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)

2014 INTERIM RESULTS ANNOUNCEMENT AND PROPOSED APPOINTMENT OF DIRECTOR

The board of directors (the "Board") of China Electronics Corporation Holdings Company Limited (the "Company") presents the unaudited condensed consolidated interim financial information of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2014 as follows:

CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 30 June 2014 *HK$'000*	 2013 *HK$'000* (Restated)
Revenue	*4*	**703,664**	734,672
Cost of sales		**(386,655)**	(406,084)
Gross profit		**317,009**	328,588
Other gains – net	*5*	**34,253**	21,581
Selling and marketing costs		**(42,462)**	(29,500)
Administrative expenses		**(124,715)**	(178,023)
Operating profit		**184,085**	142,646
Finance income	*6*	**62,930**	5,011
Finance costs	*6*	**(99,425)**	(12,779)
Finance costs – net	*6*	**(36,495)**	(7,768)
Share of result of an associate		**(3,892)**	(7,685)
Share of result of a joint venture		**(242)**	(144)
Profit before taxation	*7*	**143,456**	127,049
Taxation	*8*	**(35,263)**	(23,330)
Profit for the period		**108,193**	103,719

* *For identification purpose only*

CONSOLIDATED INCOME STATEMENT *(Cont'd)*

		Unaudited	
		Six months ended 30 June	
		2014	2013
	Note	***HK$'000***	*HK$'000*
			(Restated)
Profit for the period attributable to:			
Owners of the Company		**109,734**	104,582
Non-controlling interests		**(1,541)**	(863)
		108,193	103,719
Dividends	*9*	**50,747**	50,747
		HK cents	*HK cents*
Basic earnings per share	*10*	**6.49**	6.18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
		(Restated)
Profit for the period	**108,193**	103,719
Other comprehensive income for the period:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(9,934)**	12,528
Total comprehensive income for the period	**98,259**	116,247
Total comprehensive income for the period attributable to:		
Owners of the Company	**99,800**	117,110
Non-controlling interests	**(1,541)**	(863)
	98,259	116,247

CONSOLIDATED BALANCE SHEET

	Note	30 June 2014 (Unaudited) *HK$'000*	31 December 2013 (Audited) *HK$'000* (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment		**40,336**	42,193
Investment properties		**398,894**	391,965
Land use rights held for self-use		**1,605**	1,641
Intangible assets		**10,207**	4,854
Investment in an associate		**32,477**	36,708
Investment in a joint venture		**21,905**	22,359
Trade and other receivables	*11*	**386,737**	77,042
Deferred tax assets		**75,076**	82,143
Available-for-sale financial assets		**40,315**	2,544
		1,007,552	661,449
Current assets			
Land use rights held for sale		**589**	595
Inventories		**408,331**	380,642
Trade and other receivables	*11*	**871,901**	764,538
Taxation recoverable		**19,249**	24,023
Short-term deposits		**2,236,007**	–
Cash and cash equivalents		**1,555,001**	791,781
		5,091,078	1,961,579
Total assets		**6,098,630**	2,623,028

CONSOLIDATED BALANCE SHEET *(Cont'd)*

	Note	**30 June 2014 (Unaudited)** ***HK$'000***	31 December 2013 (Audited) *HK$'000* (Restated)
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital and premium		**289,171**	289,171
Reserves		**(645,409)**	171,177
Retained earnings		**833,278**	723,544
		477,040	1,183,892
Non-controlling interests		**26,383**	27,924
Total equity		**503,423**	1,211,816
Liabilities			
Non-current liabilities			
Unsecured corporate bonds		**3,477,768**	–
Bank and other borrowings		**88,189**	66,138
Deferred tax liabilities		**11,575**	12,801
		3,577,532	78,939
Current liabilities			
Deferred government grants		**158,780**	181,342
Trade and other payables	*12*	**1,333,990**	609,318
Bank and other borrowings		**438,384**	442,409
Income tax payables		**86,521**	99,204
		2,017,675	1,332,273
Total liabilities		**5,595,207**	1,411,212
Total equity and liabilities		**6,098,630**	2,623,028
Net current assets		**3,073,403**	629,306
Total assets less current liabilities		**4,080,955**	1,290,755

Notes:

1 General information

On 5 July 2013, the Company entered into an agreement with China Electronics Corporation Limited ("CEC"), the ultimate holding company of the Company, for the acquisition of 100% equity interest of China Electronics Technology Development Co., Ltd ("CEC Technology") (the "Acquisition") for a cash consideration of RMB600 million. CEC Technology and its subsidiaries ("CEC Technology Group") are primarily engaged in the development and management of electronic information technology industrial parks. Completion of the Acquisition took place on 26 June 2014 and CEC Technology has become a wholly-owned subsidiary of the Company since then.

