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CEC
中国电子
CHINA ELECTRONICS

CHINA ELECTRONICS CORPORATION HOLDINGS COMPANY LIMITED
中 國 電 子 集 團 控 股 有 限 公 司 *

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

(Stock Code: 00085)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2013

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 2013 as follows:

AUDITED CONSOLIDATED INCOME STATEMENT

	Year ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
Revenue	**1,308,184**	1,155,632
Cost of sales	**(721,132)**	(703,904)
Gross profit	**587,052**	451,728
Other gains – net	**33,937**	28,679
Selling and marketing costs	**(59,064)**	(57,310)
Administrative expenses	**(318,705)**	(200,768)
Operating profit	**243,220**	222,329
Finance income – net	**8,254**	3,194
Profit before taxation	**251,474**	225,523
Taxation	**(27,578)**	(27,939)
Profit for the year	**223,896**	197,584
Attributable to owners of the Company	**223,896**	197,584
Dividends		
Special dividend paid	**50,747**	–
Dividend proposed	**50,747**	–
	101,494	–
	HK cents	*HK cents*
Earnings per share		
– Basic	**13.24**	11.68
– Diluted	**13.24**	11.68

* *For identification purpose only*

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
Profit for the year	**223,896**	197,584
Other comprehensive income for the year:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**24,692**	639
Translation reserve of two PRC established subsidiaries reclassified to profit or loss on liquidation	**(8,823)**	–
	15,869	639
Total comprehensive income for the year	**239,765**	198,223
Attributable to owners of the Company	**239,765**	198,223

AUDITED CONSOLIDATED BALANCE SHEET

	31 December 2013	31 December 2012
	HK$'000	*HK$'000*
ASSETS		
Non-current assets		
Property, plant and equipment	**17,835**	21,210
Intangible assets	**4,845**	3,671
Deferred tax assets	**45,872**	41,950
Available-for-sale financial assets	**2,544**	2,467
Other non-current assets	**63,595**	–
	134,691	69,298
Current assets		
Inventories	**291,264**	308,185
Trade and other receivables	**539,714**	494,604
Taxation recoverable	**24,023**	–
Cash and cash equivalents	**746,012**	476,619
	1,601,013	1,279,408
Total assets	**1,735,704**	1,348,706
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital and premium	**289,171**	889,171
Other reserves		
– Proposed dividend	**50,747**	–
– Others	**(20,758)**	(320,599)
Retained earnings	**675,660**	237,230
Total equity	**994,820**	805,802
Liabilities		
Non-current liabilities		
Deferred tax liabilities	**7,739**	–
Current liabilities		
Trade and other payables	**725,360**	526,900
Taxation payables	**7,658**	14,771
Short term bank loans	**127**	1,233
	733,145	542,904
Total liabilities	**740,884**	542,904
Total equity and liabilities	**1,735,704**	1,348,706
Net current assets	**867,868**	736,504
Total assets less current liabilities	**1,002,559**	805,802

GENERAL INFORMATION

China Electronics Corporation Holdings Company Limited 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").

The principal activities of the Group are the design, research and development and sale of integrated circuits.

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated.

BASIS OF PREPARATION

(a) Compliance with HKFRS and Listing Rules

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. These consolidated financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

(b) New standards, amendments to standards and interpretations

During the year ended 31 December 2013, the Group had adopted the following new and amended standards that are relevant to its operations and effective for the accounting period beginning on 1 January 2013:

HKAS 1 (amendment)	Presentation of other comprehensive income
HKFRS 7 (amendment)	Financial instruments: Disclosures – offsetting financial assets and financial liabilities
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosures of interests in other entities
HKFRS 13	Fair value measurement
Annual improvements 2011	Amendment to HKAS 1 "Financial statements presentation" Amendment to HKAS 16 "Property, plant and equipment" Amendment to HKAS 32 "Financial instruments: presentation"

The adoption of the above new and amended standards did not have significant impact on the results or financial position of the Group for the current year.

