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 ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016 AND CHANGES IN COMPOSITION OF BOARD COMMITTEE

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 2016 as follows:

AUDITED CONSOLIDATED INCOME STATEMENT

	Year ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Revenue	**1,358,953**	1,720,099
Cost of sales	**(852,858)**	(1,117,354)
Gross profit	**506,095**	602,745
Other income and gains – net	**142,647**	193,326
Selling and marketing costs	**(101,484)**	(90,410)
Administrative expenses	**(411,668)**	(504,957)
Operating profit	**135,590**	200,704
Finance income	**19,953**	33,009
Finance costs	**(188,572)**	(180,592)
Finance costs – net	**(168,619)**	(147,583)
Share of result of an associate	**455,513**	–
Share of result of a joint venture	**1,039**	(13)
Profit before taxation	**423,523**	53,108
Taxation	**(9,434)**	(30,011)
Profit for the year from continuing operations	**414,089**	23,097
Discontinued operation		
Profit for the year from discontinued operation	**647,781**	133,688
Profit for the year	**1,061,870**	156,785

* *For identification purposes only*

AUDITED CONSOLIDATED INCOME STATEMENT *(Cont'd)*

	Year ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
		(Restated)
Profit/(loss) for the year attributable to:		
Owners of the Company	**1,061,166**	177,353
Non-controlling interests	**704**	(20,568)
	1,061,870	156,785
Profit for the year attributable to owners of the Company arises from:		
Continuing operations	**412,449**	60,289
Discontinued operation	**648,717**	117,064
	1,061,166	177,353
Dividend	**60,896**	60,896
	HK cents	*HK cents*
Basic earnings per share		
Continuing operations	**20.32**	2.97
Discontinued operation	**31.96**	5.77
	52.28	8.74

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
		(Restated)
Profit for the year	**1,061,870**	156,785
Other comprehensive income for the year:		
Items that will not be subsequently reclassified to profit or loss:		
Share of an associate's revaluation gains on properties	**5,201**	–
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**(77,255)**	(90,939)
Total comprehensive income for the year	**989,816**	65,846
Total comprehensive income for the year attributable to:		
Owners of the Company	**989,918**	91,729
Non-controlling interests	**(102)**	(25,883)
	989,816	65,846
Total comprehensive income for the year attributable to owners of the Company arises from:		
Continuing operations	**349,210**	(8,617)
Discontinued operation	**640,708**	100,346
	989,918	91,729

AUDITED CONSOLIDATED BALANCE SHEET

	31 December 2016 *HK$'000*	31 December 2015 *HK$'000* (Restated)
ASSETS		
Non-current assets		
Property, plant and equipment	**429,681**	450,825
Land use rights	**11,944**	13,219
Intangible assets	**5,958**	15,431
Investment in an associate	**2,449,780**	–
Investment in a joint venture	**6,406**	5,776
Trade and other receivables	**–**	68,175
Deferred tax assets	**16,965**	24,963
Available-for-sale financial assets	**7,267**	2,387
	2,928,001	580,776
Current assets		
Inventories	**257,010**	296,365
Trade and other receivables	**964,736**	1,094,052
Taxation recoverable	**–**	7,047
Available-for-sale financial assets	**37,249**	147,237
Short-term deposits and investments	**127,601**	1,846,675
Cash in transit	**866,754**	–
Cash and cash equivalents	**911,917**	777,065
	3,165,267	4,168,441
Assets of disposal group classified as held for sale	**–**	1,972,040
	3,165,267	6,140,481
Total assets	**6,093,268**	6,721,257

AUDITED CONSOLIDATED BALANCE SHEET *(Cont'd)*

	31 December 2016	31 December 2015
	HK$'000	*HK$'000*
		(Restated)
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital and premium	**825,454**	825,454
Reserves	**(768,398)**	(530,182)
Retained earnings	**1,610,720**	1,140,865
	1,667,776	1,436,137
Non-controlling interests	**12,873**	114,838
Total equity	**1,680,649**	1,550,975
Liabilities		
Non-current liabilities		
Unsecured corporate bonds	**–**	3,258,479
Deferred tax liabilities	**7,812**	5,686
	7,812	3,264,165
Current liabilities		
Deferred government grants	**34,532**	122,271
Advances from customers	**3,132**	3,170
Trade and other payables	**792,072**	609,473
Unsecured corporate bonds	**3,069,502**	–
Bank and other borrowings	**477,621**	17,904
Income tax payable	**27,948**	34,544
	4,404,807	787,362
Liabilities of disposal group classified as held for sale	**–**	1,118,755
	4,404,807	1,906,117
Total liabilities	**4,412,619**	5,170,282
Total equity and liabilities	**6,093,268**	6,721,257

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 (the "PRC").