Following completion of the Acquisition, the principal activities of the Group are the design and sales of integrated circuits chips, and the development and management of electronic information technology industrial parks.

On 16 January 2014, the Company issued a 4.70% unsecured bonds due 2017 in the principal amount of RMB2,750 million (the "Bonds"). The Bonds bear interest at the rate of 4.70% per annum, will mature on 16 January 2017, and are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). 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.

2 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.

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 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The condensed consolidated interim financial information have been prepared under the historical cost convention as modified by the revaluation of investment properties and certain available-for-sale financial assets which are carried at fair value.

As both the Company and CEC Technology are under common control of CEC, these condensed consolidated interim financial information have been prepared using 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. These condensed consolidated interim financial information include the results and financial position of the companies comprising CEC Technology Group as if the Acquisition had occurred at previous balance sheet dates presented. Comparative figures for the six months ended 30 June 2013 and at 31 December 2013 have been restated on such basis.

The effects arising from the common control combination on the consolidated income statement for the six months ended 30 June 2013 and consolidated balance sheet at 31 December 2013 are summarised as follows:

	Amount previously reported	**Merger of CEC Technology Group**	**Restated**
	HK$'000	*HK$'000*	*HK$'000*
		(1)	
(i) The unaudited consolidated income statement for the six months ended 30 June 2013:			
Revenue	728,341	6,331	734,672
Profit/(loss) for the period	136,464	(32,745)	103,719
(ii) The audited consolidated balance sheet at 31 December 2013:			
Non-current assets	134,691	526,758	661,449
Current assets	1,601,013	360,566	1,961,579
Total assets	1,735,704	887,324	2,623,028
Non-current liabilities	7,739	71,200	78,939
Current liabilities	733,145	599,128	1,332,273
Total liabilities	740,884	670,328	1,411,212
Total equity	994,820	216,996	1,211,816

(1) The financial information of CEC Technology Group for the six months ended 30 June 2013 and at 31 December 2013 are included using the principles of merger accounting as prescribed in HKAG 5 as stated above. The difference of HK$579,026,000 between the investment cost of HK$755,905,000 and the paid-in-capital of CEC Technology of HK$176,879,000 was made to merger reserve upon completion of the Acquisition on 26 June 2014, which is captured under "Reserves".

3 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 2013.

(i) New and amended standards, and interpretations mandatory for the first time for the financial year beginning on 1 January 2014 did not have material impact on the results or financial position of the Group for the current period or are not currently relevant to the Group.

(ii) 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 2014 and have not been early adopted:

HKAS 16 and HKAS 38 (amendments)	Clarification of acceptable methods of depreciation and amortisation (effective from 1 January 2016)
HKFRS 9	Financial instruments (effective from 1 January 2018)
HKFRS15	Revenue from contracts with customers (effective from 1 January 2017)
Annual improvements 2012	Changes from the 2010-2012 cycle of the annual improvements project (effective from 1 January 2015)
Annual improvements 2013	Changes from the 2011-2013 cycle of the annual improvements project (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.

(iii) Change in functional currency of the Company

In prior years, the directors regarded Hong Kong dollar ("HK dollar") as the functional currency of the Company. On 16 January 2014, the Company issued a 4.70% unsecured bonds due 2017 in the principal amount of Renminbi ("RMB") 2,750 million and the Company's funds from financing activities have been primarily denominated in RMB since then. It is also the Company's present intention to raise any future funds in RMB. The directors reassessed the Company's functional currency and decided to change it from HK dollar to RMB starting from 1 January 2014 due to the change in the currency of the funds from financing activities and that majority of the future cash receipts (mainly dividend income) and expenditures (mainly interest expense) of the Company are expected to be in RMB.