The following new and amended standards that are relevant to the Group have been issued but are not effective for the accounting period beginning on 1 January 2013 and have not been early adopted:

HKAS 32 (amendments)	Financial instruments: Presentation – offsetting financial assets and financial liabilities (effective from 1 January 2014)
HKFRS 10, HKFRS 12 and HKAS 27 (amendments)	Investment entities (effective from 1 January 2014)
HKFRS 9	Financial instruments (effective date yet to be determined)

Annual improvements 2012	Amendment to HKFRS 3 "Business combinations"; and consequential amendments to HKFRS 9 "Financial instruments", HKAS 37 "Provisions, contingent liabilities and contingent assets", and HKAS 39 "Financial instruments – Recognition and measurement" (effective from 1 January 2015)
	Amendment to HKFRS 8 "Operating segments" (effective from 1 January 2015)
	Amendment to HKAS 24 "Related Party Disclosures" (effective from 1 January 2015)

Management is currently assessing the impact of the above new and amended standards to the Group's financial position and performance.

REVENUE AND SEGMENT INFORMATION

(a) Revenue

	2013	2012
	HK$'000	*HK$'000*
Integrated circuits products	**1,308,184**	1,155,632

(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 operations are operated and managed as a single segment, accordingly no operating segment information is presented.

In terms of geographical location, nearly 100% of the Group's revenue is attributable to the market in the PRC and over 90% of the Group's non-current assets are located in the PRC.

Total non-current assets by location are as follows:

	2013	2012
	HK$'000	*HK$'000*
PRC	**87,771**	26,112
Hong Kong	**1,048**	1,236
	88,819	27,348
Deferred tax assets	**45,872**	41,950
Total non-current assets per consolidated balance sheet	**134,691**	69,298

OTHER GAINS – NET

	2013	2012
	HK$'000	*HK$'000*
Government grants	**26,859**	30,737
Gain on liquidation of subsidiaries	**8,823**	–
Exchange gains/(losses)	**680**	(717)
Others	**(2,425)**	(1,341)
	33,937	28,679

During the year, the Company liquidated CEC Media Technology & Service (Suzhou) Co., Ltd and CEC Integrated Circuit (Beijing) Co., Ltd, both of which were wholly-owned by the Company and had been dormant. As a result, translation reserve attributable to these two PRC established subsidiaries of HK$8,823,000 was reclassified and recognised as a gain on liquidation of subsidiaries.

EXPENSES BY NATURE

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

	2013	2012
	HK$'000	*HK$'000*
Depreciation and amortisation expenses	**22,722**	16,982
Employee benefit expenses	**140,523**	130,680
Changes in inventories of finished goods and work in progress	**25,064**	(60,729)
Raw materials and consumables used	**700,445**	731,534
Research and development costs	**213,002**	163,355
Impairment/(reversal of impairment) provision for trade receivables	**40,238**	(14,905)
(Reversal of write-down)/write-down of inventories to net realisable value	**(8,143)**	21,001
Operating lease expenses on property	**15,607**	11,289
Auditor's remuneration	**5,838**	1,909

FINANCE INCOME – NET

	2013	2012
	HK$'000	*HK$'000*
Interest income on short term deposits	**8,425**	3,740
Interest on loans	**(171)**	(546)
	8,254	3,194

TAXATION

	2013	2012
	HK$'000	*HK$'000*
Current taxation		
– PRC corporate income tax	**15,554**	41,288
– Withholding tax on distributed profits	**7,533**	–
	23,087	41,288
Deferred taxation		
– PRC corporate income tax	**(3,248)**	(13,349)
– Withholding tax on undistributed profits	**7,739**	–
	4,491	(13,349)
	27,578	27,939

(a) No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profit in Hong Kong during the year (2012: nil).

(b) In accordance with the corporate income tax laws of the PRC, the applicable statutory tax rate of CEC Huada Electronic Design Co., Ltd ("Huada Electronics") is 25% from 1 January 2008. However, Huada Electronics qualified as an "Integrated Circuit Design Enterprises in National Planning Layout" and thus enjoyed a 10% preferential tax rate from 1 January 2013 to 31 December 2014.

(c) According to the relevant regulations of the corporate income tax laws of the PRC, when a foreign investment enterprise distributed dividends out of the profits earned from 1 January 2008 onwards to its overseas investors, such dividends are subject to withholding tax at a rate of 10%.

