presented as if they had always been issued using the principles of merger accounting as prescribed in HKAG 5.

(b) For the year ended 31 December 2008 and 31 December 2009, impact of exercise of share options are not included in the calculation of diluted earnings/(loss) per share because their exercise would result in an increase in earnings per share and a decrease in loss per share respectively and are anti-dilutive. Therefore, the basic and diluted earnings/(loss) per share in 2009 and 2008 are the same.

DIVIDENDS

The Board does not recommend the payment of a dividend for the year ended 31 December 2009 (2008: nil).

TRADE RECEIVABLES

Included in trade and other receivables are trade receivables of HK$198,158,000 (2008: HK$622,233,000). The majority of the Group's sales are with credit terms of 30 days to 135 days. The remaining amounts are due immediately after the delivery of goods. At 31 December 2009, the ageing analysis of the gross trade receivables are as follows:

	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Current to 30 days	**116,021**	363,076
31 – 60 days	**21,422**	81,638
Over 60 days and within 1 year	**54,614**	169,415
Over 1 year	**6,101**	8,104
	198,158	622,233

TRADE PAYABLES

Included in trade and other payables are trade payables of HK$122,834,000 (2008: HK$384,289,000) and their ageing analysis are as follows:

	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Current to 30 days	**63,251**	334,736
31 – 60 days	**8,473**	15,903
Over 60 days	**51,110**	33,650
	122,834	384,289

BUSINESS REVIEW

During the year, the Group's continuing operations comprised the design, research and development and sales of integrated circuits business. The Group discontinued its manufacturing and sales of mobile handsets and other portable electronics products business during the year. The analysis below represents only the continuing operations of the Group.

The Group's integrated circuits design business comprises the design of integrated circuits chips and the development of application system. Currently, our products are widely used in the identity card, social security card, telecommunications card and electronic payment card application. Our products are also applied in wireless local area network ("WLAN") and application specific integrated circuit. For the year ended 31 December 2009, Huada Electronics has obtained 13 patents, owned 20 computer software copyrights, and registered 13 integrated circuits layout designs.

Following the replacement of new identity card passed its peak and returned to a relatively normal level in 2009, the sales volume of smart card for the identity card dropped significantly. The Group on one hand continued to maintain its original market share in identity card market, also strived to expand other smart card markets and non-integrated circuits card markets, so as to extend its products application areas. Through successful operation of social security card programs under the local governments, including Beijing city, the sales of social security card chips in 2009 increased by 21% to HK$74.8 million. Due to the impact of drop in sales volume of smart card for identity card, there was a drop in total sales volume of smart card chips in 2009 compared to the same period in previous year. Revenue from the continuing operations for the year dropped by 26% to HK$460.5 million. The overall gross profit margin of the Group during the year was 37% (2008: 37%).

Administrative expenses increased by 9.7% to HK$129 million for 2009. This is mainly attributable to the increase in total cost of research and development and incurred an one-off relocation cost for moving into the new office. Research and development costs were HK$25.4 million in 2009 (2008: HK$20.9 million). If the staff costs for approximately 200 (2008: 170) research and development personnel were included, the total costs of research and development were HK$77.1 million (2008: HK$67 million), which represented 16.7% of the 2009 revenue (2008: 10.8%). The research and development is primarily focus on the more advance smart card and WLAN chips products.

Government grant received increased by 125.4% to HK$38.6 million for 2009 resulted from increase in government subsidies for research and development costs incurred in 2009.

The disposal of the entire interest in the Group's manufacturing and sales of mobile handsets and other portable electronics products business was completed in December 2009. Revenue and loss attributable to the Group from the discontinued operation for the period from 1 January 2009 up to the date of the disposal amounted to HK$1,959.3 million (2008: HK$2,267.3 million) and HK$71.9 million (2008: HK$210.6 million) respectively. The Group recorded a gain on disposal of HK$77.2 million.

