
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Electronics Corporation Holdings Company Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

**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)****VERY SUBSTANTIAL DISPOSAL
AND
CONNECTED TRANSACTION****DISPOSAL OF SANG FEI (BVI) COMPANY LIMITED****Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders****ALTUS CAPITAL LIMITED**

A notice convening a special general meeting of the Company to be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Wednesday, 16 December 2009 at 11:00 a.m. is set out on pages 166 to 167 of this circular. Whether or not you are able to attend the special general meeting, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish.

A letter from the independent board committee of the Company containing its recommendation to the independent shareholders of the Company is set out on pages 16 to 17 of this circular. A letter from Altus Capital Limited, the independent financial adviser, containing its advice to the independent board committee and the independent shareholders of the Company is set out on pages 18 to 27 of this circular.

* For identification purpose only

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	5
Introduction	5
The Share Transfer Agreement	6
Information on Sang Fei Group	8
Reasons for and benefits of the Disposal	9
Information on Huada Electronics	11
Financial effects of the Disposal on the Group	12
Financial and trading prospects of the Group	13
Use of proceeds	13
Listing Rules implications	13
SGM	14
Recommendation	14
Further information	15
Letter from the Independent Board Committee	16
Letter from Altus	18
Appendix I – Financial Information of the Group	28
Appendix II – Financial Information of Huada Electronics Group	94
Appendix III – Financial Information of the Remaining Group	146
Appendix IV – Management Discussion and Analysis	154
Appendix V – General Information	159
Notice of the SGM	166

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Altus”	Altus Capital Limited, a licensed corporation to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Disposal
“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (excluding Saturdays) on which banks in Hong Kong and the PRC are generally open for the transaction of normal banking business
“CEC”	中國電子信息產業集團有限公司 (China Electronics Corporation Limited), a state-owned enterprise established under the laws of the PRC, the Company’s ultimate controlling Shareholder
“CEC (BVI)”	China Electronics Corporation (BVI) Holdings Company Limited, a wholly-owned subsidiary of CEC and a controlling Shareholder
“China Huada”	中國華大集成電路設計集團有限公司 (China Huada Integrated Circuit Design (Group) Co., Ltd.), a company established under the laws of the PRC which is owned as to 50% by CEC
“Company”	China Electronics Corporation Holdings Company Limited
“connected person”	has the meaning ascribed to this term under the Listing Rules
“Directors”	the directors of the Company

DEFINITIONS

“Disposal”	the disposal of the entire issued share capital of Sang Fei (BVI) by the Company to the Purchaser pursuant to the Share Transfer Agreement
“Group”	the Company and its subsidiaries
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huada Acquisition”	the acquisition of the entire equity interest in Huada Electronics by the Company, which was completed on 9 September 2009, as announced by the Company in an announcement of the same date
“Huada Electronics”	北京中電華大電子設計有限責任公司 (CEC Huada Electronic Design Co., Ltd.), a company established under the laws of the PRC
“Huada Electronics Group”	Huada Electronics and its subsidiaries
“Independent Board Committee”	the committee of Directors consisting of Mr. Chan Kay Cheung, Mr. Wong Po Yan and Mr. Yin Yongli, being all the independent non-executive Directors, formed to advise the Independent Shareholders in respect of the terms of the Disposal
“Independent Shareholders”	Shareholders other than CEC and its associates
“Latest Practicable Date”	23 November 2009, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“OEM”	Original Equipment Manufacturer, being a manufacturer that makes products in accordance with the specification, and which carry the brand names of its customers

DEFINITIONS

“Option(s)”	option(s) which have been granted under the Company’s share option scheme approved and adopted by the Shareholders on 20 June 2002
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, Macau and Taiwan
“Purchaser”	P-Marshall Hong Kong Limited, a wholly-owned subsidiary of Shenzhen SED
“Remaining Group”	the Group after completion of the Disposal, which for the purpose of this circular, does not include members of the Huada Electronics Group
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Share”	one share of US\$1.00, being the entire issued share capital of Sang Fei (BVI), to be transferred by the Company to the Purchaser pursuant to the Share Transfer Agreement
“Sang Fei”	深圳桑菲消費通信有限公司 (Shenzhen Sang Fei Consumer Communications Company Limited), a Sino-foreign equity joint venture company established under the laws of the PRC which is owned as to 65% by Sang Fei (BVI)
“Sang Fei (BVI)”	Sang Fei (BVI) Company Limited, a limited company incorporated under the laws of the British Virgin Islands which owns 65% equity interest in Sang Fei
“Sang Fei Group”	Sang Fei and its subsidiaries
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company convened to be held on Wednesday, 16 December 2009 to consider and, if thought fit, to approve the Disposal, notice of which is set out on pages 166 to 167 of this circular
“Shareholder(s)”	shareholder(s) of the Company

DEFINITIONS

“Share Transfer Agreement”	the share transfer agreement dated 9 November 2009 entered into between the Company, the Purchaser and Shenzhen SED in relation to the Disposal
“Shenzhen SED”	深圳桑達電子集團有限公司 (Shenzhen SED Electronics Group Co., Ltd.), a subsidiary of CEC and a substantial shareholder of Sang Fei
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

For ease of reference only, the names of PRC established companies and entities have been included in this circular in both Chinese and English and the English names of these companies and entities are either English translations of their respective official Chinese names or English tradenames used by them. In the event of any inconsistency between the English names and their respective Chinese names, the Chinese names shall prevail.

LETTER FROM THE BOARD



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)

Non-executive Directors:

Xiong Qunli (*Chairman*)

Tong Baoan (*Vice Chairman*)

Executive Directors:

Fan Qingwu (*Managing Director*)

Hua Longxing

Independent Non-executive Directors:

Chan Kay Cheung

Wong Po Yan

Yin Yongli

Registered office:

Clarendon House

2 Church Street

Hamilton, HM 11

Bermuda

*Principal place of business
in Hong Kong:*

Room 3503, 35th Floor

China Resources Building

26 Harbour Road

Wanchai

Hong Kong

27 November 2009

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

DISPOSAL OF SANG FEI (BVI) COMPANY LIMITED

INTRODUCTION

On 9 November 2009, the Board announced that the Company had, on the same date after trading hours, entered into the Share Transfer Agreement with the Purchaser and Shenzhen SED in respect of the Disposal. Pursuant to the Share Transfer Agreement, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Share, being the entire issued share capital of Sang Fei (BVI), at a consideration of HK\$10,000,000.

* For identification purpose only

LETTER FROM THE BOARD

Following completion of the Disposal, the Company will cease to hold any interest in Sang Fei (BVI) and its subsidiaries, and Sang Fei (BVI) and its subsidiaries will cease to be subsidiaries of the Company. Huada Electronics, which is a wholly-owned subsidiary of the Company, will be the principal operating subsidiary of the Company and the principal activities of the Group will be the design, research and development and sales of integrated circuits.

Furthermore, following completion of the Disposal, the current continuing connected transactions between Sang Fei and its subsidiaries on the one hand and CEC, the ultimate controlling Shareholder, and its associates on the other, will cease to be continuing connected transactions of the Company.

The Purchaser is a wholly-owned subsidiary of Shenzhen SED. Shenzhen SED is a substantial shareholder of Sang Fei holding 25% of its equity interest and is a subsidiary of CEC, the ultimate controlling Shareholder indirectly holding approximately 48.03% of the issued share capital of the Company through its wholly-owned subsidiary CEC (BVI) and approximately 23.27% of the issued share capital of the Company through China Huada, a company which is owned as to 50% by CEC. Both the Purchaser and Shenzhen SED are connected persons of the Company.

The Disposal constitutes a connected transaction of the Company and since the applicable percentage ratios under Rule 14.07 of the Listing Rules exceeds 75%, the Disposal is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Disposal also constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules.

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the Disposal. In this respect, Altus has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders.

The purpose of this circular is to provide you with further information relating to the Disposal and to seek your approval of the ordinary resolution set out in the notice of the SGM on pages 166 to 167 of this circular. The recommendation from the Independent Board Committee to the Independent Shareholders is set out on pages 16 to 17 of this circular and the letter from Altus is set out on pages 18 to 27 of this circular.

THE SHARE TRANSFER AGREEMENT

Date

9 November 2009

Parties

- (1) Vendor: China Electronics Corporation Holdings Company Limited
- (2) Purchaser: P-Marshall Hong Kong Limited
- (3) Guarantor: Shenzhen SED Electronics Group Co., Ltd

LETTER FROM THE BOARD

The Purchaser, a company incorporated under the laws of Hong Kong, is a wholly-owned subsidiary of Shenzhen SED. Shenzhen SED is a substantial shareholder of Sang Fei holding 25% of its equity interest and is a subsidiary of CEC, the ultimate controlling Shareholder indirectly holding approximately 48.03% of the issued share capital of the Company through its wholly-owned subsidiary CEC (BVI) and approximately 23.27% of the issued share capital of the Company through China Huada, a company which is owned as to 50% by CEC.

The Purchaser is a trading company and Shenzhen SED is principally engaged in the import and export of electronic components and consumer electronic products and real property development. CEC, a state-owned enterprise established under the laws of the PRC in 1989 with the approval of the State Council of the PRC, is a nationwide electronics and information technology conglomerate directly administered by the PRC government. CEC focuses on the communications, consumer electronics, semi-conductor and software sectors in the PRC.

Pursuant to the Share Transfer Agreement, Shenzhen SED has unconditionally and irrevocably undertaken to the Company to procure the due and punctual performance by the Purchaser of its obligations under the Share Transfer Agreement and to indemnify and keep effectively indemnified the Company against all liabilities, losses, damages, costs and expenses which the Company may suffer or incur as a result of any default or delay on the part of the Purchaser in the performance of such obligations.

Assets to be disposed

Pursuant to the Share Transfer Agreement, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Share, being the entire issued share capital of Sang Fei (BVI).

Consideration

The consideration payable by the Purchaser to the Company under the Share Transfer Agreement is HK\$10,000,000. Such consideration consists of payment of an initial consideration of HK\$5,000,000 and a deferred consideration of HK\$5,000,000. The initial consideration of HK\$5,000,000 will be satisfied by the Purchaser in cash upon completion of the Disposal. The deferred consideration is interest free and shall be satisfied by the Purchaser in cash within six months from the date of completion of the Disposal. The Purchaser may, from time to time, prepay all or part of the outstanding deferred consideration, at any time after completion of the Disposal until the expiry of six months from the date of completion of the Disposal.

LETTER FROM THE BOARD

The consideration for the Disposal was determined and agreed between the parties after arm's length negotiations and taking into account the prevailing operating environment of the mobile handsets market, the sales volume of mobile handsets of Sang Fei Group for the two years ended 31 December 2007 and 2008 and the six months ended 30 June 2009, the net liabilities position of Sang Fei Group as of 30 June 2009 of HK\$33,259,000, the loss before taxation of Sang Fei Group for the two years ended 31 December 2007 and 2008 and the six months ended 30 June 2009 of HK\$18,927,000, HK\$324,068,000 and HK\$91,320,000, respectively, and the agreement between the Company and the Purchaser under the Share Transfer Agreement that any profits, losses or liabilities of Sang Fei (BVI) and its subsidiaries generated or incurred after 30 June 2009 shall be enjoyed or borne by the Purchaser.

Condition precedent

Completion of the Disposal is conditional upon the passing of an ordinary resolution by the Independent Shareholders at the SGM approving the Disposal.