The change in functional currency of the Company was applied prospectively from the date of change in accordance with HKAS 21 "The Effect of Changes in Foreign Exchange Rates". On the date of the change of functional currency, all assets, liabilities, issued share capital and other components of equity, and income statement items were translated into RMB at the exchange rate on that date.

(iv) Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in an associate includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in the statement of comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of result of an associate" in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(v) Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangement and determined it to be a joint venture. Joint venture is accounted for using the equity method of accounting. Under the equity method, interest in a joint venture is initially recognised at cost and adjusted thereafter to recognise the Group's share of post-acquisition profit or loss and movements in other comprehensive income. The Group's investment in a joint venture includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount adjacent to "share of result of a joint venture" in the income statement.

Unrealised gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint venture have been changed where necessary to ensure consistency with the policies adopted by the Group.

(vi) Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases.

Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Changes in fair values are recognised in profit or loss.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in profit or loss during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is under construction or development for future use as investment property is classified as investment property under construction. Where fair value of investment properties under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which fair value becomes reliably measurable.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised as a revaluation. The resulting increase in the carrying amount is recognised in other comprehensive income and increases revaluation surplus within equity. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement, and the remaining part of the increase is recognised in other comprehensive income and increases revaluation surplus within equity.

(vii) Properties under development

Properties under development are stated at the lower of cost and net realisable value, and included in inventories. Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

Development cost of property comprises cost of land use rights, construction costs, depreciation of machinery and equipment, borrowing costs capitalised for qualifying assets and professional fees incurred during the development period.

Properties under development are classified as current assets when the construction of the relevant properties commences unless the construction of the relevant property development project is expected to complete beyond normal operating cycle.

(viii) Land use rights

The Group made upfront payments to obtain operating leases of land use rights. For the land use rights held for self-use, the upfront payments are recorded as a separate asset and are amortised to profit or loss on a straight-line basis over their lease periods. For the land use rights held for sale, the upfront payments are recorded as land use right held for sale. Land use rights held for sale are stated at the lower of cost and net realisable value.

(ix) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(x) Rental income

Rental income from investment properties is recognised in the income statement on a straight-line basis over the term of the lease.

Tax charges for the interim periods are accrued using the tax rate that would be applicable to the expected total annual earnings.

4 Segment information

The Group is engaged in the following two operating segments:

– Design and sale of integrated circuits chips; and

– Development and management of electronic information technology industrial parks.

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 assess the performance of the two operating segments based on a measure of operating profit. The segment revenue and results are as follows:

For the six months ended 30 June 2014 (unaudited)

	Design and sale of integrated circuits chips	**Development and management of electronic information technology industrial parks**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Segment revenue	**700,777**	**2,887**	**703,664**
Share of result of an associate	**–**	**(3,892)**	**(3,892)**
Share of result of a joint venture	**–**	**(242)**	**(242)**
Depreciation and amortisation	**(13,808)**	**(2,453)**	**(16,261)**
Segment results	**204,297**	**(10,715)**	**193,582**
Unallocated corporate expenses			**(13,631)**
Finance costs – net			**(36,495)**
Profit before taxation			**143,456**

For the six months ended 30 June 2013 (unaudited)

	Design and sale of integrated circuits chips	Development and management of electronic information technology industrial parks	Total
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue	728,341	6,331	734,672
Share of result of an associate	–	(7,685)	(7,685)
Share of result of a joint venture	–	(144)	(144)
Depreciation and amortisation	(8,321)	(1,411)	(9,732)
Segment results	167,512	(22,385)	145,127
Unallocated corporate expenses			(10,310)
Finance costs – net			(7,768)
Profit before taxation			127,049

Unallocated corporate expenses are common costs incurred for the operating segments as a whole and therefore they are not included in the measure of the segments performance.

Revenues of HK$119,063,000 (2013: HK$107,552,000), HK$94,544,000 (2013: HK$108,320,000) and HK$74,228,000 (2013: HK$57,731,000), respectively, are derived from 3 external customers of the Group. These revenues are attributable to the operating segment of design and sale of integrated circuits chips.

Nearly 100% of the Group's revenue is attributable to the market in the People's Republic of China (the "PRC") and over 90% of the Group's non-current assets are located in the PRC. No geographical information is therefore presented.