On 26 June and 27 August 2015, CEC Huada Electronic Design Co., Ltd ("Huada Electronics"), a wholly-owned subsidiary of the Company, entered into agreements to acquire 73.43% equity interest in Shanghai Huahong Integrated Circuit Co., Ltd ("Huahong") from Huada Semiconductor Co., Ltd, the controlling shareholder of the Company and Huahong, for a cash consideration of Renminbi ("RMB") 550,700,000 (equivalent to HK$643,928,000) and to acquire a total of 22.21% equity interest in Huahong from Huahong's other shareholders which were not controlled by CEC for a total cash consideration of RMB166,600,000 (equivalent to HK$194,804,000) (the "Acquisition"). Huahong is primarily engaged in the design and sale of integrated circuit chips in the PRC. Completion of the Acquisition took place on 5 February 2016 and Huahong has become a 95.64% owned subsidiary of the Company since then.

On 14 December 2015, the Company entered into agreements (i) to dispose of 100% equity interest in China Electronics Technology Development Co., Ltd ("CEC Technology") to China Electronics Optics Valley Union Holding Company Limited ("CEOVU") for RMB699,854,600, which shall be satisfied by the allotment and issuance of 1,058,530,083 new ordinary shares of CEOVU at a price of HK$0.8 per share and (ii) to subscribe in cash of 1,491,469,917 new ordinary shares of CEOVU at a price of HK$0.8 per share at a consideration of HK$1,193,175,934, for the acquisition of 31.88% interest in CEOVU (the "Transaction"). CEOVU, an independent third party prior to the Transaction, has its shares listed on The Stock Exchange of Hong Kong Limited and is a leading multi-theme business parks developer engaging in the development and operation of large-scale business parks with distinctive industry themes in the PRC. Completion of the Transaction took place on 30 June 2016 and CEOVU has become an associate of the Company since then.

Following completion of the Acquisition and the Transaction, the principal activities of the Group are the design and sale of integrated circuit chips.

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 all applicable 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 as modified by the revaluation of investment properties and certain available-for-sale financial assets which are carried at fair value.

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.

As both the Company and Huahong are under common control of CEC, these consolidated financial statements 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 consolidated financial statements include the results and financial position of Huahong as if the Acquisition had occurred at previous balance sheet dates presented. Comparative figures for the year ended 31 December 2015 and at 31 December 2015 have been restated on such basis.

The effects arising from the common control combination on the consolidated income statement for the year ended 31 December 2015, and the consolidated balance sheet at 31 December 2015 are summarised as follows:

	Amount previously reported *HK$'000*	**Huahong** *HK$'000* *(1)*	**Restated** *HK$'000*
(i) The consolidated income statement for the year ended 31 December 2015:			
Revenue	1,264,001	456,098	1,720,099
Profit/(loss) for the year	296,758	(139,973)	156,785

	Amount previously reported *HK$'000*	Huahong *HK$'000* *(1)*	Restated *HK$'000*
(ii) The consolidated balance sheet at 31 December 2015:			
Non-current assets	523,634	57,142	580,776
Current assets	5,655,523	484,958	6,140,481
Total assets	6,179,157	542,100	6,721,257
Current liabilities	1,640,113	266,004	1,906,117
Total liabilities	4,904,278	266,004	5,170,282
Total equity	1,274,879	276,096	1,550,975

(1) The financial statements of Huahong for the year ended 31 December 2015 are included using the principles of merger accounting as prescribed in HKAG 5 as stated above.

(b) New standards, amendments to standards and interpretations

During the year ended 31 December 2016, the Group had adopted the following amended standards and interpretation that are relevant to its operations and effective for the accounting period beginning on 1 January 2016:

Annual improvements 2014	Changes from the 2012-2014 cycle of the annual improvements project
HKAS 16 and HKAS 38 (amendments)	Clarification of acceptable methods of depreciation and amortisation
HKAS 1 (amendments)	Disclosure initiative
HKAS 27 (amendments)	Equity method in separate financial statements

The adoption of the above amended standards and interpretation 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 operation of the Group have been issued but are not effective for the accounting period beginning on 1 January 2016 and have not been early adopted:

HKAS 7 (amendments)	Disclosure initiative (effective from 1 January 2017)
HKAS 12 (amendments)	Recognition of deferred tax assets for unrealised losses (effective from 1 January 2017)
HKFRS 9	Financial instruments (effective from 1 January 2018)
HKFRS 15	Revenue from contracts with customers (effective from 1 January 2018)
HKFRS 16	Leases (effective from 1 January 2019)
HKFRS 10 and HKAS 28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture (effective date not yet determined)

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

(c) Going concern

As at 31 December 2016, the Group's current liabilities exceeded its current assets by HK$1,239,540,000 primarily due to the fact that the Company has liabilities under unsecured bonds in the principal amount of RMB2,750,000,000 (the "Bonds") due for repayment on 16 January 2017. In January 2017, the Company obtained unsecured short-term bank borrowings of approximately RMB1.8 billion (the "New Borrowings") and redeemed the Bonds in full on maturity. The New Borrowings are guaranteed by CEC and are due for repayment in January 2018.