The above condition precedent could not be waived by any party to the Share Transfer Agreement. If the above condition precedent has not been fulfilled on or before 30 June 2010 or such other date as the parties may agree, the Share Transfer Agreement will lapse and thereafter neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

Completion

Completion of the Disposal shall take place on the third Business Day after the above condition precedent has been fulfilled, or on such other date as the parties to the Share Transfer Agreement may agree.

Upon completion of the Disposal, the Company will cease to hold any interest in Sang Fei (BVI) and its subsidiaries, and Sang Fei (BVI) and its subsidiaries will cease to be subsidiaries of the Company. Any rights and obligations attached to the Sale Share shall be transferred from the Company to the Purchaser upon completion of the Disposal, while any profits, losses or liabilities of Sang Fei (BVI) and its subsidiaries generated or incurred after 30 June 2009 shall be enjoyed or borne by the Purchaser.

Furthermore, following completion of the Disposal, the current continuing connected transactions between Sang Fei and its subsidiaries on the one hand and CEC, the ultimate controlling Shareholder, and its associates on the other, will cease to be continuing connected transactions of the Company.

Following completion of the Disposal, Huada Electronics, which is a wholly-owned subsidiary of the Company, will be the principal operating subsidiary of the Company and the principal activities of the Group will be the design, research and development and sales of integrated circuits.

INFORMATION ON SANG FEI GROUP

Sang Fei (BVI) is a company incorporated under the laws of the British Virgin Islands. Sang Fei (BVI) is an investment holding company which has not, since its incorporation, carried on any business other than the acquisition and the holding of 65% equity interest in Sang Fei.

LETTER FROM THE BOARD

Sang Fei is a Sino-foreign equity joint venture company established under the laws of the PRC. Sang Fei is primarily engaged in the manufacturing and sales of mobile handsets and other portable electronic products, and was the sole principal operating subsidiary of the Company before the completion of the Huada Acquisition on 9 September 2009. The registered capital of Sang Fei is US\$33 million, which was contributed as to 65% by Sang Fei (BVI), as to 25% by Shenzhen SED, and as to 10% by Shenzhen SED Industry Co., Ltd. Shenzhen SED Industry Co., Ltd. is a company established in the PRC with its issued shares listed on the Shenzhen Stock Exchange. Shenzhen SED Industry Co., Ltd. is owned as to approximately 42.23% by Shenzhen SED as at the Latest Practicable Date.

Members of the Sang Fei Group are currently being accounted for as subsidiaries of the Company. The table below sets out the loss before taxation and profit/(loss) after taxation of the Sang Fei Group based on its financial information prepared in accordance with the HKFRS for the two years ended 31 December 2007 and 2008 and the six months ended 30 June 2009:

	Year ended 31 December 2007 HK\$'000	Year ended 31 December 2008 HK\$'000	Six months ended 30 June 2009 HK\$'000
Loss before taxation	(18,927)	(324,068)	(91,320)
Profit/(loss) after taxation	12,713	(324,068)	(91,320)

Sang Fei Group has a net liabilities position of HK\$33,259,000 as at 30 June 2009 based on its financial information prepared in accordance with HKFRS for the six months ended 30 June 2009.

In March 2009, CEC agreed to provide financial assistance of RMB500,000,000 to Sang Fei. Such financial assistance includes CEC providing guarantee of RMB400,000,000 for Sang Fei to obtain short-term bank loans and the granting of financing facilities of up to RMB100,000,000 by CEC. Such financial assistance is granted for the benefit of Sang Fei on normal commercial terms without any security provided by the Group. As at 30 June 2009, Sang Fei has obtained borrowings of RMB38,532,000 from CEC and utilised the guarantee from CEC to obtain banking facilities of RMB330,000,000.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Company is an investment holding company. Currently, Sang Fei and Huada Electronics are the principal operating subsidiaries of the Company. Sang Fei is primarily engaged in the manufacturing and sales of mobile handsets and other portable electronic products, while Huada Electronics is primarily engaged in the design, research and development and sales of integrated circuits.

LETTER FROM THE BOARD

Over the past few years, competition in the mobile handsets market becomes more and more intensified and evolution in products and technologies becomes more rapid and products cycle is getting shorter. These factors, together with the deteriorating consumer demand resulted from the global financial crisis, have increased the costs and lowered the profit margin of the mobile handsets market. The operating environment of the mobile handsets market becomes tough and difficult and the operating model of Sang Fei is no longer suitable for the changing industry landscape. In order to improve its operating performance, Sang Fei has undergone a series of business restructuring to redefine and streamline its operations, restructure its distribution channels and regain its market share. However, the impact of these negative factors on Sang Fei persisted and the operating environment of the mobile handsets industry remains uncertain. Despite the business reform carried out by Sang Fei, Sang Fei Group has turned from a profitable operation in the year ended 31 December 2006, during which year Sang Fei Group has recorded a profit before taxation of HK\$76,312,000, to a loss making operation in the two consecutive years ended 31 December 2007 and 2008. For the year ended 31 December 2007, Sang Fei Group recorded a loss before taxation in the sum of HK\$18,927,000. For the year ended 31 December 2008, the loss position of Sang Fei Group further deteriorated and its loss before taxation has increased to HK\$324,068,000. For the six months ended 30 June 2009, Sang Fei Group recorded a loss before taxation in the sum of HK\$91,320,000. As at 30 June 2009, Sang Fei Group has a net liabilities position of HK\$33,259,000. Since Sang Fei Group has been incurring serious losses since the year ended 31 December 2007 and was in a net liabilities position, in order for Sang Fei Group to continue its operations, Sang Fei has obtained financial assistance of RMB500,000,000 from CEC in March 2009.

The business performance of Sang Fei Group continued to be affected by the impact of all these negative factors after 30 June 2009 and the revenue of Sang Fei Group for the three months ended 30 September 2009 recorded a decrease compared to the same period of last year. Sang Fei Group was operating at a loss for the nine months ended 30 September 2009. The prevailing operating environment of the mobile handsets industry remains tough and difficult and the Company expects the negative impact of the operating environment would persist.

The global information technology industry tends to focus on the advancement and development of their core technologies and businesses. It has always been the Group's strategy to advance its core technology from a low level to a medium to high level, so as to enable its core business to enter the upstream industry value chain which has a better profit margin. The Group has readjusted its business structure, and will continue to explore new business opportunities in the upstream industry value chain, and at the same time withdraw from businesses in the downstream industry value chain in good time, so as to improve the Group's profitability and competitiveness in the industry.

The Directors consider that the Disposal is advantageous for the Group to focus on the integrated circuits sector which is a high-tech area and to shift to the upstream industry value chain with a better profit margin and at the same time, withdraw from the loss making operation in the mobile handsets market. Based on the aforesaid, the Directors consider that the Share Transfer Agreement is fair and reasonable and on normal commercial terms and that the entering into of the Share Transfer Agreement is in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

INFORMATION ON HUADA ELECTRONICS

On 20 June 2008, the Company entered into agreements with the then shareholders of Huada Electronics for the acquisition of the entire equity interests of Huada Electronics. Huada Electronics is primarily engaged in the design, research and development and sales of integrated circuits. Completion of the Huada Acquisition took place on 9 September 2009 and Huada Electronics has become a wholly-owned subsidiary of the Company. Following completion of the Disposal, Huada Electronics will be the principal operating subsidiary of the Company and the principal activities of the Group will be the design, research and development and sales of integrated circuits.

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

The table below sets out the profit before and after taxation of Huada Electronics based on its financial information prepared in accordance with the HKFRS for the two years ended 31 December 2007 and 2008 and for the six months ended 30 June 2009:

	Year ended 31 December 2007 HK\$'000	Year ended 31 December 2008 HK\$'000	Six months ended 30 June 2009 HK\$'000
Profit before taxation	132,063	130,962	52,252
Profit after taxation	127,307	113,965	44,207

Huada Electronics has a net asset value of HK\$163,796,000 as at 30 June 2009 based on its financial information prepared in accordance with HKFRS.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE DISPOSAL ON THE GROUP

Following completion of the Disposal, the Company will cease to have any interest in Sang Fei (BVI) and its subsidiaries, and Sang Fei (BVI) and its subsidiaries will cease to be subsidiaries of the Company. Therefore, the financial results and the assets and liabilities of Sang Fei (BVI) and its subsidiaries will no longer be consolidated into the consolidated financial statements of the Company. Huada Electronics will then be the principal operating subsidiary of the Company.

The Company expects that the Group will realise an estimated gain (after taking into account the expenses directly related to the Disposal) of approximately HK\$73 million on the Disposal. The estimated gain on the Disposal is calculated with reference to the consideration of the Disposal, the net liabilities and the currency translation reserve attributable to Sang Fei (BVI) and its subsidiaries as of 30 June 2009. The actual gain on the Disposal, which will be calculated based on the net assets/liabilities of Sang Fei (BVI) and its subsidiaries as of the date of completion of the Disposal, may be different and is subject to determination. The consideration of HK\$10,000,000 represents an excess of HK\$43,259,000 over the net liabilities of Sang Fei (BVI) and its subsidiaries as of 30 June 2009.

Set out in Appendix III to this circular is the unaudited pro forma financial information of the Remaining Group which illustrates the financial impact of the Disposal on the assets and liabilities, results and cash flows of the Group.

Earnings

For the year ended 31 December 2008 and the six months ended 30 June 2009, Sang Fei Group recorded a loss before taxation of HK\$324,068,000 and HK\$91,320,000, respectively. For the year ended 31 December 2008, Huada Electronics Group recorded profits before and after taxation of HK\$130,962,000 and HK\$113,965,000 and for the six months ended 30 June 2009, Huada Electronics recorded profits before and after taxation of HK\$52,252,000 and HK\$44,207,000, respectively.

Given the track record of Huada Electronics Group and that the financial results of Sang Fei (BVI) and its subsidiaries will no longer be consolidated into the consolidated financial statements of the Company after completion of the Disposal, the Directors consider that the Disposal would benefit the results of the Group in the future.

Net asset value

As at 30 June 2009, Sang Fei Group has a net liabilities position of HK\$33,259,000 while Huada Electronics has a net asset value of HK\$163,796,000. Given that the net liabilities of Sang Fei Group will cease to be consolidated into the consolidated financial statements of the Company after completion of the Disposal, the Directors consider that the Disposal would benefit the financial position of the Group.

LETTER FROM THE BOARD

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Following completion of the Disposal, Huada Electronics will be the principal operating subsidiary of the Company and the principal activities of the Group will be the design, research and development and sales of integrated circuits.

Integrated circuits industry has been one of the major development focuses in the PRC and will continue to be a development focus under the Eleventh Five-Year Plan. In the recent years, integrated circuits cards and smart cards have been increasingly used in the PRC in areas such as resident identity cards, social security cards and petrol cards. In the “Specific Project Regarding Integrated Circuits Industry in the Eleventh Five-Year” announced by the former Ministry of Information Industry, it is expected that the production volume of the integrated circuits industry in the PRC will have an annual growth rate of 30%. The government of the PRC pays high regards to the development of the integrated circuits industry. Integrated circuits enterprises are benefited from different preferential government policies including but not limited to preferential taxation policy.

The Directors consider that the Disposal is advantageous for the Group to focus on the integrated circuits sector which is a high-tech area and to shift to the upstream industry value chain with a better profit margin and at the same time, withdraw from the loss making operation in the mobile handsets market. As Sang Fei Group has been incurring serious losses since the year ended 31 December 2007 and was in a net liabilities position as at 30 June 2009, the Directors believe that the Disposal will have a positive impact on the Group’s operational and financial prospects.