(d) Reconciliation between the taxation expense on the Group's profit before taxation and the theoretical taxation that would arise using the respective applicable statutory tax rates are as follows:

	2013	2012
	HK$'000	*HK$'000*
Profit before taxation	**251,474**	225,523
Calculated at respective applicable statutory tax rates	**65,155**	57,739
Effect of tax concession	**(21,002)**	(24,179)
Research and development costs additional deductions	**(23,047)**	(8,701)
Expenses not deductible for taxation purposes	**1,003**	372
Effect of change in tax rate on deferred taxation	**(12,783)**	–
Withholding tax on distributed profits and current year's undistributed profits	**15,272**	–
Tax losses for which no deferred tax asset was recognised	**2,980**	2,708
Taxation expense	**27,578**	27,939

DIVIDENDS

During the year, the Company paid a special dividend of an aggregate amount in cash of HK$50,747,000 (representing HK$0.03 per share) out of the contributed surplus account of the Company to the shareholders whose names appear on the register of members of the Company on 2 October 2013.

A dividend in respect of the year ended 31 December 2013 of HK$0.03 per share, amounting to a total dividend of HK$50,747,000, is to be proposed at the forthcoming annual general meeting of the Company (the "Annual General Meeting"). These financial statements do not reflect this dividend payable.

EARNINGS PER SHARE

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

	2013	2012
Profit for the year attributable to owners of the Company *(HK$'000)*	**223,896**	197,584
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**1,691,560,000**	1,691,560,000
Earnings per share *(HK cents)*		
– Basic	**13.24**	11.68
– Diluted *(Note (a))*	**13.24**	11.68

(a) The Company did not have any potential ordinary shares outstanding for the year ended 31 December 2013 (2012: nil). Diluted earnings per share is therefore equal to basic earnings per share.

TRADE RECEIVABLES

Included in trade and other receivables are trade receivables of HK$505,882,000 (2012: HK$483,969,000). 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 2013, the ageing analysis of the trade receivables (net of provision for impairment) based on revenue recognition date are as follows:

	2013	2012
	HK$'000	*HK$'000*
Current to 30 days	**303,252**	241,603
31 – 60 days	**71,798**	81,632
Over 60 days and within 1 year	**127,096**	158,580
Over 1 year	**3,736**	2,154
	505,882	483,969

TRADE PAYABLES

Included in trade and other payables are trade payables of HK$274,142,000 (2012: HK$243,889,000) and their ageing analysis is as follows:

	2013	2012
	HK$'000	*HK$'000*
Current to 30 days	**90,195**	78,516
31 – 60 days	**66,410**	76,376
Over 60 days	**117,537**	88,997
	274,142	243,889

ACQUISITION OF CHINA ELECTRONICS TECHNOLOGY DEVELOPMENT CO., LTD

On 5 July 2013, the Company and CEC entered into an equity transfer agreement pursuant to which the Company has conditionally agreed to acquire and CEC has conditionally agreed to sell 100% equity interest in China Electronics Technology Development Co., Ltd ("CEC Technology") at a consideration of RMB600 million (equivalent to HK$763,135,000) (the "Acquisition"). The Acquisition was approved by the independent shareholders of the Company at the special general meeting held on 11 October 2013. As at the date hereof, the Acquisition has not yet been approved by the relevant PRC government authorities.

EVENTS AFTER THE BALANCE SHEET DATE

(i) Acquisition of property transfer right

On 1 November 2013, Huada Electronics and CEC Information Technology Research Institute Co., Ltd ("CEC Research Institute") entered into a transfer agreement (the "Agreement") pursuant to which Huada Electronics has conditionally agreed to acquire and CEC Research Institute has conditionally agreed to sell a property transfer right (the "Property Transfer Right") for the acquisition of all the 6-storey and 118 car-parking spaces on basement one of Block C of phase one of The China Electronics Information Security Technology Research Institute, which is located in the southern area of Future and Science Technology City, Beiqijia, Changping District, Beijing, the PRC (the "Property"). The consideration for the Property Transfer Right consists of the sum of RMB296,374,000 (the "Basic Consideration") and the additional consideration representing the difference between the Basic Consideration and the total development cost of the Property.

As of 31 December 2013, the Group has paid a deposit of RMB50,000,000 (equivalent to HK$63,595,000) to CEC Research Institute in accordance with the terms and conditions of the Agreement. The payment of the above deposit was captured in "other non-current assets". The acquisition of the Property Transfer Right was approved by the independent shareholders of the Company at the special general meeting held on 10 January 2014. As at the date hereof, the total development cost of the Property has not yet been finalised and the acquisition of the Property Transfer Right has not yet completed.