5 Other gains – net

	Unaudited Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
		(Restated)
Government grants	**27,491**	13,000
Fair value gains on investment properties	**10,671**	6,809
Exchange losses	**(2,749)**	(539)
Others	**(1,160)**	2,311
	34,253	21,581

6 Finance costs – net

	Unaudited Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
		(Restated)
Finance costs:		
– Interest expense on borrowings	**105,531**	12,779
Less: Amounts capitalised on properties under development	**(6,106)**	–
	99,425	12,779
Finance income:		
– Interest income on deposits	**(62,930)**	(4,650)
– Interest income on long-term receivables	**–**	(361)
	(62,930)	(5,011)
Finance costs – net	**36,495**	7,768

The capitalisation rate applied to funds borrowed generally and used for the qualifying assets was 6.14% for the six months ended 30 June 2014 (2013: 6.07%).

7 Profit before taxation

The Group's profit before taxation has been arrived at after charging/(crediting) the following:

	Unaudited Six months ended 30 June 2014 *HK$'000*	2013 *HK$'000* (Restated)
Depreciation of property, plant and equipment	**5,089**	4,589
Amortisation of intangible assets	**11,172**	5,143
Research and development costs	**102,975**	82,966
(Reversal of provision)/provision for inventories	**(3,021)**	183
(Reversal of impairment)/impairment provision for trade receivables	**(27,550)**	52,826
Operating lease expenses on properties	**7,584**	7,538

8 Taxation

	Unaudited Six months ended 30 June 2014 *HK$'000*	2013 *HK$'000* (Restated)
Current taxation		
– PRC corporate income tax	**22,545**	32,470
Deferred taxation		
– PRC corporate income tax	**7,676**	(13,956)
– Withholding tax on undistributed profits *(Note (c))*	**5,042**	4,816
	12,718	(9,140)
	35,263	23,330

(a) No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profit in Hong Kong for the six months ended 30 June 2014 (2013: 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%.

9 Dividends

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2014 (2013: nil).

A dividend in respect of the year ended 31 December 2013 of HK$0.03 per share (2012: nil), amounting to a total dividend of HK$50,747,000, was proposed by the Board in March 2014. The dividend proposed was subsequently approved by the shareholders in May 2014 and the dividend was paid in June 2014.

10 Earnings per share

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

	Unaudited Six months ended 30 June **2014**	 2013 (Restated)
Profit for the period attributable to owners of the Company *(HK$'000)*	**109,734**	104,582
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,691,560,000**	1,691,560,000

No diluted earnings per share is presented as the Company did not have any potential ordinary shares outstanding.

11 Trade and other receivables

For the design and sale of integrated circuits chips operation, 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. For the development and management of electronic information technology industrial parks operation, there are generally no credit terms available for rental income. Included in trade and other receivables are trade receivables (net of provision for impairment) of HK$617,298,000 (31 December 2013: HK$546,431,000) and their ageing analysis is as follows:

	30 June 2014 (Unaudited) *HK$'000*	31 December 2013 (Audited) *HK$'000* (Restated)
Current to 30 days	**138,977**	304,259
31-60 days	**137,262**	76,330
Over 60 days and within 1 year	**301,253**	129,130
Over 1 year	**39,806**	36,712
	617,298	546,431

Included in the trade and other receivables under the non-current assets is a prepayment of HK$373,385,000 (2013: HK$63,595,000) for the property transfer right granted by CEC Information Technology Research Institute Co., Ltd（中電信息技術研究院有限公司）(" CEC Research Institute") to Huada Electronics, which Huada Electronics shall require CEC Research Institute to transfer the legal title of a 6-storey building in Beijing for its own office and a new research center by January 2016.

12 Trade and other payables

Included in trade and other payables are trade payables of HK$290,106,000 (31 December 2013: HK$285,092,000) and their ageing analysis is as follows:

	30 June 2014 (Unaudited) *HK$'000*	31 December 2013 (Audited) *HK$'000* (Restated)
Current to 30 days	**130,668**	99,100
31-60 days	**74,372**	66,410
Over 60 days	**85,066**	119,582
	290,106	285,092

13 Event after the balance sheet date

On 24 July 2014, CEC Technology, a subsidiary of the Company, entered into an entrustment agreement with China Electronics Financial Co., Ltd in relation to the provision of an entrusted loan in the principal amount of RMB400 million by CEC Technology to Hainan Resort Software Community Investment and Development Co. Ltd, an associate of CEC Technology.