USE OF PROCEEDS

The amount of the proceeds of the Disposal is intended to be used for the Company’s general working capital and to fund possible future acquisition opportunities of the Company. The Company may acquire further businesses that are complementary to the business of the Group after the Disposal. Such acquisition opportunities may be offered by independent third parties or by CEC, the Company’s ultimate controlling Shareholder. As at the Latest Practicable Date, no specific acquisition opportunities have been identified nor is there any agreement or arrangement reached in relation to such acquisition.

LISTING RULES IMPLICATIONS

The Purchaser is a wholly-owned subsidiary of Shenzhen SED. Shenzhen SED is a substantial shareholder of Sang Fei holding 25% of its equity interest and is a subsidiary of CEC, the ultimate controlling Shareholder indirectly holding approximately 48.03% of the issued share capital of the Company through its wholly-owned subsidiary CEC (BVI) and approximately 23.27% of the issued share capital of the Company through China Huada, a company which is owned as to 50% by CEC. Both the Purchaser and Shenzhen SED are connected persons of the Company.

LETTER FROM THE BOARD

The Disposal constitutes a connected transaction of the Company and since the applicable percentage ratios under Rule 14.07 of the Listing Rules exceed 75%, the Disposal is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Disposal also constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules.

SGM

A notice convening the SGM to be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Wednesday, 16 December 2009 at 11:00 a.m. is set out on pages 166 to 167 of this circular. At the SGM, an ordinary resolution will be proposed to approve the Disposal. The vote of the Independent Shareholders at the SGM shall be taken by poll.

In accordance with the Listing Rules, CEC (BVI) and China Huada, the Company's substantial Shareholders holding approximately 48.03% and 23.27% interest in the Company as at the Latest Practicable Date, respectively, and their respective associates, will abstain from voting on the ordinary resolution approving the Disposal at the SGM.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

RECOMMENDATION

Altus has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Disposal. Altus considers that the terms of the Share Transfer Agreement are normal commercial terms and that the Disposal is in the interests of the Company and the Shareholders as a whole. Altus also considers that the Share Transfer Agreement and the Disposal are fair and reasonable as far as the Independent Shareholders are concerned. Accordingly, Altus advises the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Disposal. The text of the letter from Altus containing its advice and the principal factors and reasons it has taken into consideration in arriving at its advice is set out on pages 18 to 27 of this circular.

The Independent Board Committee, after considering the advice from Altus, concurs with the views of Altus and considers that the terms of the Disposal are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent

LETTER FROM THE BOARD

Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Disposal. The text of the letter from the Independent Board Committee is set out on pages 16 to 17 of this circular.

FURTHER INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee which sets out its recommendation to the Independent Shareholders, the letter from Altus which contains its advice to the Independent Board Committee and the Independent Shareholders, and the additional information set out in the appendices to this circular.

Yours faithfully,

For and on behalf of the Board

China Electronics Corporation Holdings Company Limited

Xiong Qunli

Chairman



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)

27 November 2009

To the Independent Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL DISPOSAL
AND
CONNECTED TRANSACTION**

DISPOSAL OF SANG FEI (BVI) COMPANY LIMITED

We refer to the circular (the “**Circular**”) dated 27 November 2009 issued by the Company to its Shareholders of which this letter forms part. The terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

On 9 November 2009, the Board announced that the Company has, on the same date, entered into the Share Transfer Agreement in relation to the Disposal.

We have been appointed by the Board to advise you as to whether the terms of the Disposal are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Details of the Disposal are set out in the section headed “Letter from the Board” of the Circular.

Altus has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Disposal. The text of the letter of advice from Altus containing its advice and the principal factors and reasons it has taken into consideration in arriving at its advice is set out on pages 18 to 27 of the Circular.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We, after considering the advice from Altus, concur with the views of Altus and consider that the terms of the Disposal are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Disposal as detailed in the notice of the SGM set out on pages 166 to 167 of the Circular.

Yours faithfully,
Independent Board Committee

Chan Kay Cheung

Wong Po Yan

Yin Yongli

LETTER FROM ALTUS

The following is the text of a letter of advice from Altus to the Independent Board Committee and the Independent Shareholders in respect of the Disposal which was prepared for the purpose of inclusion in this circular.

ALTUS CAPITAL LIMITED

8/F Hong Kong Diamond Exchange Building
8 Duddell Street, Central
Hong Kong

27 November 2009

The Independent Board Committee and the Independent Shareholders

China Electronics Corporation Holdings Company Limited

Room 3503, 35th Floor
China Resources Building
26 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION DISPOSAL OF SANG FEI (BVI) COMPANY LIMITED

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and Independent Shareholders in relation to the Disposal. The details are set out in the letter from the Board contained in the circular of the Company dated 27 November 2009 (“Circular”) to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 9 November 2009, the Company entered into the Share Transfer Agreement pursuant to which the Company conditionally agreed to dispose of and P-Marshall Hong Kong Limited, the Purchaser, has conditionally agreed to purchase the Sale Share, being the entire issued share capital of Sang Fei (BVI) at a consideration of HK\$10.0 million.

The Disposal constitutes a very substantial disposal for the Company under the Listing Rules as the applicable percentage ratios calculated per Rule 14.07 of the Listing Rules exceed 75%. The Purchaser is a wholly-owned subsidiary of Shenzhen SED. Shenzhen SED, a substantial shareholder of Sang Fei with 25% of the equity interest of Sang Fei, is a subsidiary of CEC. CEC is the ultimate controlling shareholder of the Company indirectly holding

LETTER FROM ALTUS

approximately 48.03% of the issued share capital of the Company through its wholly-owned subsidiary CEC (BVI) and approximately 23.27% of the issued share capital of the Company through China Huada, a company which is owned as to 50% by CEC. Both the Purchaser and Shenzhen SED are therefore connected persons of the Company. On this basis, the Disposal constitutes a connected transaction of the Company and is subject to the approval of the Independent Shareholders at the SGM by way of poll, whereby CEC and its associates are required to abstain from voting on the resolution approving the Disposal.

The Independent Board Committee, comprising Chan Kay Cheung, Wong Po Yan and Yin Yongli (all being independent non-executive Directors and not having interest in the Disposal), has been established to consider the terms and conditions of the Disposal and advise the Independent Shareholders on how to vote.

As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give independent opinion to the Independent Board Committee for it to advise the Independent Shareholders as to (i) whether the terms of the Share Transfer Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Disposal is in the interests of the Company and the Shareholders as a whole.

BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, the Company and its management. We have assumed that all statements, information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular. We have no reason to doubt the truth, accuracy and completeness of the statements, information, facts, opinions and representations provided to us by the Directors, the Company and its management. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed; thus we have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular, or the reasonableness of the opinions and representations provided to us by them.

All the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that, to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and that there are no other facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We have relied on such information and opinions and have not however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

LETTER FROM ALTUS

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion on the Disposal, we have taken into consideration the following principal factors and reasons:

1. Background of the Disposal

The Company has on 9 November 2009 entered into the Share Transfer Agreement with the Purchaser, a wholly-owned subsidiary of Shenzhen SED, pursuant to which the Company conditionally agreed to dispose of and the Purchaser has conditionally agreed to purchase the Sale Share, being the entire issued share capital of Sang Fei (BVI) for a total consideration of HK\$10.0 million. The initial consideration of HK\$5.0 million is to be satisfied by the Purchaser in cash upon completion of the Disposal. The deferred consideration of HK\$5.0 million will be satisfied by the Purchaser in cash within six months without interest from the date of the completion of the Disposal.

Pursuant to the Share Transfer Agreement, Shenzhen SED has unconditionally and irrevocably undertaken to the Company to procure the due and punctual performance by the Purchaser of its obligations under the Share Transfer Agreement and to indemnify and keep effectively indemnified the Company against all liabilities, losses, damages, costs and expenses which the Company may suffer or incur as a result of any default or delay on the part of the Purchaser in the performance of such obligations.

Sang Fei is a Sino-foreign equity joint venture company established in the PRC, which primarily engages in the manufacturing and sales of mobile handsets and other portable electronic products. As at the Latest Practicable Date, Sang Fei was owned as to 65% by the Company through its wholly-owned subsidiary, Sang Fei (BVI), 25% and 10% by Shenzhen SED and Shenzhen SED Industry Co., Ltd. respectively.

Sang Fei (BVI) is an investment holding company which has not, since its incorporation, carried on any business other than the acquisition and the holding of 65% equity interest in Sang Fei. Shenzhen SED is a subsidiary of CEC. Shenzhen SED Industry Co., Ltd. is a company established in the PRC with its issued shares listed on the Shenzhen Stock Exchange and is owned as to approximately 42.23% by Shenzhen SED as at the Latest Practicable Date. CEC is the ultimate controlling shareholder of the Company indirectly holding approximately 48.03% of the issued share capital of the Company through its wholly-owned subsidiary CEC (BVI) and approximately 23.27% of the issued share capital of the Company through China Huada, a company which is owned as to 50% by CEC. Both the Purchaser and Shenzhen SED are therefore connected persons of the Company. Accordingly, the Disposal constitutes a connected transaction of the Company under the Listing Rules, which is subject to the approval of the Independent Shareholders at the SGM.

Following the completion of the Disposal, the current continuing connected transactions between Sang Fei and its subsidiaries on the one hand and CEC and its associates on the other, will cease to be continuing connected transactions of the Company.

LETTER FROM ALTUS

2. Information on Sang Fei Group

The Company ventured into the manufacturing of mobile handsets business when it acquired the 65% equity interest in Sang Fei through the acquisition agreement dated 10 December 2003. At that time, Sang Fei was principally an OEM mobile handsets manufacturer for the Philips Group, whilst the Philips Group maintained the sales and distribution functions of *Philips* branded products. In addition, Sang Fei had its own-branded mobile handsets manufacturing and distribution business, which was started in 2002.

The above arrangement changed when Sang Fei took over the entire management of the *Philips* mobile handsets business in 2007. On 12 February 2007, CEC announced that it had entered into an acquisition agreement with Royal Philips Electronics, pursuant to which CEC agreed to acquire the mobile handsets business of the Philips Group. In late 2007, the Group took over the entire management, including the sales and distribution functions of the *Philips* mobile handsets business and migrated from an OEM supplier, which operated at an ex-factory cost plus basis, to a brand operator, which manages the whole aspect of manufacturing, sales and distributions. Since then, the Group has invested additional resources in the sales and distribution functions, as evidenced by an increase in selling and marketing expenses from approximately HK\$42.5 million for the financial year ended 31 December 2006 to approximately HK\$259.1 million and approximately HK\$325.9 million for the financial year ended 31 December 2007 and 2008 respectively.

Financial performance of Sang Fei Group

The following sets out the financial performance of Sang Fei Group for the financial year ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009 respectively.

	Year ended 31 December			Six months ended	
	2006	2007	2008	30 June 2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	3,549,329	3,167,708	2,267,343	1,037,337	877,883
Gross profit	232,297	559,662	440,075	155,767	105,268
Profit/(loss) before income tax	76,312	(18,927)	(324,068)	(113,722)	(91,320)

As an OEM manufacturer previously, Sang Fei enjoyed a stable profit margin. The financial performance of Sang Fei however deteriorated after its business model changed in 2007. Revenue of Sang Fei Group has declined by approximately 36.1% between the financial years ended 31 December 2006 and 31 December 2008, due to the continuous decline in sales of both *Philips* mobile handsets and Sang Fei's own-branded mobile handsets. As a result, Sang Fei Group turned from a profitable operation in the year ended 31 December 2006, during which Sang Fei Group has recorded a profit before taxation

LETTER FROM ALTUS

of approximately HK\$76.3 million to losses before taxation in the two consecutive years ended 31 December 2007 and 2008 of approximately HK\$18.9 million and HK\$324.1 million respectively.