(ii) Issue of RMB2,750,000,000 4.70% bonds due 2017

On 16 January 2014, the Company issued a 4.70% unsecured bonds due 2017 in the principal amount of RMB2,750,000,000 (the "Bonds"). The issue price of the Bonds is 100% of the principal amount of the Bonds and will mature on 16 January 2017. The Bonds bear interest at the rate of 4.70% per annum, payable semi-annually in arrears. The Bonds are listed on The Stock Exchange of Hong Kong Limited (Stock Code: 85940).

CEC assists the Company in meeting its obligations under the Bonds by entering into a keepwell deed and a deed of equity interest purchase undertaking. Under the keepwell deed, CEC will undertake to, inter alia, directly or indirectly own and hold more than 50% of the outstanding shares of the Company, cause the Company to maintain a consolidated net worth position of at least US$1.00 at all times and to have sufficient liquidity to ensure timely payment of any and all amounts payable under or in respect of the Bonds in accordance with the terms and conditions thereof. If the Company at any time determines that it will have insufficient liquidity to meet its payment obligations as they fall due, then the Company shall promptly notify CEC of the shortfall and CEC will make available to the Company, before the due date of the relevant payment obligations under the Bonds, funds sufficient to enable the Company to pay such payment obligations in full as they fall due.

Under the deed of equity interest purchase undertaking, CEC will undertake to, upon the occurrence of events of default under the terms and conditions of the Bonds, subject to satisfaction of certain conditions (including compliance with the Listing Rules by the Company), either by itself or through one of its PRC incorporated subsidiaries, purchase certain equity interests in the registered capital of one or more PRC incorporated subsidiaries of the Company at a certain price in order to allow the Company to discharge its obligations under the Bonds.

BUSINESS REVIEW

The Group's integrated circuits design business comprises the design of integrated circuits chips and the development of application system. Currently, our products are mainly used in smart cards such as identity cards, social security cards, telecommunication cards and electricity cards. Our products are also applied in wireless local area networks. For the year ended 31 December 2013, the Group has obtained 34 new patents, and registered another 19 computer software copyrights and 19 integrated circuits layout designs.

Due to the further intensification of market price competition in 2013, the average selling prices of integrated circuits chip products were generally lower when comparing with those of the 2012. The Group on one hand adjusted its product mix in its smart card chips business and concentrated on products which have a better gross profit margin, on the other hand stepped up its effort in cost control and expanded the market share of its products. Through successfully boosting the sales of some of our main products, the overall sales volume recorded a slight increase during the year ended 31 December 2013, which compensated the impact of the decrease in the average selling prices of integrated circuits chip products on the revenue for the year. Revenue for the year ended 31 December 2013 amounted to HK$1,308.2 million, representing an increase of 13.2% when comparing with the corresponding period of last year. As the combined effects of the improvement on the product mix of the Group and effective cost control had out-weighed the impact of the decrease in the average selling prices of integrated circuits chip products on the gross profit, the gross profit increased by 30% to HK$587.1 million for the year ended 31 December 2013. During the year, the overall gross profit margin has increased 5.8 percentage points to 44.9%.

Selling and marketing costs for the year ended 31 December 2013 amounted to HK$59.1 million (2012: HK$57.3 million). As a percentage to revenue, selling and marketing costs decreased to 4.5% for the year ended 31 December 2013 from 5% of the corresponding period of last year. The decrease was due to stringent cost control measures implemented during the year.

Administrative expenses increased by 58.7% to HK$318.7 million for the year ended 31 December 2013. This was mainly attributable to the increase in research and development costs, provision for impairment of trade receivables and increase in staff costs. Research and development costs were HK$213 million in 2013 (2012: HK$163.4 million), which represented 16.3% of the revenue for the year ended 31 December 2013 (2012: 14.1%). Research and development during the year primarily focused on the EMV card and mobile payment card chip products.

Government grants recognised as income decreased by 12.6% to HK$26.9 million for the year ended 31 December 2013 resulted from less government subsidies for research and development costs incurred by the Group in 2013.

For the year ended 31 December 2013, the profit attributable to owners of the Company was HK$223.9 million (2012: HK$197.6 million), and the basic earnings per share was HK13.24 cents (2012: HK11.68 cents).

The Company paid a special dividend in cash of HK$0.03 per share out of the contributed surplus account of the Company to the shareholders whose names appear on the register of members of the Company on 2 October 2013.