The Board has reviewed the Group's cash flow projections which cover a period of not less than twelve months from 31 December 2016. Given that the New Borrowings are guaranteed by CEC, and taking into account the financial resources available to the Group, including the internally generated funds, expected renewal and extension of borrowings upon their maturity and the available committed borrowing facilities, the Board considers that there are sufficient financial resources available to the Group to meet its financial liabilities as and when they fall due in the coming twelve months from 31 December 2016. Accordingly, the Board has prepared the consolidated financial statements on a going concern basis.

REVENUE AND SEGMENT INFORMATION

The Group is engaged in the following two operating segments:

– Design and sale of integrated circuit chips; and

– Development and management of electronic information technology industrial parks.

The development and management of electronic information technology industrial parks operating segment was disposed of on 30 June 2016 and was classified as discontinued operation of the Group accordingly.

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 Board assesses the performance of the two operating segments based on a measure of operating profit excluding unallocated corporate interest income and expenses. The segment revenue and results are as follows:

For the year ended 31 December 2016

	Continuing operations – Design and sale of integrated circuit chips *HK$'000*	Discontinued operation – Development and management of electronic information technology industrial parks *HK$'000*	Total *HK$'000*
Segment revenue			
Sale of integrated circuit products	**1,358,953**	**–**	**1,358,953**
Rental income from investment properties	**–**	**19,008**	**19,008**
	1,358,953	**19,008**	**1,377,961**
Share of result of a joint venture	**1,039**	**–**	**1,039**
Fair value gains on investment properties	**–**	**45,395**	**45,395**
(Impairment provision)/reversal of impairment provision	**(47,350)**	**312**	**(47,038)**
Depreciation and amortisation expenses	**(52,806)**	**–**	**(52,806)**
Gain on disposal of the discontinued operation	**–**	**620,794**	**620,794**
Segment results	**125,074**	**655,784**	**780,858**
Share of result of an associate			**455,513**
Unallocated corporate interest income			**76,598**
Unallocated corporate expenses			**(41,507)**
Finance costs – net			**(170,326)**
Profit before taxation			**1,101,136**

For the year ended 31 December 2015

	Continuing operations – Design and sale of integrated circuit chips *HK$'000* (Restated)	Discontinued operation – Development and management of electronic information technology industrial parks *HK$'000*	Total *HK$'000* (Restated)
Segment revenue			
Sale of integrated circuit products	1,720,099	–	1,720,099
Rental income from investment properties	–	13,291	13,291
	1,720,099	13,291	1,733,390
Share of result of an associate	–	44,276	44,276
Share of result of a joint venture	(13)	(2,571)	(2,584)
Fair value gains on investment properties	–	95,649	95,649
Impairment provision	(46,610)	(156)	(46,766)
Depreciation and amortisation expenses	(59,578)	(5,040)	(64,618)
Segment results	179,686	123,019	302,705
Unallocated corporate interest income			118,336
Unallocated corporate expenses			(42,160)
Finance costs – net			(167,079)
Profit before taxation			211,802

Unallocated corporate interest income and expenses are common income and expenses generated from the operating segments as a whole and therefore they are not included in the measure of the segments' performance.

Revenues of HK$296,322,000 (2015: HK$213,306,000) and HK$164,778,000 (2015: HK$173,697,000), respectively, are derived from 2 external customers of the Group. These revenues are attributable to the operating segment of design and sale of integrated circuit chips. Save as disclosed herein, no revenues derived from a single external customer have exceeded 10% of the total revenues of the Group.

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. No geographical information is therefore presented.

OTHER INCOME AND GAINS – NET

	2016	2015
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Government grants	**95,048**	142,651
Exchange losses	**(4,937)**	(4,504)
Interest income on short-term deposits and investments	**2,059**	57,101
Interest income on entrusted loans	**48,502**	–
Interest income on available-for-sale financial assets	**2,501**	6,064
Others	**(526)**	(7,986)
	142,647	193,326
Discontinued operation		
Government grants	**2,371**	6,784
Fair value gains on investment properties	**45,395**	95,649
Interest income on entrusted loans	**23,249**	52,827
Interest income on available-for-sale financial assets	**287**	2,344
Others	**(29)**	3,651
	71,273	161,255