Operating environment did not improve in 2009 when, coupled with the global economic crisis, the loss making trend of Sang Fei Group continued where it recorded a loss before taxation of approximately HK\$91.3 million for the six month period ended 30 June 2009.

We have reviewed the business of Sang Fei Group based on the segments of (i) *Philips* mobile handsets; and (ii) Sang Fei's own-branded and other OEM mobile handsets. The following sets out the revenue and segment results of Sang Fei Group for the financial years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009 respectively.

	<i>Philips</i> mobile handsets					Own-branded and other OEM mobile handsets				
	Six month ended					Six month ended				
	Year ended 31 December			30 June		Year ended 31 December			30 June	
	2006	2007	2008	2008	2009	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	2,586,710	1,944,582	1,305,842	502,250	455,317	654,053	535,309	472,424	256,731	209,682
Segment profit/ (losses)	132,765	168,719	(17,614)	(41,852)	(761)	82,320	36,400	(9,968)	(4,717)	(9,337)

Revenue of both business segments have been decreasing. In particular, revenue of *Philips* mobile handsets dropped by approximately 50% between the financial years of 2006 and 2008, resulting in segment losses for the financial year ended 31 December 2008 and the six months ended 30 June 2009.

Sang Fei's own-branded and other OEM mobile handsets segment also recorded similar results, which has led to Sang Fei ceasing its owned-branded mobile handsets business in 2008. Since then, sales of own-branded mobile handsets were primarily clearance of old models or end-of life products.

Since operating as a brand operator in 2007, Sang Fei has undertaken a series of business reengineering exercises to (i) redefine and streamline its PRC and overseas sales network; (ii) restructure its distribution channels; and (iii) recover its business market share. These included setting up new functional units for sales and marketing activities, including the establishment of two new subsidiaries in Russia and Turkey and a sales coordination centre in Singapore.

LETTER FROM ALTUS

These efforts have not been successful. As shown in the following table, which sets out the revenue for Sang Fei Group's geographical segments for the financial years ended 2006, 2007 and 2008, Sang Fei Group failed to achieve any improvement in revenue from any of its principal geographical segments. Overall, total revenue also declined.

	2006	2007	2008
Revenue	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mainland China	1,676,916	1,243,354	836,320
Europe	6,540	630,047	489,377
Hong Kong	835,002	1,041,209	769,891
Asia excluding Mainland China and Hong Kong	1,030,871	228,762	97,939
North America	—	24,336	73,816
	<u>3,549,329</u>	<u>3,167,708</u>	<u>2,267,343</u>

Financial position of Sang Fei Group

The table below sets out the financial position of Sang Fei Group.

	As at 31 December			As at
	2006	2007	2008	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	85,409	102,733	111,375	104,275
Current assets	<u>1,040,770</u>	<u>1,477,920</u>	<u>1,070,198</u>	<u>1,066,164</u>
Total assets	<u>1,126,179</u>	<u>1,580,653</u>	<u>1,181,573</u>	<u>1,170,439</u>
Current Liabilities				
Trade and other payables	715,000	736,797	627,453	607,706
Current income tax liabilities	2,044	3,725	—	—
Borrowings	—	394,111	450,813	557,303
Provision for warranty	<u>12,634</u>	<u>77,260</u>	<u>43,015</u>	<u>38,689</u>
Total liabilities	<u>729,678</u>	<u>1,211,893</u>	<u>1,121,281</u>	<u>1,203,698</u>
Net assets/(liabilities)	<u>396,501</u>	<u>368,760</u>	<u>60,292</u>	<u>(33,259)</u>

LETTER FROM ALTUS

The continued loss making trend has led Sang Fei Group to a net liabilities position of approximately HK\$33.3 million as at 30 June 2009. In particular, Sang Fei Group, which has no borrowing in 2006, had incurred substantial borrowings of approximately HK\$557.3 million as at 30 June 2009.

Due to the weak financial performance of Sang Fei Group and coupled with the global credit crisis, banks have applied more stringent terms for Sang Fei Group's financing, such as requiring more securities and guarantees or reluctant to extend the borrowing facilities. In this respect, Sang Fei has been seeking assistance from its ultimate controlling Shareholder, CEC, which had provided financial support to Sang Fei. In March 2009, CEC agreed to provide financial assistance of RMB500.0 million to Sang Fei in the form of providing guarantee of RMB400.0 million for Sang Fei to obtain short-term bank loans and the granting of financing facilities of up to RMB100.0 million by CEC. Such financial assistance is granted for the benefit of Sang Fei on normal commercial terms without any security provided by the Group.

The performance of Sang Fei Group has been deteriorating in the past few years. The migration of Sang Fei from an OEM supplier to a brand operator has failed to improve its financial performance and position. To finance its continuing losses, it has been relying on CEC for financial assistance. The operating environment of the mobile handsets remains challenging and Sang Fei may require further financial resources to support and continue its operations. It is uncertain whether CEC can continue to provide further financial assistance and accordingly, in the absence of such assistance, the Company may have to draw on its own resources to support Sang Fei's operation. Having considered the above, we believe it is reasonable for the Company to dispose of its manufacturing and sales of mobile handsets business and to focus its resources on the integrated circuits business in Huada Electronics as mentioned below.

3. Reasons for the Disposal

Upon completion of the Disposal, the Company would have disposed of its entire issued share capital of Sang Fei (BVI) and Sang Fei (BVI) and its subsidiaries will cease to be subsidiaries of the Company. Accordingly, the financial results and liabilities of Sang Fei (BVI) and its subsidiaries will no longer be consolidated into the Group's financial statements and this will improve the financial position of the Group.

Over the past few years, competition in the mobile handsets market becomes more intensified and evolution in products and technologies becomes more rapid with shorter products cycle. With deteriorating consumer demand as a result of the global financial crisis, sales and profit margin of mobile handsets have further declined, which have contributed to the difficult operating environment for Sang Fei.

It is the Group's strategy to advance its core technology from a low level to a medium-to-high level, so as to enter the upstream industry value chain which commands a better profit margin. The Disposal is therefore in line with the business strategy of the Group.

LETTER FROM ALTUS

Following the completion of the acquisition of Huada Electronics on 9 September 2009, the Company has ventured into the upstream industry value chain. Huada Electronics has a strong presence in the integrated circuits industry and is an industrial leader in the design and research and development of integrated circuits. The technologies and products of Huada Electronics have been widely applied in the areas of social security, electronic payments, telecommunications and consumer electronics. This is expected (i) to improve the Group's profitability and competitiveness in the industry; and (ii) to provide the Group with better profit margin and stable earnings.

Having considered that (i) the Group's financial performance and position has been adversely affected by Sang Fei Group, and Sang Fei's business prospects remain uncertain; (ii) the Company may have to provide additional support to continue Sang Fei's operations with its own resources; and (iii) utilising such resources for the investment in the upstream industry value chain could lead to better profit margin and stable earnings, we are of the view that it is fair and reasonable that the Company dispose of its entire interest in Sang Fei. Thereafter, the Group may fully focus and deploy its resources towards the more profitable integrated circuits business and other potential opportunities.

4. Consideration of the Disposal

The consideration of HK\$10.0 million for the Disposal was determined after arm's length negotiations between the Purchaser and the Company and after taking into account (i) the prevailing operating environment of the mobile handsets market; (ii) the sales volume of mobile handsets of Sang Fei Group for the past two and a half years; (iii) the net liabilities position of Sang Fei Group of approximately HK\$33.3 million as at 30 June 2009; (iv) the loss before taxation of Sang Fei Group of approximately HK\$18.9 million, approximately HK\$324.1 million and approximately HK\$91.3 million for the two financial years ended 31 December 2007 and 2008 and the six months ended 30 June 2009 respectively; and (v) under the Share Transfer Agreement, any profits, losses or liabilities of Sang Fei (BVI) and its subsidiaries generated or incurred after 30 June 2009 shall be enjoyed or borne by the Purchaser.

When assessing the fairness and reasonableness of the consideration, the common use of price comparable analysis such as price to earnings ratio ("PER") and price to book ratio ("PBR") cannot be applied, as Sang Fei Group has reported (i) losses in the past two financial years as well as during the six month ended 30 June 2009; and (ii) net liabilities of approximately HK\$33.3 million as at 30 June 2009.

In view of the above, the uncertain operating environment, as well as the fact that Sang Fei has only been able to continue its operations with financial support provided by CEC, and that the Company does not intend to further invest in Sang Fei's business, we are of the view that the consideration of the Disposal is fair and reasonable.

5. Financial effects on earning, net assets value and gearing of the Remaining Group

The following analysis is based on the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to the Circular. The information is for illustration purpose only.

5.1 Earnings

The Group recorded a loss attributable to Shareholders of approximately HK\$220.0 million and approximately HK\$75.0 million for the year ended 31 December 2008 and the six months ended 30 June 2009 respectively. These are mainly due to the losses of Sang Fei Group. After the Disposal, the Group's earnings will not be impacted by any further losses of Sang Fei Group. This will have a positive impact on the Group's financial performance.

As referred to in the unaudited pro forma consolidated income statement as set out in Appendix III to the Circular, assuming that the Disposal had taken place on 1 January 2008, the Remaining Group will record an estimated loss of approximately HK\$207.8 million as a result of the Disposal. This loss on the Disposal is due to the fact that Sang Fei Group has net assets of approximately HK\$368.8 million as at the assumed Disposal date of 1 January 2008. It is noted that the financial position of Sang Fei Group deteriorated to a net liabilities of approximately HK\$33.3 million as at 30 June 2009. Based on this net liabilities position and if assuming that the Disposal had taken place on 30 June 2009, an estimated gain of approximately HK\$72.9 million will instead be recorded as a result of the Disposal. Based on the above, the Disposal will have an overall positive impact on the Group's earning.

5.2 Net assets value

The Group has a net assets value of approximately HK\$185.1 million as at 30 June 2009. As illustrated in the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to the Circular, net assets value of the Group will increase to approximately HK\$223.3 million after the Disposal. The Disposal therefore leads to an increase in the net assets value of the Group, which will have a positive impact on the Group's financial position.

5.3 Gearing

The Group has short term bank loans of approximately HK\$557.3 million as at 30 June 2009. According to the unaudited pro forma financial information of the Remaining Group as disclosed in Appendix III to the Circular, these short term bank loans will be removed upon the completion of the Disposal. As the borrowings of Sang Fei (BVI) and its subsidiaries will no longer be consolidated into the Group's balance sheet, it will improve the gearing position of the Group.

The Disposal will have a positive impact on the earnings, net asset position and gearing of the Group, and from a financial point of view, is in the interests of the Company and the Shareholders as a whole.

LETTER FROM ALTUS

RECOMMENDATIONS

The Share Transfer Agreement is a strategic business action, which is not in the ordinary and usual course of business of the Company. Based on the factors and reasons discussed above, we believe (i) the terms of the Share Transfer Agreement are normal commercial terms; (ii) the Disposal is in the interest of the Company and the Shareholders as a whole; and (iii) the Share Transfer Agreement and the Disposal are fair and reasonable as far as the Independent Shareholders are concerned.

Based on the above, we recommend the Independent Shareholders as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the proposed resolution approving the Share Transfer Agreement and the transactions contemplated thereunder at the SGM.