A dividend in respect of the year ended 31 December 2013 of HK$0.03 per share, amounting to a total dividend of HK$50,747,000, is to be proposed at the Annual General Meeting (2012: nil).

OUTLOOK

Looking forward to 2014, under the strategic guidance of CEC of "Building a new system for the development of electronic technology of China", the Group will continue to implement and review the established operation and investment strategies of the Group leveraging on the existing resources available, while seeking for other investment opportunities to improve the Group's profitability and bring positive return for our shareholders.

FINANCIAL RESOURCES AND LIQUIDITY

The Group finances its operations primarily by internal resources and short term bank loans. At 31 December 2013, the Group had cash and cash equivalents amounting to HK$746 million, 99% of which was denominated in Renminbi, 0.5% in United States dollars and 0.5% in Hong Kong dollars (2012: HK$476.6 million, 77.5% of which was denominated in Renminbi, 22% in United States dollars and 0.5% in Hong Kong dollars).

At 31 December 2013, the Group had unsecured short term bank loans of HK$0.1 million, which were denominated in Renminbi (2012: HK$1.2 million, which were denominated in Renminbi). The bank loans were borrowed at contracted fixed interest rate. At 31 December 2013, committed borrowing facilities available to the Group but not drawn amounted to HK$432.3 million. The Group's revenue are mainly denominated in Renminbi and payments are denominated in Renminbi and Hong Kong dollars. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. 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 2013, the Group had net current assets of HK$867.9 million (2012: HK$736.5 million). The overall gearing ratio, which is calculated as the total liabilities over total assets of the Group, was 42.7% (2012: 40.3%).

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At 31 December 2013, the Group has outstanding capital commitment for the acquisition of 100% equity interest in CEC Technology amounted to HK$763.1 million (2012: nil). The Group did not have any material contingent liability at 31 December 2013 (2012: nil).

EMPLOYEE AND REMUNERATION POLICIES

At 31 December 2013, the Group had approximately 365 employees, the majority of whom were based in the PRC. Employee benefit expenses for the year were HK$140.5 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. Bonuses and other merit payments are linked with the performance of the Group and of the individuals as incentive to optimise performance.

AUDIT COMMITTEE

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2013.

RETIREMENT OF DIRECTOR

In accordance with Bye-law 87 of the Bye-laws of the Company, Mr. Rui Xiaowu and Mr. Yin Yongli will retire by rotation at the Annual General Meeting. Mr. Yin Yongli has notified the Company that due to age, he will not seek for re-election as director at the Annual General Meeting. Mr. Yin Yongli confirmed that he had no disagreement with the Board and there was no other matter in relation to his retirement that needed to be brought to the attention of the shareholders. Accordingly, except for Mr. Yin Yongli, the other retiring director, being eligible, offers himself for re-election.

In accordance with rule 3.10(1) of the Listing Rules, the Board must include at least three independent non-executive directors. The Company is now seeking an appropriate person to be appointed by the Board or to be proposed for election to fill up the vacated office occasioned by the retirement of Mr. Yin Yongli as independent non-executive director. If the requirement of rule 3.10(1) of the Listing Rules is not complied with at the date of the Annual General Meeting, the Company will inform The Stock Exchange of Hong Kong Limited and publish further announcement as and when appropriate pursuant to the requirement under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares and the Company had not redeemed any of its shares during the year ended 31 December 2013.

CORPORATE GOVERNANCE CODE

The Company has complied with all the applicable code provisions in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2013.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the announcement of the Group's results for the year ended 31 December 2013 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 results announcement.

PUBLICATION OF ANNUAL REPORT

The 2013 annual report will be published on the website of the Company (www.cecholding.com) and on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) in due course.

By Order of the Board
China Electronics Corporation Holdings Company Limited
Rui Xiaowu
Chairman

Hong Kong, 27 March 2014

As at the date of this announcement, the Board comprises one Non-executive Director, namely Mr. Rui Xiaowu (Chairman), three Executive Directors, namely Mr. Xie Qinghua (Managing Director), Mr. Liu Hongzhou (Vice Chairman) and Mr. Liu Jinping, and three Independent Non-executive Directors, namely Mr. Chan Kay Cheung, Mr. Qiu Hongsheng and Mr. Yin Yongli.