BUSINESS REVIEW

Integrated circuits design operation

The Group's integrated circuits design operation 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 six months ended 30 June 2014, the Group has obtained 15 new patents.

Due to the further intensification of market price competition in 2014, the average selling prices of integrated circuits chip products were generally lower when comparing with those of the 2013. The Group has 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 an increase during the six months ended 30 June 2014, which compensated some of the impact of the decrease in the average selling prices of integrated circuits chip products on the revenue for the period. Revenue for the six months ended 30 June 2014 amounted to HK$700.8 million, representing a slight decrease of 3.8% when comparing with the corresponding period of last year. During the period under review, wage level within the industry and the overall operating costs generally increased, and have exerted pressure on the profitability of the integrated circuits design operation.

Research and development costs were HK$103.0 million in 2014 (2013: HK$83.0 million), which represented 14.7% of the revenue for the six months ended 30 June 2014 (2013: 11.4%). Research and development during the period primarily focused on the EMV card, mobile payment card and RFID ("radio frequency identification") chip products.

Government grants recognised as income increased by 111.5% to HK$27.5 million for the six months ended 30 June 2014 resulted from more government subsidies for research and development costs incurred in the period.

For the six months ended 30 June 2014, profit attributable to owners of the Company amounted to HK$204.3 million, representing an increase of 22.0% when comparing with the corresponding period of last year. The profit attributable to owners of the Company for the six months ended 30 June 2014 included the income from reversal of impairment provision for trade receivables of HK$27.6 million during the period while the corresponding period's results included an impairment provision for trade receivables of HK$52.8 million.

Currently, the application of smart cards in the PRC markets is mainly in the field of telecommunications, social security, identity identification, financial services, electricity, transportation and Internet of Things, etc. In the first half of 2014, enormous issuance of smart cards for sectors like social security, telecommunications and financial services, etc. has continued to take place, driving an overall growth in the domestic smart cards market. After many years of development, the Group has established a relatively leading position in its market share in social security card chips and telecommunication card chips, etc. At the same time, the Group has also been actively expanding into new sectors like financial services, transportation and Internet of Things, etc., and developing new products and exploring new customers.

Looking forward, on the one hand, the Group will continue to adhere to its independent innovation development strategy, increase its investments in science and technology, and actively expand into new smart card application business like financial services and other chip design segments. While on the other hand, it will grasp the development opportunities arising from the integrated circuits design sector and strive to maintain its leading position in that sector.

Electronic information technology industrial parks operation

The Group's electronic information technology industrial parks operation comprises:

1. Hainan Resort Software Community (海南生態軟件園) ("Hainan RSC"), which is wholly owned, developed and managed by Hainan Resort Software Community Investment and Development Co., Ltd (海南生態軟件園投資發展有限公司), an associate company of the Group;

2. CEC Xi'an Industrial Park (中國電子西安產業園) ("Xi'an Industrial Park"), which is wholly owned, developed and managed by China Electronics Xi'an Industrial Park Development Co., Ltd (中國電子西安產業園發展有限公司), a subsidiary of the Group; and

3. CEC Beihai Industrial Park（中國電子北海產業園）("Beihai Industrial Park"), which is wholly owned, developed and managed by China Electronics Beihai Industrial Park Development Co., Ltd（中國電子北海產業園發展有限公司）("CEC Beihai"), a subsidiary of the Group.