Yours faithfully,
For and on behalf of
Altus Capital Limited
Arnold Ip
Executive Director

A. ACCOUNTANT'S REPORT OF THE GROUP

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

27 November 2009

The Directors
China Electronics Corporation Holdings Company Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) of China Electronics Corporation Holdings Company Limited (the “Company”) and its subsidiaries (together, the “Group”) set out in Sections I to IV below, for inclusion in the circular of the Company dated 27 November 2009 (the “Circular”) in connection with the proposed disposal of Sang Fei (BVI) Company Limited by the Company. The Financial Information comprises the consolidated balance sheets of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009, the balance sheets of the Company as at 31 December 2006, 2007 and 2008 and 30 June 2009, and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009 (the “Relevant Periods”), and a summary of significant accounting policies and other explanatory notes.

The Company was incorporated in the Cayman Islands on 22 April 1997 and continued in Bermuda with limited liability.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 8 of Section II below.

The consolidated financial statements of the Group for each of the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009 were audited by PricewaterhouseCoopers.

The Financial Information has been prepared based on the audited consolidated financial statements of the Company with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY

The directors of the Company during the Relevant Periods are responsible for the preparation and the true and fair presentation of the consolidated financial statements of the Company in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

For the financial information for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the directors of the Company are responsible for the preparation and the true and fair presentation of the financial information in accordance with HKFRSs issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

For the financial information for the six months ended 30 June 2008, the directors of the Company are responsible for the preparation and the presentation of the financial information in accordance with the accounting policies set out in Note 2 of Section II below which are in conformity with HKFRSs.

REPORTING ACCOUNTANT'S RESPONSIBILITY

For the financial information for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our responsibility is to express an opinion on the financial information based on our examination and to report our opinion to you. We examined the audited consolidated financial statements of the Group used in preparing the financial information, and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

For the financial information for the six months ended 30 June 2008, our responsibility is to express a conclusion on the financial information based on our review and to report our conclusion to you. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of the financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

OPINION AND REVIEW CONCLUSION

In our opinion, the financial information for each of the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, for the purpose of this report, gives a true and fair view of the state of affairs of the Company and the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 and of the Group's results and cash flows for the respective years and period then ended.

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the financial information for the six months ended 30 June 2008, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below which are in conformity with HKFRSs issued by the HKICPA.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the Financial Information of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 and for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009:

Consolidated Balance Sheets

		As at 31 December			As at
		2006	2007	2008	30 June
	Note	HK\$'000	HK\$'000	HK\$'000	2009
					HK\$'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	61,685	41,047	47,125	42,348
Intangible assets	7	16,251	16,144	15,686	13,081
Deferred taxation assets	24(e)	8,916	46,691	49,238	49,259
		<u>86,852</u>	<u>103,882</u>	<u>112,049</u>	<u>104,688</u>
Current assets					
Inventories	9	335,802	444,189	468,287	362,243
Trade and other receivables	10	493,179	877,150	485,760	454,407
Financial assets at fair value through profit or loss	11	–	–	1,271	–
Restricted bank deposits	12	–	–	–	35,648
Cash and cash equivalents	13	419,809	391,741	343,129	435,445
		<u>1,248,790</u>	<u>1,713,080</u>	<u>1,298,447</u>	<u>1,287,743</u>
Total assets		<u><u>1,335,642</u></u>	<u><u>1,816,962</u></u>	<u><u>1,410,496</u></u>	<u><u>1,392,431</u></u>

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

		As at 31 December			As at
		2006	2007	2008	30 June
	Note	HK\$'000	HK\$'000	HK\$'000	2009
					HK\$'000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Issued equity	14	370,074	370,074	370,074	370,074
Other reserves	15	55,137	71,807	77,756	75,113
Retained earnings/ (Accumulated losses)		39,152	29,889	(185,324)	(260,066)
		464,363	471,770	262,506	185,121
Minority interests		138,775	129,066	21,102	–
Total equity		603,138	600,836	283,608	185,121
LIABILITIES					
Current liabilities					
Trade and other payables	16	717,826	741,030	633,060	611,318
Current income tax liabilities		2,044	3,725	–	–
Borrowings	17	–	394,111	450,813	557,303
Provision for warranty	18	12,634	77,260	43,015	38,689
Total liabilities		732,504	1,216,126	1,126,888	1,207,310
Total equity and liabilities		1,335,642	1,816,962	1,410,496	1,392,431
Net current assets		516,286	496,954	171,559	80,433
Total assets less current liabilities		603,138	600,836	283,608	185,121

Balance Sheets – Company

		As at 31 December			As at
		2006	2007	2008	30 June
	Note	HK\$'000	HK\$'000	HK\$'000	2009
					HK\$'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	900	758	587	370
Investments in subsidiaries	8	<u>271,700</u>	<u>271,700</u>	<u>11,700</u>	<u>11,700</u>
		<u>272,600</u>	<u>272,458</u>	<u>12,287</u>	<u>12,070</u>
Current assets					
Trade and other receivables	10	469	918	589	383
Cash and cash equivalents	13	<u>196,156</u>	<u>222,546</u>	<u>215,870</u>	<u>209,365</u>
		<u>196,625</u>	<u>223,464</u>	<u>216,459</u>	<u>209,748</u>
Total assets		<u><u>469,225</u></u>	<u><u>495,922</u></u>	<u><u>228,746</u></u>	<u><u>221,818</u></u>
EQUITY					
Capital and reserves					
Share capital	14	335,891	335,891	335,891	335,891
Other reserves	15	71,898	73,635	68,813	68,561
Retained earnings/ (Accumulated losses)		<u>58,692</u>	<u>82,340</u>	<u>(181,486)</u>	<u>(186,167)</u>
Total equity		<u>466,481</u>	<u>491,866</u>	<u>223,218</u>	<u>218,285</u>
LIABILITIES					
Current liabilities					
Trade and other payables	16	<u>2,744</u>	<u>4,056</u>	<u>5,528</u>	<u>3,533</u>
Total equity and liabilities		<u><u>469,225</u></u>	<u><u>495,922</u></u>	<u><u>228,746</u></u>	<u><u>221,818</u></u>
Net current assets		<u><u>193,881</u></u>	<u><u>219,408</u></u>	<u><u>210,931</u></u>	<u><u>206,215</u></u>
Total assets less current liabilities		<u><u>466,481</u></u>	<u><u>491,866</u></u>	<u><u>223,218</u></u>	<u><u>218,285</u></u>

Consolidated Income Statements

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008 (Unaudited)	2009
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	5	3,549,329	3,167,708	2,267,343	1,037,337	877,883
Cost of sales	20	(3,317,032)	(2,608,047)	(1,827,268)	(881,570)	(772,615)
Gross profit		232,297	559,661	440,075	155,767	105,268
Other gains/(losses) – net	19	5,130	4,751	(108,461)	16,133	(8,574)
Selling and marketing costs	20	(42,457)	(259,104)	(325,926)	(123,740)	(91,368)
Administrative expenses	20	(125,118)	(326,792)	(314,776)	(149,245)	(91,594)
Operating profit/(loss)		69,852	(21,484)	(309,088)	(101,085)	(86,268)
Finance income/(costs) – net	23	1,665	2,367	(24,371)	(12,207)	(9,828)
Profit/(loss) before income tax		71,517	(19,117)	(333,459)	(113,292)	(96,096)
Income tax (expense)/credit	24	(2,358)	31,640	–	19,761	–
Profit/(loss) for the year/period		<u>69,159</u>	<u>12,523</u>	<u>(333,459)</u>	<u>(93,531)</u>	<u>(96,096)</u>
Attributable to:						
Equity holders of the Company		43,276	8,074	(220,035)	(60,605)	(74,994)
Minority interests		25,883	4,449	(113,424)	(32,926)	(21,102)
		<u>69,159</u>	<u>12,523</u>	<u>(333,459)</u>	<u>(93,531)</u>	<u>(96,096)</u>
Dividends		<u>17,337</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year/period		<i>HK\$ cents</i>	<i>HK\$ cents</i>	<i>HK\$ cents</i>	<i>HK\$ cents</i>	<i>HK\$ cents</i>
– Basic	26	<u>3.99</u>	<u>0.75</u>	<u>(20.31)</u>	<u>(5.59)</u>	<u>(6.92)</u>
– Diluted	26	<u>3.99</u>	<u>0.74</u>	<u>(20.31)</u>	<u>(5.59)</u>	<u>(6.92)</u>

Consolidated Statements of Comprehensive Income

	Year ended 31 December			Six months ended	
	2006	2007	2008	30 June	2009
	2006	2007	2008	2008	2009
	(Unaudited)				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) for the year/period	69,159	12,523	(333,459)	(93,531)	(96,096)
Other comprehensive income for the year/period:					
Exchange differences on translation of financial statements of foreign operations	9,050	22,523	16,231	21,126	(2,391)
Total comprehensive income for the year/period	<u>78,209</u>	<u>35,046</u>	<u>(317,228)</u>	<u>(72,405)</u>	<u>(98,487)</u>
Attributable to:					
Equity holders of the Company	52,364	23,007	(209,264)	(46,626)	(77,385)
Minority interests	<u>25,845</u>	<u>12,039</u>	<u>(107,964)</u>	<u>(25,779)</u>	<u>(21,102)</u>
	<u>78,209</u>	<u>35,046</u>	<u>(317,228)</u>	<u>(72,405)</u>	<u>(98,487)</u>

Consolidated Statements of Changes in Equity

		Attributable to equity holders of the Company					
		Issued equity (Note 14) HK\$'000	Other (accumulated reserves (Note 15) HK\$'000	Retained earnings/ losses) HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2006		370,074	35,062	24,880	430,016	138,379	568,395
Dividends related to 2005		–	–	(21,671)	(21,671)	(25,449)	(47,120)
Share options granted	15	–	3,654	–	3,654	–	3,654
Appropriation to other reserves		–	7,333	(7,333)	–	–	–
Total comprehensive income		–	9,088	43,276	52,364	25,845	78,209
As at 31 December 2006		370,074	55,137	39,152	464,363	138,775	603,138
Dividends related to 2006		–	–	(17,337)	(17,337)	(21,748)	(39,085)
Share options granted	15	–	1,737	–	1,737	–	1,737
Total comprehensive income		–	14,933	8,074	23,007	12,039	35,046
As at 31 December 2007		370,074	71,807	29,889	471,770	129,066	600,836
Share options lapsed	15	–	(4,822)	4,822	–	–	–
Total comprehensive income		–	10,771	(220,035)	(209,264)	(107,964)	(317,228)
As at 31 December 2008		370,074	77,756	(185,324)	262,506	21,102	283,608
Share options lapsed		–	(252)	252	–	–	–
Total comprehensive income		–	(2,391)	(74,994)	(77,385)	(21,102)	(98,487)
As at 30 June 2009		370,074	75,113	(260,066)	185,121	–	185,121
As at 1 January 2008		370,074	71,807	29,889	471,770	129,066	600,836
Total comprehensive income		–	13,979	(60,605)	(46,626)	(25,779)	(72,405)
As at 30 June 2008 (Unaudited)		370,074	85,786	(30,716)	425,144	103,287	528,431

Consolidated Cash Flow Statements

		Year ended 31 December			Six months ended	
		2006	2007	2008	30 June 2008 (Unaudited)	2009
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash flows from operating activities						
Cash generated from/(used in) operations	27	432,159	(362,808)	(38,487)	(197,366)	23,366
Interest paid		(6,444)	(8,257)	(33,605)	(13,669)	(11,646)
Income tax paid		(10,289)	(4,454)	(3,725)	(3,725)	–
Net cash generated from/(used in) operating activities		415,426	(375,519)	(75,817)	(214,760)	11,720
Cash flows from investing activities						
Interest received		8,109	11,216	9,234	4,299	1,818
Purchase of property, plant and equipment and intangible assets		(32,260)	(19,931)	(39,149)	(25,421)	(8,349)
Proceeds on disposal of property, plant and equipment		42	1,140	418	239	(18)
Net cash used in investing activities		(24,109)	(7,575)	(29,497)	(20,883)	(6,549)
Cash flows from financing activities						
Dividend paid to the Company's shareholders		(21,671)	(17,337)	–	–	–
Dividend paid to minority interests		(25,449)	(21,748)	–	–	–
Pledged bank deposits		–	–	–	–	(19,345)
Proceeds from bank loans		1,194,175	1,387,440	1,500,905	707,579	861,237
Repayment of bank loans		(1,424,944)	(993,329)	(1,444,203)	(437,419)	(754,747)
Net cash (used in)/generated from financing activities		(277,889)	355,026	56,702	270,160	87,145
Net increase/(decrease) in cash and cash equivalents						
Cash and cash equivalents at beginning of the year/ period		306,381	419,809	391,741	391,741	343,129
Cash and cash equivalents at end of the year/period	13	419,809	391,741	343,129	426,258	435,445

II. NOTES TO THE FINANCIAL INFORMATION

1. General information

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

The principal activities of the Company and its subsidiaries (collectively the “Group”) comprise the manufacturing and sale of mobile handsets and other portable electronic products.