For the year ended 31 December 2009, the profit attributable to shareholders of the Company was HK$41.1 million (2008: loss of HK$146.3 million), and the basic earnings per share was HK2.66 cents (2008: loss per share of HK9.91 cents).

The board of directors does not recommend the payment of a dividend for the year ended 31 December 2009 (2008: nil).

OUTLOOK

2009 represented an exceptional year in the Group's business development. In September 2009, the Group completed the acquisition of Huada Electronics and successfully extended its business into the integrated circuits design sector, which is the high-end stream of the industry value chain and contributes profit to the Group. Huada Electronics is an industrial leader in the design of integrated circuits sector in the PRC. Over these years, Huada Electronics had developed and possessed deep insight in integrated circuits chip design technology and products. In December 2009, the Group completed the disposal of its entire interest in Sang Fei. Following the completion of these strategic business transactions, the business and balance sheet of the Group has significantly improved, with gross profit margin increased and gearing ratio lowered.

The Group will focus on its core business in the integrated circuits design technology and to stand as an industrial leader in the integrated circuits chips design and total solution provider for wireless communications and smart card application. It is expected that the PRC integrated circuits market will continue to grow in 2010. The Group will capture the market development and growth; and further diversify and expand into the social security, telecommunications, financial industries smart card and WLAN chips market.

Currently, as the impact of the global financial crisis has gradually eased off, the global economy is expected to recover and attain growth in 2010. The long-term prospect of the PRC's economy remains positive. The Group will leverage on the strength of its expertise in design, research and development of integrated circuits to continue to innovate in technologies, and develop more high-tech and high-quality products to satisfy our customer's needs. In addition, with the support from our controlling shareholder, China Electronics Corporation Limited, the Group will diversify and broaden its business platform through merger and acquisition, restructuring and business cooperation so as to add value to the business, improve the profitability, and bring the best returns to our shareholders.

FINANCIAL RESOURCES AND LIQUIDITY

The Group finances its operations primarily by internal resources and short term bank borrowings. At 31 December 2009, the Group had cash and cash equivalent amounted to HK$397.4 million, 65.8% of which was denominated in Renminbi, 31.8% in Hong Kong dollars and 2.4% in United States dollars (2008: HK$560.2 million, 63.7% of which was denominated in Renminbi, 24.1% in Hong Kong dollars and 12.2% in United States dollars).

At 31 December 2009, the Group had short term bank borrowings of HK$22.7 million, which were denominated in Renminbi (2008: HK$496.2 million, 94.9% of which were denominated in Renminbi and 5.1% in United States dollars). The bank borrowings were borrowed at contracted fixed interest rate. At 31 December 2009, committed banking facilities available to the Group but not drawn amounted to HK$45.4 million. The Group's revenue are denominated in Renminbi and payments are denominated in Renminbi and Hong Kong dollars. The Group will make use of hedging contracts, when appropriate, to hedge the risk of foreign exchange fluctuation arising from its operations.

At 31 December 2009, the Group had net current assets of HK$362.1 million (2008: HK$407.4 million). The overall gearing ratio, which is calculated as the total liabilities over total assets of the Group, was 44.8% (2008: 72.2%).

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At 31 December 2009, the Group did not have any material capital commitments (2008: HK$2.1 million) for the acquisition of fixed assets and intangible assets. The Group did not have any material contingent liabilities at 31 December 2009 (2008: nil).

EMPLOYEE AND REMUNERATION POLICIES

At 31 December 2009, the Group had approximately 300 employees, the majority of whom were based in China. Employee benefit expenses during the year were HK$223.5 million, of which employee benefit expenses for the discontinued operation amounted to HK$144.6 million.

The Group recognises the importance of high calibre and competent staff and has a strict recruitment policy and performance appraisal scheme. Remuneration policies 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 2009.

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 2009.

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 ended 31 December 2009, except for the following deviation:

Due to other crucial business, the Chairman of the Board, Mr. Xiong Qunli did not attend the Annual General Meeting on 27 May 2009 (the "AGM"). 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.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2009 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 2009 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, 19 April 2010

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

* *For identification purposes only*