Hainan RSC

Hainan RSC is situated in Haikou, Hainan, with a planned total site area of 3,000 Mu, of which approximately 1,790 Mu of land has already been acquired, and application to the government for the remaining approximately 1,210 Mu is in progress. The overall planning of the park includes four functional zones: namely start-up zone, large-scale enterprises zone, livelihood-supporting zone and enterprise self-established zone. The start-up zone consists of Plot A and Plot B with a total site area of approximately 354 Mu, which now consists of 26 office buildings in Plot A, 29 office buildings in Plot B, an incubation building, and Laocheng Economic Development Zone Administration Affairs Service Centre, etc. The large-scale enterprises zone is located at Plot C, which is in the middle of Hainan RSC. It is customized specifically for enterprises with over 500 employees, occupying a site area of approximately 497 Mu and will be constructed along the river side with natural landscape of water flowing beneath a small bridge. The livelihood-supporting zone consists of Plot D, Plot E and Plot G, which will include five-star hotels, Meilun Tertiary Time Tropical Style Commercial Street（美輪第三時間熱帶風情商業街）, and youth entrepreneurship blocks zone, etc. It mainly offers high-quality leisure, shopping, accommodation, conference, food and beverages, and recreational services for the park. The enterprise self-established zone will be a self-built "park within park", and catering for the conglomerate's need. With the land provided by Hainan RSC, subject to complying with the overall planning requirement of Hainan RSC, enterprises can construct their own parks according to their own needs.

I. Mingyue Ju residential development project is located at Plot B in the start-up zone with a gross floor area of 33,000 square metres. The construction of Mingyue Ju has commenced in the second half of 2012 and is scheduled for completion in the second half of 2014. Mingyue Ju is intended to hold for sales and, of which approximately 15,000 square metres were pre-sold as at 30 June 2014.

II. The construction of Meilun Tertiary Time Tropical Style Commercial Street in Plot E has commenced in the first half of 2013. It occupies a site area of 90 Mu. Its overall construction planning and design covers 16 blocks of building with a total gross floor area of 72,000 square metres. The gross floor area of these buildings ranges from 300 to 6,000 square metres. It is scheduled to deliver for use in the second half of 2014. Upon completion, the commercial street is intended to hold for rental purposes. Pre-marketing and pre-leasing went well as at 30 June 2014.

III. The large-scale enterprises zone in Plot C consists of four phases, and construction has commenced in the first half of 2014. Phase I consists of 13 office buildings with a total gross floor area of 43,000 square metres. The gross floor area of these buildings ranges from 1,600 to 10,000 square metres. As at 30 June 2014, the foundation work was in progress and the construction is scheduled for completion in the second half of 2015. Upon completion, it is intended to hold for rental purposes.

IV. Youth entrepreneurship blocks zone in Plot G is planned to consist of three phases. Phase I consists of 3 residential buildings with a total gross floor area of 96,000 square metres, and construction has commenced in the first half of 2014. As at 30 June 2014, the pillar foundation stage was completed and the construction is scheduled for completion in the second half of 2015. Upon completion, it is intended to hold for sales.

Xi'an Industrial Park

Xi'an Industrial Park occupies a site area of 470 Mu, of which 202 Mu of land has already been acquired, and application to the government for the remaining 268 Mu is in progress. Adjustments to the overall planning of the industrial park is in progress and is scheduled for completion in the second half of 2014, and of which the planning of Phase I and II with a site area of approximately 100 Mu had already been determined.

Phase I consists of 5 office buildings. The gross floor area of No. 1 to No. 4 office building ranges from 2,000 to 4,000 square metres, and the gross floor area of No. 5 office building is 17,000 square metres. The construction of Phase I has commenced in the second half of 2013 and is scheduled for completion in the second half of 2014. No. 1 to No. 4 building of Phase I are intended to hold for sales. No. 1 and No. 2 building will be sold to Huada Electronics, and No. 3 and No. 4 building are currently under the pre-marketing stage. No. 5 building of Phase I is intended to hold for rental purposes.

Phase II consists of 9 buildings. No. 1 to No. 7 building are single block of office building with gross floor area ranges from 2,000 to 6,000 square metres, and No. 8 office building's gross floor area is 50,000 square metres. No. 9 building is a steel-structured two-storey training centre with a gross floor area of 7,000 square metres. The construction of No. 9 building of Phase II has commenced in the first half of 2014 and is scheduled for completion in the first half of 2015. Development for No. 1 to No. 8 building of Phase II will commence in the second half of 2014 and is scheduled for completion in 2015. No. 1 to No. 7 building are intended to hold for sales and are currently under the pre-marketing stage. No. 9 building is intended to hold for rental purposes and will be leased out for a term of 10 years upon completion. No. 8 building of Phase II is intended to hold for rental purposes.