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

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the Relevant Periods presented, unless otherwise stated.

2.1 Basis of preparation

(a) Compliance with HKFRS

The Financial Information of the Group have been prepared in accordance with HKFRS issued by HKICPA. The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss.

The preparation of Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

(b) Going concern basis

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

- (i) In March 2009, CEC has agreed to provide financial assistance of RMB500,000,000 (equivalent to approximately HK\$567,195,000) to Shenzhen Sang Fei Consumer Communications Company Limited (“Sang Fei”), a principal subsidiary of the Group. The financial assistance includes (i) guarantees of RMB400,000,000 granted to Sang Fei for obtaining short-term bank loans and (ii) financing facilities of up to RMB100,000,000 provided by CEC. As at 30 June 2009, Sang Fei has obtained borrowing of RMB38,532,000 (equivalent to approximately HK\$43,710,000) from CEC and utilised the guarantees from CEC to obtain banking facilities of RMB330,000,000 (equivalent to approximately HK\$374,349,000). Sang Fei will utilise the remaining financial assistance of RMB131,468,000 (equivalent to approximately HK\$149,136,000) to meet its future working capital and financial requirements; and
- (ii) Management has implemented stringent cost control measures, as well as new business strategies to improve profitability and cash flows.

In light of the above, in the opinion of the directors, the Group will have sufficient working capital to finance its operations and remain as a going concern in the next twelve months from the date of this report. Accordingly, the directors are satisfied that it is appropriate to prepare the Financial Information on a going concern basis.

(c) New Standards, amendments to standards and interpretations

During the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the Group has adopted all of the new or revised HKFRS, which term collectively includes Hong Kong Accounting Standards (“HKAS”) and related interpretations, that are relevant to its operations and effective for the respective accounting periods of the Group.

At the date of authorisation of this Financial Information, the following new or revised standards, amendments to standards and interpretations have been issued but are not yet effective:

HKAS 24 (Revised)	Related Party Disclosures (effective from 1 January 2011)
HKAS 27 (Revised)	Consolidated and Separate Financial Statements (effective from 1 July 2009)
HKAS 32 (Amendment)	Classification of Rights Issues (effective from 1 February 2010)
HKAS 39 (Amendment)	Eligible Hedged Items (effective from 1 January 2010)
HKFRS 3 (Revised)	Business Combinations (effective from 1 July 2009)
HKFRS 9	Financial Instruments (effective from 1 January 2013)
HK(IFRIC) Interpretation 17	Distributions of Non-cash Assets to Owners (effective from 1 July 2009)
HK(IFRIC) Interpretation 18	Transfers of Assets from Customers (effective from 1 July 2009)
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions (effective from 1 July 2009)
Improvements to HKFRS 2009	(effective from 1 July 2009)

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

2.2 Consolidation*(a) Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

In the Company’s balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.7). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is equity. Gains or losses on disposals to minority interests are also recorded in equity.

2.3 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

2.4 *Foreign currency translation*

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year/period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within "finance income/(costs) – net". All other foreign exchange gains and losses are presented in the consolidated income statement within "other gains/(losses) – net".

(c) *Group companies*

For the purpose of presenting Financial Information, the results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, such exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

2.5 *Property, plant and equipment*

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

– Leasehold improvements	5 years (or over the lease term, whichever is shorter)
– Plant and machinery	3-4 years
– Motor vehicles	5 years
– Furniture and fixtures	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains/(losses) – net", in the consolidated income statement.

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

If the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition exceeds the cost of acquisition, the excess should be recognised immediately in the consolidated income statement.

(b) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed five years.

2.7 *Impairment of investments in subsidiaries and non-financial assets*

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 *Financial assets*

2.8.1 *Classification*

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet (Notes 2.11 and 2.12).

2.8.2 *Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the consolidated income statement within “other gains/(losses) – net”, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group’s right to receive payments is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2.11.

2.9 *Derivative financial instruments and hedging activities*

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged. The Group’s derivative instruments do not qualify for hedging accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments are presented in the consolidated income statement within “other gains/(losses) – net”, in the period in which they arise.

2.10 *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 *Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulty of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within administrative expenses. When the receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated income statement.

2.12 *Cash and cash equivalents*

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.13 *Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 *Trade payables*

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 *Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

The Group recognises a provision for repair or replacement of products still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.

2.18 Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;

- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

2.19 Employee benefits

(a) Pension obligations

The Group operates a mandatory provident fund scheme (“MPF”) for the eligible employees in Hong Kong. The Group’s contributions to MPF are set at 5% of employees’ salaries and are expensed as incurred.

The Group’s subsidiaries operating in the People’s Republic of China (the “PRC”) have to make contribution to staff retirement scheme managed by local government authorities in accordance with the relevant rules and regulations. Contributions to these schemes are charged to the income statement as and when incurred. The Group has no legal or constructive obligations to pay further contributions.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(c) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(d) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, and a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.20 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, net of value-added tax, returns, rebates and discounts. Revenue is recognised when the goods are delivered to customers, the customers have accepted the goods and collectability of the related receivables is reasonably assured.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Dividend income is recognised when the right to receive payment is established.

2.22 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.23 Dividend distribution

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been declared by directors and approved by the shareholders, they are recognised as a liability.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The foreign exchange risks of the Group occur due to the fact that the Group has business activities denominated in foreign currencies, primarily with respect to the United States dollar ("US dollar"), Renminbi ("RMB"), Euro, Russian Ruble ("RUR") and New Turkish Lira ("TRY"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. Nevertheless, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group use forward contracts to hedge anticipated cash flows in major foreign currencies.

If RMB had strengthened/weakened by 5% against US dollar with all other variables held constant, post-tax profit for each of the years ended 31 December 2006, 2007, 2008, six months ended 30 June 2008 and 2009 would have been HK\$10,483,000, HK\$3,678,000, HK\$1,600,000, HK\$7,192,000 and HK\$124,000 lower/higher, mainly as a result of foreign exchange gains or losses on translation of US dollar denominated trade receivables, cash and cash equivalents and financial liabilities.

If RMB had strengthened/weakened by 5% against HK dollar with all other variables held constant, post-tax profit for each of the years ended 31 December 2006, 2007, 2008, six months ended 30 June 2008 and 2009 would have been HK\$4,319,000, HK\$5,086,000, HK\$3,881,000, HK\$4,180,000 and HK\$3,922,000 higher/lower, mainly as a result of foreign exchange gains or losses on translation of HK dollar denominated trade receivables, cash and cash equivalents and financial liabilities.

If RMB had strengthened/weakened by 5% against Euro with all other variables held constant, post-tax profit for each of the years ended 31 December 2006, 2007, 2008, six months ended 30 June 2008 and 2009 would have been HK\$306,000, HK\$24,064,000, HK\$2,051,000, HK\$14,349,000 and HK\$1,846,000 lower/higher, mainly as a result of foreign exchange gains or losses on translation of Euro denominated trade receivables, cash and cash equivalents and financial liabilities.

If RMB had strengthened/weakened by 5% against RUR with all other variables held constant, post-tax profit for each of the years ended 31 December 2006 and 2007 would have been nil, whereas post-tax profit for the year ended 31 December 2008, six months ended 30 June 2008 and 2009 would have been HK\$5,921,000, HK\$4,285,000 and HK\$4,516,000 lower/higher, mainly as a result of foreign exchange gains or losses on translation of RUR denominated trade receivables, cash and cash equivalents and financial liabilities.

If RMB had strengthened/weakened by 5% against TRY with all other variables held constant, post-tax profit for each of the years ended 31 December 2006 and 2007 would have been nil, whereas post-tax profit for the year ended 31 December 2008, six months ended 30 June 2008 and 2009 would have been HK\$2,007,000, HK\$2,107,000 and HK\$772,000 lower/higher, mainly as a result of foreign exchange gains or losses on translation of TRY denominated trade receivables, cash and cash equivalents and financial liabilities.

As less than 10% of the Group's foreign currency transactions are denominated in other foreign currencies, the directors of the Group are of the view that foreign exchange risk in relation to transactions denominated in other foreign currencies is low. Therefore, no sensitivity analysis for these currencies is presented.

(b) Cash flow and fair value interest rate risk

Other than deposits held in banks, the Group does not have significant interest-bearing assets. The average rate of deposits held in banks as at 31 December 2006, 2007, 2008 and 30 June 2009 was approximately 2.46%, 1.68%, 0.49% and 0.87% per annum. Any change in the interest rate from time to time is not considered to have significant impact to the Group.

The Group's interest rate risk which affects its results and operating cash flows mainly arises from bank borrowings. The bank borrowings were at fixed rates and expose the Group to fair value interest rate risk. As all the Group's bank borrowings were short term loans and any change in the interest rate from time to time is not considered to have significant impact to the Group.

(c) Credit risk

The Group has no significant concentrations of credit risk. Credit risk arises from cash and cash equivalents, restricted bank deposits and trade and other receivables. The maximum exposure to credit risk at the balance sheet dates is their carrying value.

As the balance sheet dates, all the Group's bank deposits are placed in high quality financial institutions without significant exposure to credit risk.

For trade and other receivables, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Individual credit limits are set based on the assessment of the credit quality. Given the constant repayment history, the directors are of the opinion that the risk of default by these counterparties is not significant. Please refer to Note 10 for further disclosure on credit risk.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient working capital, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by keeping availability of committed credit lines.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Less than 1 year	As at 31 December			As at 30 June
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Group				
Short term bank loans	–	394,111	450,813	557,303
Interest payment on short term bank loans	–	7,935	10,953	11,646
Trade and other payables	717,826	741,030	633,060	611,318
Provision for warranty	12,634	77,260	43,015	38,689
Current income tax liabilities	2,044	3,725	–	–
	<u>732,504</u>	<u>1,224,061</u>	<u>1,137,841</u>	<u>1,218,956</u>
Company				
Accruals and other payables	<u>2,744</u>	<u>4,056</u>	<u>5,528</u>	<u>3,533</u>

As at 30 June 2009, the directors, having considered the current operation and business plan of the Group as well as the available funding sources, are of the opinion that the Group will have sufficient working capital to enable it to operate as a going concern:

- (i) As detailed in Note 2.1(b), the Group has obtained financial assistance of RMB500,000,000 (equivalent to approximately HK\$567,195,000) from CEC. With the financial assistance provided by CEC and available banking facilities the Group on hand, the directors are of the opinion that the Group will have sufficient financing resources for its operations; and
- (ii) Management monitors rolling forecasts of the Group's liquidity reserve and cash and cash equivalents on the basis of expected cash flow. The Group have implemented stringent cost controls and will monitor balance sheet liquidity ratios to maintain a safe liquidity to operate as a going concern.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheets, plus net debt.