EXPENSES BY NATURE

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

	2016	2015
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Depreciation and amortisation expenses	**52,806**	59,578
Employee benefit expenses	**261,315**	275,373
Changes in inventories of finished goods and work in progress	**39,355**	219,812
Raw materials and consumables used	**783,275**	825,115
Impairment provision for trade and other receivables	**16,947**	5,914
Provision for inventories	**30,403**	40,696
Operating lease expenses on properties	**20,136**	20,674
Auditor's remuneration	**3,712**	6,787
Discontinued operation		
Depreciation and amortisation expenses	**–**	5,040
Employee benefit expenses	**14,140**	19,414
(Reversal of impairment)/impairment provision for trade and other receivables	**(312)**	156
Operating lease expenses on properties	**175**	817
Auditor's remuneration	**–**	335

Research and development costs for the continuing operations for the year ended 31 December 2016 were HK$276,801,000 (2015: HK$396,694,000) and mainly comprised of employee costs of HK$158,638,000 (2015: HK$191,999,000) and material costs of HK$44,683,000 (2015: HK$107,660,000). No research and development costs were capitalised during the year ended 31 December 2016 (2015: nil).

FINANCE COSTS – NET

	2016	2015
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Finance costs:		
– Interest expense on borrowings	**188,572**	180,592
Finance income:		
– Interest income on cash and cash equivalents	**(19,953)**	(33,009)
Finance costs – net	**168,619**	147,583
Discontinued operation		
Finance costs:		
– Interest expense on borrowings	**3,703**	45,389
Less: Amounts capitalised on properties under development *(Note (a))*	**(1,496)**	(20,762)
	2,207	24,627
Finance income:		
– Interest income on cash and cash equivalents	**(500)**	(5,131)
Finance costs – net	**1,707**	19,496

(a) The capitalisation rate applied to funds borrowed generally and used for the qualifying assets was 5.25% for the year ended 31 December 2016 (2015: 4.60%).

SHARE OF RESULT OF AN ASSOCIATE

On 30 June 2016, the Company completed the acquisition of 31.88% interest in CEOVU and CEOVU has become an associate of the Company since then. The Group's share of result from CEOVU for the year ended 31 December 2016 was HK$455.5 million, primarily attributable to an accounting gain representing negative goodwill of HK$409.4 million arising from the acquisition of 31.88% interest in CEOVU.

TAXATION

	2016	2015
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Current taxation		
– PRC corporate income tax	**546**	16,640
– Withholding tax on distributed profits *(Note (c))*	**–**	8,448
	546	25,088
Deferred taxation		
– PRC corporate income tax	**5,474**	3,711
– Withholding tax on undistributed profits *(Note (c))*	**3,414**	1,212
	8,888	4,923
	9,434	30,011
Discontinued operation		
Current taxation		
– PRC corporate income tax	**201**	–
– Withholding tax on disposal of the discontinued operation	**14,385**	–
	14,586	–
Deferred taxation		
– PRC corporate income tax	**15,246**	25,006
	29,832	25,006

(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 (2015: nil).

(b) In accordance with the corporate income tax laws of the PRC, the applicable statutory tax rate of Huada Electronics and Huahong is 25%. However, Huada Electronics qualified as an "Integrated Circuit Design Enterprises in National Planning Layout" ("ICDE") and Huahong qualified as a "High and New Technology Enterprise" ("HNTE") and thus enjoyed a 10% and a 15% preferential tax rate, respectively, for the year ended 31 December 2016. Based on management's self-assessment and their track record of success in obtaining such qualifications, it is highly likely that Huada Electronics and Huahong will continue to qualify as an ICDE and a HNTE, respectively, after the year ended 31 December 2016.

(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:

	2016	2015
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Profit before taxation	**423,523**	53,108
Calculated at respective applicable statutory tax rates	**79,742**	25,566
Effect of tax concession	**(5,499)**	(21,931)
Research and development costs additional deductions	**(26,320)**	(23,923)
Income not subject to tax	**(75,331)**	–
Expenses not deductible for taxation purposes	**6,016**	1,691
Effect of change in tax rate on deferred taxation	**8,147**	(20,514)
Temporary differences for which no deferred tax asset was recognised	**5,865**	15,131
Utilisation of previously temporary differences for which no deferred tax asset was recognised	**(14,905)**	(3,041)
Withholding tax on distributed profits and current year's undistributed profits	**3,414**	9,660
Tax losses for which no deferred tax asset was recognised	**36,576**	47,372
Over-provision in prior years	**(8,271)**	–
Taxation expense	**9,434**	30,011