Beihai Industrial Park

CEC Beihai has been actively negotiating with the People's Government of Beihai on the joint development and construction of Beibu Gulf Eco-Wisdom Electronics City（北部灣智慧生態電子城）. This project is built on the existing Beihai Industrial Park, oriented by high and new technology industries, and adopted the Wisdom City and IOC construction concept as means to excel a new generation of industrial-urban integration demonstration zone. The objective is to establish Beibu Gulf Eco-Wisdom Electronics City as the engine for the industrial development and urban construction of Beibu Gulf. Detailed planning and core district urban design of this project was completed in the first half of 2014 and CEC Beihai is in discussion with the local government in respect of the site selection for the start-up zone, etc. of this 4,500 Mu project. In addition, Beihai Industrial Park has also been actively exploring various business operation service model and soft environment for industrial development in the park and under the existing common services platform, has improved the software and hardware facilities of cloud-service platform servicing the middle- and small-sized enterprises, and expanded the supporting services provided to these enterprises in the park in the first half of 2014.

Electronic information technology industrial park market in the PRC is still at its initial development stage. Given the Group's electronic information technology industrial parks are all located at sites which offer convenient transportation and affluent economic resources, various favorable policies such as "Policies regarding the support for the development of the State's information technology bases and industrial parks"（《支持國家電子信息產業基地和產業園發展的若干政策》）promulgated by the PRC government that are being rolled out to support the industry, the comprehensive supporting facilities within the industrial parks and the funding obtained from the issue of the unsecured bonds in 2014 will be catalysts for the sustainable development of these industrial parks.

Looking forward, with the opportunities that are presented and the strategies that are to be adopted as well as the support from CEC, the Group's electronic information technology industrial parks will eventually be transformed into fully-functional eco-wisdom electronics cities, which will ensure the Group's sustainable growth.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2014 (2013: nil).

FINANCIAL REVIEW

The Group generally finance its working capital and funding requirements through internal resources, bank and other borrowings, and issuance of corporate bonds. At 30 June 2014, the Group had cash and cash equivalents amounted to HK$1,555.0 million, 99.3% of which was denominated in Renminbi, 0.4% in United States dollars and 0.3% in Hong Kong dollars (31 December 2013: HK$791.8 million, 99.1% of which was denominated in Renminbi, 0.4% in United States dollars and 0.5% in Hong Kong dollars).

At 30 June 2014, the Group had total bank and other borrowings of HK$526.6 million, all of which were denominated in Renminbi (31 December 2013: HK$508.5 million, all of which were denominated in Renminbi). Among these borrowings, (i) HK$178.9 million (31 December 2013: HK$91.6 million) borrowings was secured by non-current fixed assets of the Group and HK$347.7 million (31 December 2013: HK$416.9 million) were unsecured and guaranteed by CEC for the Group, and (ii) HK$461.1 million and HK$65.5 million (31 December 2013: HK$442.4 million and HK$66.1 million respectively) were borrowed at fixed and variable interest rates respectively. At 30 June 2014, committed borrowing facilities available to the Group but not drawn amounted to HK$477.4 million.

At 30 June 2014, certain assets of the Group with an aggregate carrying value of HK$417.4 million (31 December 2013: HK$263.6 million) were pledged as collateral for borrowings obtained by its subsidiaries.

On 16 January 2014, the Company issued a 4.70% unsecured bonds due 2017 in the principal amount of RMB2,750 million. 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 and are listed on the Stock Exchange. 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. Pursuant to the keepwell deed, CEC, as the ultimate controlling shareholder of the Company, undertakes to, inter alia, directly or indirectly own and hold more than 50% the outstanding shares of the Company.

The Group's revenue are mainly 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 30 June 2014, the Group had net current assets of HK$3,073.4 million (31 December 2013: HK$629.3 million). The overall gearing ratio, which is calculated as the total liabilities over total assets of the Group, was 91.7% (31 December 2013: 53.8%).

At 30 June 2014, the Group did not have any material capital commitment (31 December 2013: nil) for the acquisition of fixed assets and intangible assets. The Group did not have any material contingent liability at 30 June 2014 (31 December 2013: nil).

EMPLOYEE AND REMUNERATION POLICIES

At 30 June 2014, the Group had approximately 460 employees, the majority of whom were based in the PRC. Employee benefit expenses during the period were HK$98.8 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.

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 six months ended 30 June 2014.