The Company's strategy is to maintain an operation with minimal capital risk. The Group did not have any borrowing at 31 December 2006 and all its capital was sourced from equity. The gearing ratio as at 31 December 2007, 2008 and 30 June 2009 was 0.4%, 28% and 40%. The increase in gearing ratio resulted primarily from increased borrowings to finance the Group's operations and decreased equity due to loss incurred. The directors are of the opinion that the Group does not have significant capital risk.

3.3 Fair value estimation

The fair value of financial assets at fair value through profit or loss is determined by using valuation techniques. The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair values of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgements

(a) Estimated impairment of non-financial assets

The Group tests annually whether non-financial assets, mainly including property, plant and equipment and intangible assets have suffered any impairment in accordance with the accounting policy stated in Note 2.7. Management judgment is required, particularly in assessing whether: (1) an event has occurred that may affect asset values; (2) the carrying value of an asset can be supported by the net present value of future cash flows from the asset using estimated cash flow projections; and (3) the cash flow is discounted using an appropriate rate. Changing the assumptions selected by management to determine the level, if any, of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could significantly affect the Group's reported financial condition and results of operations. In performing the impairment assessment, the Group has also considered the impact of the current economic environment on the operations of the Group.

(b) Income taxes and deferred taxation

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets are recognised for tax loss carry-forwards based on the estimated recoverable future taxable profits and applicable tax rates. The Group reassessed deferred taxation assets as of 30 June 2009 based on the profit forecast in the next 5 years, and recognised deferred taxation assets of HK\$8,916,000, HK\$46,691,000, HK\$49,238,000 and HK\$49,259,000 as at 31 December 2006, 2007, 2008 and 30 June 2009 respectively (Notes 24(e)).

As at 30 June 2009, were the actual final outcome (on the judgement areas) to differ by 10% from management's estimates, the Group would increase/decrease deferred taxation assets by HK\$4,925,900, if favourable/unfavourable.

(c) Share option

The Group operates a share option scheme. The fair value of the options granted during the year (Note 15(c)) is determined by using valuation techniques. The Group uses its judgements to select the valuation method and make assumptions for the significant inputs into the valuation model. At each balance sheet date, the Group reviews its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

(d) Provision for warranty

The Group generally offers warranties for certain products and undertakes to repair and replace items that fail to operate satisfactorily. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs. The estimates and judgments used are however not expected to have a significant risk of causing a material adjustment to the carrying amounts of the provision for warranty within the next financial year.

Should the estimated annual warranty expenses rate differ by 10% from management's estimates, the Group would have charged additional warranty expenses amounting to HK\$2,109,000, HK\$6,444,000 and HK\$3,407,000, HK\$2,002,000 and HK\$2,408,000 for each of the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2008 and 2009, respectively.

(e) Write-down of inventories to net realisable values

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. A considerable amount of estimation is required in assessing the selling price and related expenses.

During each of the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2008 and 2009, write-down of inventories to net realisable values with amount of nil, HK\$27,908,000, HK\$16,375,000, HK\$5,299,000 and HK\$3,876,000, respectively, have been made. In the opinion of the directors, the write-down is considered to be adequate.

Were the actual final outcome (on the judgement areas) to differ by 10% from management's estimates, the Group would increase/decrease write-down of inventories by HK\$3,379,000, HK\$6,424,000, HK\$6,508,000 and HK\$5,416,000 as at 31 December 2006, 2007, 2008 and 30 June 2009, respectively, if unfavourable/favourable.

5. Turnover and segment information

(a) Turnover

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	(Unaudited)				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
"Philips" mobile handsets	2,586,710	1,944,582	1,305,842	502,250	455,317
Own-branded and other OEM/ODM/EMS mobile handsets	654,053	535,309	472,424	256,731	209,682
Multi-media player	308,566	687,817	489,077	278,356	212,884
Total	<u>3,549,329</u>	<u>3,167,708</u>	<u>2,267,343</u>	<u>1,037,337</u>	<u>877,883</u>

The Group is principally engaged in manufacturing and sale of mobile handsets and other portable electronic products. The Group's major products include "Philips" mobile handsets, own-branded and other OEM/ODM/EMS mobile handsets and multi-media player.

(b) Operating segments

Management has determined the operating segments based on the reports reviewed by the directors (the chief operating decision-maker) that are used to assess performance and allocate resources. The Group has three reportable operating segments: “Philips” mobile handsets, own-branded and other OEM/ODM/EMS mobile handsets and multi-media player. Management assesses the performance of the operating segments based on segment results, which was measured by revenues and related material costs and contributable expenses. Segment information provided to management for decision making is measured in a manner consistent with that in the financial statements.

Segment results and reconciliation to profit/(loss) before income tax for the Relevant Periods were as follows:

Year ended 31 December 2006

	“Philips” mobile handsets HK\$'000	Own-branded and other OEM/ODM/ EMS mobile handsets HK\$'000	Multi-media player HK\$'000	Total HK\$'000
Revenue from external customer	2,586,710	654,053	308,566	3,549,329
Segment result	132,765	82,320	17,212	232,297
Other gains – net				5,130
Unallocated costs				(167,575)
Finance income				8,109
Finance costs				(6,444)
Profit before income tax				71,517

Year ended 31 December 2007

	“Philips” mobile handsets HK\$'000	Own-branded and other OEM/ODM/ EMS mobile handsets HK\$'000	Multi-media player HK\$'000	Total HK\$'000
Revenue from external customer	1,944,582	535,309	687,817	3,167,708
Segment result	168,719	36,400	28,717	233,836
Other gains – net				9,699
Unallocated costs				(265,019)
Finance income				11,442
Finance costs				(9,075)
Loss before income tax				(19,117)

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

Year ended 31 December 2008

	“Philips” mobile handsets HK\$'000	Own-branded and other OEM/ODM/ EMS mobile handsets HK\$'000	Multi-media player HK\$'000	Total HK\$'000
Revenue from external customer	<u>1,305,842</u>	<u>472,424</u>	<u>489,077</u>	<u>2,267,343</u>
Segment result	<u>(17,614)</u>	<u>(9,968)</u>	<u>7,315</u>	<u>(20,267)</u>
Other losses – net				(108,461)
Unallocated costs				(180,360)
Finance income				9,234
Finance costs				<u>(33,605)</u>
Loss before income tax				<u><u>(333,459)</u></u>

Six months ended 30 June 2008 (Unaudited)

	“Philips” mobile handsets HK\$'000	Own-branded and other OEM/ODM/ EMS mobile handsets HK\$'000	Multi-media player HK\$'000	Total HK\$'000
Revenue from external customer	<u>502,250</u>	<u>256,731</u>	<u>278,356</u>	<u>1,037,337</u>
Segment result	<u>(41,852)</u>	<u>(4,717)</u>	<u>21,970</u>	<u>(24,599)</u>
Other gains – net				16,133
Unallocated costs				(92,619)
Finance income				4,299
Finance costs				<u>(16,506)</u>
Loss before income tax				<u><u>(113,292)</u></u>

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

Six months ended 30 June 2009

	“Philips” mobile handsets HK\$'000	Own-branded and other OEM/ODM/ EMS mobile handsets HK\$'000	Multi-media player HK\$'000	Total HK\$'000
Revenue from external customer	<u>455,317</u>	<u>209,682</u>	<u>212,884</u>	<u>877,883</u>
Segment result	<u>(761)</u>	<u>(9,337)</u>	<u>5,636</u>	<u>(4,462)</u>
Other losses – net				(8,574)
Unallocated costs				(73,232)
Finance income				1,818
Finance costs				<u>(11,646)</u>
Loss before income tax				<u>(96,096)</u>

There was no inter-segment sales during the Relevant Periods. Unallocated costs consist primarily of selling and marketing costs and administrative expenses, which contribute to all operating segments.

Segment assets and reconciliation to total assets are as follows:

	As at 31 December			As at 30 June 2009
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Total assets				
“Philips” mobile handsets	358,700	698,636	466,946	276,290
Own-branded and other OEM/ODM/EMS mobile handsets	118,693	56,748	80,901	77,970
Multi-media player	38,040	139,481	78,938	183,087
Unallocated assets	<u>820,209</u>	<u>922,097</u>	<u>783,711</u>	<u>855,084</u>
Total assets	<u>1,335,642</u>	<u>1,816,962</u>	<u>1,410,496</u>	<u>1,392,431</u>

Segment assets consist primarily of finished goods and trade receivables. Unallocated assets comprise property, plant and equipment, intangible assets, deferred taxation, raw materials, other receivables and cash and cash equivalents.

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

Total revenues by location are as follows:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	(Unaudited) HK\$'000	HK\$'000
Mainland China	1,676,916	1,243,354	836,320	356,956	331,774
Hong Kong	835,002	1,041,209	769,891	471,842	308,526
Europe	6,540	630,047	489,377	126,958	170,726
Asia excluding Mainland China and Hong Kong	1,030,871	228,762	97,939	38,126	46,787
North America	—	24,336	73,816	43,455	20,070
Total revenues	<u>3,549,329</u>	<u>3,167,708</u>	<u>2,267,343</u>	<u>1,037,337</u>	<u>877,883</u>

Total non-current assets by location are as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China	77,260	56,788	62,328	55,137
Hong Kong	676	403	170	58
Europe	—	—	313	234
Deferred taxation assets	<u>77,936</u> <u>8,916</u>	<u>57,191</u> <u>46,691</u>	<u>62,811</u> <u>49,238</u>	<u>55,429</u> <u>49,259</u>
Total non-current assets per consolidated balance sheets	<u>86,852</u>	<u>103,882</u>	<u>112,049</u>	<u>104,688</u>

6. Property, plant and equipment

Group

	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006					
Cost	37,834	286,627	3,265	29,068	356,794
Accumulated depreciation and impairment	(25,851)	(229,047)	(2,055)	(20,790)	(277,743)
Net book amount	11,983	57,580	1,210	8,278	79,051
Year ended 31 December 2006					
Opening net book amount	11,983	57,580	1,210	8,278	79,051
Exchange differences	342	1,259	17	154	1,772
Additions	2,853	19,024	1,375	2,982	26,234
Disposals	–	(12)	–	(36)	(48)
Depreciation charge	(4,323)	(34,792)	(592)	(5,617)	(45,324)
Closing net book amount	10,855	43,059	2,010	5,761	61,685
At 31 December 2006					
Cost	24,795	307,331	4,743	32,596	369,465
Accumulated depreciation and impairment	(13,940)	(264,272)	(2,733)	(26,835)	(307,780)
Net book amount	10,855	43,059	2,010	5,761	61,685
Year ended 31 December 2007					
Opening net book amount	10,855	43,059	2,010	5,761	61,685
Exchange differences	665	2,295	78	283	3,321
Additions	1,096	8,462	446	5,565	15,569
Disposals	–	(20)	–	(783)	(803)
Depreciation charge	(4,619)	(29,334)	(715)	(4,057)	(38,725)
Closing net book amount	7,997	24,462	1,819	6,769	41,047
At 31 December 2007					
Cost	27,197	336,411	5,458	38,487	407,553
Accumulated depreciation and impairment	(19,200)	(311,949)	(3,639)	(31,718)	(366,506)
Net book amount	7,997	24,462	1,819	6,769	41,047