	2016	2015
	HK$'000	*HK$'000*
Discontinued operation		
Profit before taxation	**677,613**	158,694
Calculated at respective applicable statutory tax rates	**169,403**	39,674
Income not subject to tax	**(154,377)**	(10,426)
Withholding tax on disposal of the discontinued operation	**14,385**	–
Expenses not deductible for taxation purposes	**421**	425
Temporary differences for which no deferred tax asset was recognised	**–**	2,407
Utilisation of previously unrecognised tax losses	**–**	(7,077)
Tax losses for which no deferred tax asset was recognised	**–**	3
Taxation expense	**29,832**	25,006

DISCONTINUED OPERATION

On 30 June 2016, the Group disposed of 100% equity interest in CEC Technology to CEOVU for a consideration of 1,058,530,083 new ordinary shares of CEOVU and subscribed in cash of HK$1,193,175,934 for 1,491,469,917 new ordinary shares of CEOVU.

(a) The results of the discontinued operation are set out below:

	2016	2015
	HK$'000	*HK$'000*
Profit for the year from discontinued operation		
Revenue	**19,008**	13,291
Cost of sales	**(10,697)**	(4,025)
Gross profit	**8,311**	9,266
Other income and gains – net	**71,273**	161,255
Selling and marketing costs	**(1,855)**	(4,116)
Administrative expenses	**(19,203)**	(29,920)
Operating profit	**58,526**	136,485
Finance income	**500**	5,131
Finance costs	**(2,207)**	(24,627)
Finance costs – net	**(1,707)**	(19,496)
Share of result of an associate	**–**	44,276
Share of result of a joint venture	**–**	(2,571)
Gain on disposal of the discontinued operation	**620,794**	–
Profit before taxation	**677,613**	158,694
Taxation	**(29,832)**	(25,006)
Profit for the year from discontinued operation	**647,781**	133,688
Profit/(loss) for the year from discontinued operation attributable to:		
Owners of the Company	**648,717**	117,064
Non-controlling interests	**(936)**	16,624
	647,781	133,688

(b) Details of the gain on disposal of the discontinued operation are as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	30,727
Investment properties	646,173
Intangible assets	754
Investment in an associate	92,886
Investment in a joint venture	17,262
Deferred tax assets	30,290
Inventories	327,512
Trade and other receivables	884,012
Available-for-sale financial assets	59,049
Cash and cash equivalents	95,054
Deferred tax liabilities	(43,678)
Advances from customers	(25,511)
Trade and other payables	(91,448)
Bank and other borrowings	(1,573,069)
Income tax payable	(64,671)
Non-controlling interests	(111,839)
	273,503
Release of translation reserve to profit or loss upon disposal	80,027
	353,530
Fair value of the consideration:	
Fair value of the consideration for the disposal of the discontinued operation and the subscription of 1,491,469,917 new ordinary shares of CEOVU *(Note (i))*	2,167,500
Less: Consideration for the subscription of 1,491,469,917 new ordinary shares of CEOVU	(1,193,176)
	974,324
Gain on disposal of the discontinued operation	620,794

(i) Given the disposal of CEC Technology and the subscription of 1,491,469,917 new ordinary shares of CEOVU are inter-conditional on each other, both transactions were considered together when calculating the gain on disposal of CEC Technology to reflect the accounting impact and effect of the transactions as a whole. Based on a fair value of HK$0.85 per ordinary share of CEOVU and a total of 2,550,000,000 ordinary shares of CEOVU acquired, the fair value of the consideration for the disposal of CEC Technology and the subscription of 1,491,469,917 new ordinary shares of CEOVU is HK$2,167,500,000.

DIVIDEND

	2016	2015
	HK$'000	*HK$'000*
Proposed dividend	**60,896**	60,896

The Board recommends the payment of a dividend of HK3.0 cents per share for the year ended 31 December 2016 (2015: HK3.0 cents per share). Subject to approval by the shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting (the "AGM"), the dividend will be distributed on or about 31 July 2017. The proposed dividend of HK$60,896,000 (2015: HK$60,896,000), calculated based on the Company's number of shares issued at the date of this announcement, is not recognised as a liability in these consolidated financial statements.

EARNINGS PER SHARE

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

	2016	2015 (Restated)
Continuing operations		
Profit for the year from continuing operations attributable to owners of the Company *(HK$'000)*	**412,449**	60,289
Weighted average number of ordinary shares for the purposes of basic earnings per share	**2,029,872,000**	2,029,872,000
Basic earnings per share *(HK cents)*	**20.32**	2.97
Discontinued operation		
Profit for the year from discontinued operation attributable to owners of the Company *(HK$'000)*	**648,717**	117,064
Weighted average number of ordinary shares for the purposes of basic earnings per share	**2,029,872,000**	2,029,872,000
Basic earnings per share *(HK cents)*	**31.96**	5.77
Continuing and discontinued operations		
Profit for the year attributable to owners of the Company *(HK$'000)*	**1,061,166**	177,353
Weighted average number of ordinary shares for the purposes of basic earnings per share	**2,029,872,000**	2,029,872,000
Basic earnings per share *(HK cents)*	**52.28**	8.74