CORPORATE GOVERNANCE CODE

The Company has complied with all the applicable code provisions in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2014.

LISTING RULES COMPLIANCE

Following the retirement of Mr. Yin Yongli on 24 May 2014, the number of (i) independent non-executive director of the Company, (ii) independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise (the "Appropriate Expertise"), (iii) the audit committee member and (iv) the audit committee member whom is an independent non-executive director with Appropriate Expertise fell below the minimum number required under the Listing Rules.

On 20 August 2014, the Board resolved to propose that Mr. Chow Chan Lum to be appointed as an independent non-executive director of the Company, a member of the remuneration and nomination committee of the Board, and a member of the audit committee of the Board. Upon the appointment of Mr. Chow taking effect, the Company will comply with the relevant requirements under the Listing Rules.

AUDIT COMMITTEE

The audit committee has reviewed the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2014.

PUBLICATION OF INTERIM REPORT

The 2014 interim report will be published on the website of the Company (www.cecholding.com) and on the website of the Stock Exchange (www.hkex.com.hk) in due course.

PROPOSED APPOINTMENT OF DIRECTOR

The Company is pleased to announce that the Board resolved to propose that Mr. Chow Chan Lum be appointed as an independent non-executive director of the Company, a member of the remuneration and nomination committee of the Board, and a member of the audit committee of the Board. An ordinary resolution to consider and approve the appointment of Mr. Chow Chan Lum as an independent non-executive director of the Company will be proposed at a general meeting of the Company.

Mr. Chow Chan Lum, aged 63, graduated from The Chinese University of Hong Kong with a Bachelor of Business Administration degree in 1974, received a Postgraduate Diploma in Accountancy from the University of Strathclyde in Glasgow, United Kingdom in 1975 and was awarded a Postgraduate Diploma in China Law by the University of Macau (formerly known as the University of East Asia) in 1987. Mr. Chow has been a member of the Institute of Chartered Accountants of Scotland since 1979 and is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chow is the precedent partner of Wong Brothers & Co, Certified Public Accountants, and a member of the Foreign Experts Consultative Committee on China Independent Auditing Standards of the PRC Ministry of Finance. Mr. Chow served on a number of committees of the Hong Kong Institute of Certified Public Accountants, including as the deputy chairman of the Auditing & Assurance Standards Committee, and a member of the Investigation Panel and the Professional Standards Monitoring Committee, and as president of The Taxation Institute of Hong Kong. Mr. Chow serves as an honorary advisor and committee member of various social bodies, and has been a member of the Chinese People's Political Consultative Conference of Guangdong Province, the PRC from 1997 to 2012. Mr. Chow is also an independent non-executive director of Maoye International Holdings Limited, and has been an independent non-executive director of China Aerospace International Holdings Limited from 2002 to 2012 and Pak Tak International Limited from 2002 to 2014. Mr. Chow was awarded the Medal of Honor by the Government of the Hong Kong Special Administrative Region of the PRC in 2013. Save as disclosed above, Mr. Chow has not held any directorship in any other listed public companies in the past three years.

Mr. Chow Chan Lum has not entered into any service contract with the Company which provides for a specified length of service. Mr. Chow Chan Lum will be subject to retirement by rotation and re-election under the bye-laws of the Company and the Listing Rules. Mr. Chow Chan Lum will receive an annual remuneration of HK$200,000 in his capacity as an independent non-executive director of the Company, a member of the remuneration and nomination committee of the Board, and a member of the audit committee of the Board and will also be entitled to a discretionary bonus, as determined with reference to his duties, responsibilities and to the prevailing market conditions.

Save as disclosed herein, Mr. Chow Chan Lum does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company. As of the date of this announcement, Mr. Chow Chan Lum does not have any interest in shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Save as disclosed herein, there is no other matter relating to the proposed appointment of Mr. Chow Chan Lum that needs to be brought to the attention of the shareholders of the Company, nor is there any information which is required to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Listing Rules.

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

Hong Kong, 20 August 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. Liu Hongzhou (Vice Chairman), Mr. Xie Qinghua (Managing Director) and Mr. Liu Jinping, and two Independent Non-executive Directors, namely Mr. Chan Kay Cheung and Mr. Qiu Hongsheng.