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

TRADE RECEIVABLES

Included in trade and other receivables are trade receivables of HK$895,515,000 (2015: HK$1,046,371,000). For the design and sale of integrated circuit 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. At 31 December 2016, the ageing analysis of the trade receivables (net of provision for impairment) based on revenue recognition date is as follows:

	2016	2015
	HK$'000	*HK$'000*
		(Restated)
Current to 30 days	**161,025**	239,355
31 – 60 days	**155,766**	203,026
Over 60 days and within 1 year	**455,324**	557,771
Over 1 year	**123,400**	46,219
	895,515	1,046,371

TRADE PAYABLES

Included in trade and other payables are trade payables of HK$335,416,000 (2015: HK$266,314,000) and their ageing analysis mainly based on the date of invoices is as follows:

	2016	2015
	HK$'000	*HK$'000*
		(Restated)
Current to 30 days	**201,178**	131,613
31 – 60 days	**67,798**	55,374
Over 60 days	**66,440**	79,327
	335,416	266,314

SUBSEQUENT EVENTS

In January 2017, the Company obtained the New Borrowings and redeemed the Bonds in full on maturity.

On 3 March 2017, Huada Electronics entered into a sale and purchase agreement to dispose of its navigation chips business for a cash consideration of RMB100 million (the "Business Transfer"). Huada Electronics had received the consideration of RMB100 million for the Business Transfer in March 2017. Details of the Business Transfer is set out in the announcement of the Company dated 3 March 2017.

BUSINESS REVIEW

Results overview

Revenue of the Group for the year ended 31 December 2016 amounted to HK$1,378.0 million, representing a decrease of 20.5% when comparing with the corresponding period of last year. Profit attributable to owners of the Company amounted to HK$1,061.2 million, representing an increase of 498.3% when comparing with the corresponding period of last year, which is primarily attributable to (i) an one-off gain of HK$620.8 million arising from the disposal of CEC Technology and the subscription of new shares in CEOVU and (ii) an accounting gain representing negative goodwill of HK$409.4 million arising from the acquisition of 31.88% interest in CEOVU. The basic earnings per share was HK52.28 cents (2015: HK8.74 cents).

Integrated circuits design operation

The Group's integrated circuits design operation comprises the design of smart card chips and the development of application system. Currently, our products are mainly used in sectors such as identity authentication, social security, telecommunication, financial payment, hygiene and health, and public transportation. For the year ended 31 December 2016, the Group has obtained 61 new patents, 3 registered computer software copyright, and registered 7 integrated circuits layout designs. At the same time, the Group's financial payment and telecommunication products was accredited successively with security qualification certifications such as domestic EAL4+ Certificate and by association such as domestic UnionPay, and financial payment products that are being applied in the high-security segments was also accredited with international security qualification certifications such as CCEAL5+ Certificate and EMVCo Certificate, which symbolising that our security technology had attained international level and will enable the Group's products to withstand against the fierce competitive markets.

During 2016, demand of certain market segments had decreased due to the decline in the industry demand and impact of the macro-economic policy while the smart card chips market competition further intensified as smart card chip companies reduced their pricing to compete, and time is needed before the synergistic effect with Huahong can be achieved which has resulted in the decline of both the sales volume and revenue of the Group in 2016 when comparing with the corresponding period of last year. The revenue for the year ended 31 December 2016 was HK$1,359.0 million, representing a decrease of 21.0% when comparing with the corresponding period of last year.

Selling and marketing costs for the year ended 31 December 2016 amounted to HK$101.5 million (2015: HK$90.4 million). As a percentage to revenue, selling and marketing costs increased to 7.5% from 5.3% of the corresponding period of last year. The increase was mainly due to 1) the Group has stepped up its marketing efforts in the emerging sectors such as the financial payment smart card chips sector in the PRC, 2) actively exploring new customers relationship in the traditional product sectors such as the telecommunication and the social security sector in the PRC, and 3) strengthened the development and layout of overseas markets.

Administrative expenses for the year ended 31 December 2016 amounted to HK$411.7 million, representing a decrease of 18.5% when comparing with the corresponding period of last year (2015: HK$505.0 million), which was primarily due to the decrease in research and development costs during the year. The decrease in research and development costs was due to cost saving resulting from centralised planning and arrangement for the research and development projects of the Group and Huahong following the integration of Huahong's research and development resources into those of the Group in 2016 and implementation of stringent cost control measures.

Research and development costs for the year ended 31 December 2016 was HK$276.8 million (2015: HK$396.7 million), which represented 20.4% of the revenue for the year ended 31 December 2016 (2015: 23.1%). Research and development during the year primarily focused on areas such as the continuous running-in of existing process and advanced research of new process, enhancement of product security certification level and the development of application systems.

Government grants recognised as income decreased by 33.4% to HK$95.0 million for the year ended 31 December 2016 resulted from less government subsidies for research and development costs incurred in the year.

For the year ended 31 December 2016, profit attributable to the integrated circuits design operating segment amounted to HK$125.1 million, representing a decrease of 30.4% when comparing with the corresponding period of last year.

Electronic information technology industrial parks operation

The electronic information technology industrial parks operation was disposed of on 30 June 2016 and was classified as discontinued operation of the Group accordingly.

Prior to 30 June 2016, the Group's electronic information technology industrial parks operation mainly comprised:

1. Hainan Resort Software Community ("Hainan RSC"), which is wholly-owned, developed and managed by Hainan Resort Software Community Investment and Development Co., Ltd, an associate of the Group;

2. CEC Xi'an Industrial Park ("Xi'an Industrial Park"), which is wholly-owned, developed and managed by China Electronics Xi'an Industrial Park Development Co., Ltd, a subsidiary of the Group;

3. CEC Beihai Industrial Park ("Beihai Industrial Park"), which is wholly-owned, developed and managed by China Electronics Beihai Industrial Park Development Co., Ltd ("CEC Beihai"), a subsidiary of the Group; and

4. CEC Wenzhou Industrial City ("Wenzhou Industrial City"), which is wholly-owned, developed and managed by China Electronics Wenzhou Industrial Park Development Co., Ltd, a subsidiary of the Group.

Hainan RSC

Hainan RSC is situated in Hainan, with a planned total site area of 3,000 Mu. The park targets at enterprises engaging in software research, software outsourcing and information technology training, as well as call centres and internet media. 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.

I. Mingyue Ju residential development project is located in the start-up zone. The construction of Mingyue Ju was completed in 2014. Approximately 640 square metres were sold during the six months ended 30 June 2016.

II. The large-scale enterprises zone consists of five phases. Phase 1 consists of 13 office buildings with a total gross floor area of 43,000 square metres. The construction of Phase 1 was completed in 2015. Approximately 12,570 square metres were sold during the six months ended 30 June 2016.

III. Meilun Tertiary Time Tropical Style Commercial Street is located in the livelihood-supporting zone and occupies a site area of approximately 90 Mu. The construction of the commercial street complex was completed in 2015. The commercial street is held for rental purposes and leasing went well as at 30 June 2016.

 Youth entrepreneurship blocks zone is located in the livelihood-supporting zone and consists of three phases. Phase 1 consists of 3 residential buildings with a total gross floor area of 96,000 square metres. The construction of Phase 1 was completed in 2015. Approximately 4,690 square metres were sold during the six months ended 30 June 2016.

Xi'an Industrial Park

Xi'an Industrial Park is situated in Xi'an and occupies a site area of 470 Mu. The park targets at enterprises engaging in producer and consumer information services industries such as cloud computing services, integrated circuits design, software research and development, information services, information security and electronic commerce.

Phase 2 consists of 8 buildings and fire protection system and standby power supply system for both Phase 1 and Phase 2. No. 1 and No. 3 to No. 7 building are single block office building with gross floor area ranges from 2,000 to 6,000 square metres, and the gross floor area of No. 8 office building 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. No. 9 building of Phase 2 was delivered for use in 2015 and was leased out for a term of 10 years. The construction of other buildings of Phase 2 is scheduled for completion in 2017.

Beihai Industrial Park

Beihai Industrial Park is situated in Beihai, Guangxi. The park targets at manufacturers of computers and computer storage device, as well as enterprises engaging in software research and services, and the production of key parts of LCD monitors and A/D power.

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. Consensus had been reached for the construction of China Electronics Beibu Gulf Information Harbour, which will form an integral part of Beibu Gulf Eco-Wisdom Electronics City. As at 30 June 2016, acquisition of a piece of land with site area of approximately 160 Mu for the development of first phase of the project has been completed and preliminary preparation works for the project had commenced.

Wenzhou Industrial City

The project is located at Wenzhou Economic and Technological Development Zone and targets at enterprises engaging in industrial internet, software and information service, intelligent terminal manufacturing, information security and cross-border electronic commerce.

The planned total site area of the project is approximately 3,000 Mu. The project will be developed and constructed in two phases, of which Phase 1 will occupy a site area of approximately 1,630 Mu. As at 30 June 2016, acquisition of a piece of land with site area of 316 Mu has been completed and preliminary preparation works had commenced.

For the six months ended 30 June 2016, profit attributable to the electronic information technology industrial parks operating segment amounted to HK$655.8 million, representing a significant increase when comparing with a profit of HK$123.0 million for the year ended 31 December 2015, which is primarily attributable to an one-off gain of HK$620.8 million arising from the disposal of CEC Technology and the subscription of new shares in CEOVU.

Major associate

On 30 June 2016, the Company completed the acquisition of 31.88% interest in CEOVU and CEOVU has become an associate of the Company since then. CEOVU, a company listed on The Stock Exchange of Hong Kong Limited, is principally engaged in the business of development and operation of large-scale business parks in the PRC. The Group's share of result from CEOVU for the year ended 31 December 2016 was HK$455.5 million, benefitting from an accounting gain representing negative goodwill of HK$409.4 million arising from the acquisition of 31.88% interest in CEOVU.

OUTLOOK

Looking forward into 2017, the operating environment of the smart cards market for the Group is expected to remain challenging. The Group will actively cope with the fierce market competition, and seize the opportunity from the application innovation of the Internet of Things so as to generate new source of profitability for the Group in the future. In the future the Group will on the one hand, continue to adhere to its independent innovation development strategy, increase its investments in science and technology, continue to launch new products that lead the market, and actively expand into smart card application business such as financial payment, telecommunication, hygiene and health, and public transportation, as well as Internet of Things security application segment. On the other hand, through application innovation to strengthened the development of application system for our product, and being market orientated, center on technology and product innovation to strengthened our research and development of new technology, new process and new product, to keep on enhancing the competitive advantages in technology and marketing of the Group, and strive to become a world leading supplier of smart cards and Internet of Things security chips.

FINANCIAL RESOURCES AND LIQUIDITY

The Group generally finances its working capital and funding requirements through internal resources, bank and other borrowings, and issuance of corporate bonds. At 31 December 2016, the Group had cash and cash equivalents amounted to HK$911.9 million, 93.0% of which were denominated in Renminbi, 6.4% in Hong Kong dollars and 0.6% in United States dollars (2015: HK$777.1 million, 98.8% of which was denominated in Renminbi, 0.7% in United States dollars and 0.5% in Hong Kong dollars).

At 31 December 2016, the Group had total bank and other borrowings of HK$477.6 million, 74.8% of which were denominated in Renminbi and 25.2% in Hong Kong dollars (2015: HK$919.5 million, all of which were denominated in Renminbi). Among these borrowings, (i) HK$120.2 million were secured by short-term deposits of the Group and HK$357.4 million were unsecured (2015: HK$901.6 million were secured by short-term deposits of the Group and HK$17.9 million were unsecured), and (ii) HK$357.3 million and HK$120.3 million were borrowed at fixed and variable interest rates respectively (2015: all were borrowed at fixed interest rates). At 31 December 2016, committed borrowing facilities available to the Group but not drawn amounted to HK$979.9 million.

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

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 31 December 2016, the Group had net current liabilities of HK$1,239.5 million (2015: net current assets of HK$4,234.4 million). The overall gearing ratio, which is calculated as the total liabilities over the total assets of the Group, was 72.4% (2015: 76.9%).

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At 31 December 2016, the Group did not have any material outstanding capital commitment (2015: nil) for the acquisition of fixed assets and intangible assets. The Group did not have any material contingent liability at 31 December 2016 (2015: nil).

EMPLOYEE AND REMUNERATION POLICIES

At 31 December 2016, the Group had approximately 510 employees, the majority of whom were based in the PRC. Employee benefit expenses for the year were HK$275.5 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 2016.

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 2016.

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 2016.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's audited consolidated income statement, audited consolidated statement of comprehensive income, audited consolidated balance sheet and the related notes thereto for the year ended 31 December 2016 as set out in this announcement 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 2016 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.

CHANGES IN COMPOSITION OF BOARD COMMITTEE

Due to re-division of the directors' role and function, Mr. Ma Yuchuan, an executive director, has been appointed as a member of the remuneration and nomination committee with effect from 30 March 2017. Mr. Liu Hongzhou, an executive director, ceased to be a member of the remuneration and nomination committee with effect from 30 March 2017.

By Order of the Board
China Electronics Corporation Holdings Company Limited
Dong Haoran
Chairman

Hong Kong, 30 March 2017

As at the date of this announcement, the Board comprises two Non-executive Directors, namely Mr. Dong Haoran (Chairman) and Mr. Jiang Juncheng, two Executive Directors, namely Mr. Ma Yuchuan (Deputy Chairman) and Mr. Liu Hongzhou (Managing Director), and three Independent Non-executive Directors, namely Mr. Chan Kay Cheung, Mr. Qiu Hongsheng and Mr. Chow Chan Lum.