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

	Leasehold improvements	Plant and machinery	Motor vehicles	Furniture and fixtures	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2008					
Opening net book amount	7,997	24,462	1,819	6,769	41,047
Exchange differences	422	1,177	59	350	2,008
Additions	9,133	10,113	616	14,088	33,950
Disposals	(151)	(15)	–	(157)	(323)
Depreciation charge	(5,382)	(17,702)	(773)	(5,700)	(29,557)
Closing net book amount	<u>12,019</u>	<u>18,035</u>	<u>1,721</u>	<u>15,350</u>	<u>47,125</u>
At 31 December 2008					
Cost	37,654	340,668	6,300	51,551	436,173
Accumulated depreciation and impairment	<u>(25,635)</u>	<u>(322,633)</u>	<u>(4,579)</u>	<u>(36,201)</u>	<u>(389,048)</u>
Net book amount	<u>12,019</u>	<u>18,035</u>	<u>1,721</u>	<u>15,350</u>	<u>47,125</u>
Six months ended 30 June 2009					
Opening net book amount	12,019	18,035	1,721	15,350	47,125
Exchange differences	9	17	1	12	39
Additions	692	6,177	–	774	7,643
Disposals	–	–	–	(8)	(8)
Depreciation charge	<u>(2,411)</u>	<u>(5,875)</u>	<u>(383)</u>	<u>(3,782)</u>	<u>(12,451)</u>
Closing net book amount	<u>10,309</u>	<u>18,354</u>	<u>1,339</u>	<u>12,346</u>	<u>42,348</u>
At 30 June 2009					
Cost	38,362	346,651	6,298	49,949	441,260
Accumulated depreciation and impairment	<u>(28,053)</u>	<u>(328,297)</u>	<u>(4,959)</u>	<u>(37,603)</u>	<u>(398,912)</u>
Net book amount	<u>10,309</u>	<u>18,354</u>	<u>1,339</u>	<u>12,346</u>	<u>42,348</u>

Depreciation expense has been expensed in cost of sales, selling and marketing costs and administrative expenses as follows:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>	<i>HK\$'000</i>
Cost of sales	35,415	29,577	17,417	9,605	5,396
Selling and marketing costs	200	237	660	375	456
Administrative expenses	<u>9,709</u>	<u>8,911</u>	<u>11,480</u>	<u>5,184</u>	<u>6,599</u>
Total	<u>45,324</u>	<u>38,725</u>	<u>29,557</u>	<u>15,164</u>	<u>12,451</u>

Lease rental expenses amounting to HK\$14,860,000, HK\$25,791,000, HK\$29,531,000, and HK\$16,038,000 and HK\$17,606,000 relating to the lease of property and machinery were included in the income statement for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, respectively.

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP
Company

	Motor vehicles <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006				
Cost	684	124	–	808
Accumulated depreciation	(182)	(21)	–	(203)
Net book amount	502	103	–	605
Year ended 31 December 2006				
Opening net book amount	502	103	–	605
Additions	488	57	–	545
Disposals	–	(10)	–	(10)
Depreciation charge	(211)	(29)	–	(240)
Closing net book amount	779	121	–	900
At 31 December 2006				
Cost	1,172	166	–	1,338
Accumulated depreciation	(393)	(45)	–	(438)
Net book amount	779	121	–	900
Year ended 31 December 2007				
Opening net book amount	779	121	–	900
Additions	134	24	–	158
Disposals	–	(17)	–	(17)
Depreciation charge	(254)	(29)	–	(283)
Closing net book amount	659	99	–	758
At 31 December 2007				
Cost	1,307	164	–	1,471
Accumulated depreciation	(648)	(65)	–	(713)
Net book amount	659	99	–	758
Year ended 31 December 2008				
Opening net book amount	659	99	–	758
Additions	3	35	220	258
Depreciation charge	(278)	(42)	(109)	(429)
Closing net book amount	384	92	111	587

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

	Motor vehicles <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2008				
Cost	1,310	199	220	1,729
Accumulated depreciation	(926)	(107)	(109)	(1,142)
Net book amount	384	92	111	587
Six months ended 30 June 2009				
Opening net book amount	384	92	111	587
Depreciation charge	(141)	(21)	(55)	(217)
Closing net book amount	243	71	56	370
At 30 June 2009				
Cost	1,310	199	220	1,729
Accumulated depreciation	(1,067)	(128)	(164)	(1,359)
Net book amount	243	71	56	370

7. Intangible assets – Group

	Computer software <i>HK\$'000</i>
At 1 January 2006	
Cost	23,918
Accumulated amortisation	(9,805)
Net book amount	14,113
Year ended 31 December 2006	
Opening net book amount	14,113
Exchange differences	434
Additions	6,026
Amortisation charge	(4,322)
Closing net book amount	16,251
At 31 December 2006	
Cost	30,900
Accumulated amortisation	(14,649)
Net book amount	16,251

	Computer software <i>HK\$'000</i>
Year ended 31 December 2007	
Opening net book amount	16,251
Exchange differences	1,046
Additions	4,362
Amortisation charge	<u>(5,515)</u>
Closing net book amount	<u><u>16,144</u></u>
At 31 December 2007	
Cost	37,588
Accumulated amortisation	<u>(21,444)</u>
Net book amount	<u><u>16,144</u></u>
Year ended 31 December 2008	
Opening net book amount	16,144
Exchange differences	824
Additions	5,199
Amortisation charge	<u>(6,481)</u>
Closing net book amount	<u><u>15,686</u></u>
At 31 December 2008	
Cost	38,417
Accumulated amortisation	<u>(22,731)</u>
Net book amount	<u><u>15,686</u></u>
Six months ended 30 June 2009	
Opening net book amount	15,686
Exchange differences	12
Additions	706
Amortisation charge	<u>(3,323)</u>
Closing net book amount	<u><u>13,081</u></u>
At 30 June 2009	
Cost	38,433
Accumulated amortisation	<u>(25,352)</u>
Net book amount	<u><u>13,081</u></u>

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

Amortisation expense has been expensed in cost of sales, selling and marketing costs and administrative expenses as follows:

	Year ended 31 December			Six months ended	
	2006	2007	2008	30 June	2009
	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	(Unaudited) HK\$'000	HK\$'000
Cost of sales	634	1,778	1,021	458	547
Selling and marketing costs	39	42	45	22	40
Administrative expenses	3,649	3,695	5,415	2,612	2,736
Total	4,322	5,515	6,481	3,092	3,323

8. Investments in subsidiaries – Company

	As at 31 December			As at
	2006	2007	2008	30 June
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investments – unlisted shares, at cost (Note (a))	260,000	260,000	260,000	260,000
Amounts due from subsidiaries (Note (b))	11,700	11,700	11,700	11,700
	271,700	271,700	271,700	271,700
Less: provision for impairment (Note (c))	–	–	(260,000)	(260,000)
	271,700	271,700	11,700	11,700

(a) The following is a list of the principal subsidiaries as at 31 December 2006 and 2007.

Name	Place of incorporation and type of legal entity	Place of operation and principal activities	Particulars of issued share capital	Interest held
Directly held:				
Sang Fei (BVI) Company Limited	British Virgin Islands (“BVI”), limited liability company	BVI, investment holding	1 ordinary share of US\$1	100%
Indirectly held:				
Sang Fei	PRC, a Sino-foreign equity joint venture company	PRC, manufacture and sale of mobile handsets and other portable electronic products	Registered capital of US\$33,000,000	65%

The following is a list of the principal subsidiaries as at 31 December 2008 and 30 June 2009.

Name	Place of incorporation and type of legal entity	Place of operation and principal activities	Particulars of issued share capital	Interest held
Directly held:				
Sang Fei (BVI) Company Limited	BVI, limited liability company	BVI, investment holding	1 ordinary share of US\$1	100%
Indirectly held:				
Sang Fei	PRC, a Sino-foreign equity joint venture company	PRC, manufacture and sale of mobile handsets and other portable electronic products	Registered capital of US\$33,000,000	65%
Sangfei CEC Electronics Rus LLC ("Sangfei Russia")	Russia, limited liability company	Russia, sale of mobile handsets	Registered capital of US\$700,000	65%
Sangfei CEC Elektronik Ticaret Anonim Sirketi ("Sangfei Turkey")	Turkey, limited liability company	Turkey, sale of mobile handsets	Registered capital of Euro300,000	61%

Sangfei Russia and Sangfei Turkey were established by Sang Fei during 2008 in which Sang Fei owns 100% and 95% equity interests respectively.

- (b) The balance was unsecured, interest free and had no fixed repayment term. It was classified as investment in subsidiaries.
- (c) Provision for impairment has been made for investment in Sang Fei with full amount at 31 December 2008 and 30 June 2009.

9. Inventories – Group

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	230,856	257,504	230,118	212,649
Work in progress	54,850	46,950	52,978	58,123
Finished goods	50,096	139,735	185,191	91,471
	<u>335,802</u>	<u>444,189</u>	<u>468,287</u>	<u>362,243</u>

The cost of inventories recognised as expense and included in cost of sales amounted to HK\$3,127,030,000, HK\$2,400,076,000, HK\$1,725,375,000 and HK\$490,079,000 for each of the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009, respectively.

Reversal of write-down has been made for the year ended 31 December 2006 as the Group had utilised the raw materials that were previously written down. Write-down of inventories to net realisable value have been made for obsolete raw materials and certain finished goods if the net realisable value is less than their cost and included in cost of sales for each of the years ended 31 December 2007, 2008 and the six months ended 30 June 2009 (Note 20).

10. Trade and other receivables

Group

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables (<i>Note (a)</i>)	415,932	755,474	417,753	384,370
Less: provision for impairment	–	(266)	(266)	(282)
Trade receivables – net	415,932	755,208	417,487	384,088
Notes receivables	799	15,081	13,843	3,198
Other receivables from related parties	24,026	7,091	560	398
Prepayments and deposits	21,011	64,526	14,923	28,776
Value-added tax refundable	25,739	14,129	18,753	10,500
Other receivables	5,672	21,115	20,194	27,447
	<u>493,179</u>	<u>877,150</u>	<u>485,760</u>	<u>454,407</u>

The directors are of the opinion that the carrying amounts of trade and other receivables approximate their fair values. All trade and other receivables were due within 1 year, non interest-bearing and unsecured. As at 31 December 2008 and 30 June 2009, trade receivables amounting to HK\$28,373,000 and HK\$168,157,000 have been factored to banks with recourse respectively. Such trade receivables remained as assets of the Group and the proceeds of HK\$25,536,000 and HK\$120,605,000 received, respectively, were recognised as bank borrowings (Note 17).

Company

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments and deposits	219	428	376	219
Other receivables	250	490	213	164
	<u>469</u>	<u>918</u>	<u>589</u>	<u>383</u>

- (a) The majority of the Group's sales are on letter of credit or documents against payment. The remaining amounts are with credit term of 30 to 120 days. The ageing analysis of the Group's gross trade receivables was as follows:

	As at 31 December			As at 30 June
Ageing	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current to 30 days	410,109	734,238	338,970	278,150
31 – 60 days	2,561	12,151	51,361	32,478
Over 60 days and within 1 year	1,725	8,324	27,151	47,893
Over 1 year	1,537	761	271	25,849
	<u>415,932</u>	<u>755,474</u>	<u>417,753</u>	<u>384,370</u>

Including in trade receivables are trade receivables from related parties of HK\$352,597,000, HK\$31,418,000, HK\$51,711,000 and HK\$25,073,000 as at 31 December 2006, 2007, 2008 and 30 June 2009 (Note 30(b)).

- (b) Movement on the provision for impairment at the Group's trade receivables are as follows:

	As at 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Beginning of year/period	–	–	266	266
Provision for impairment	–	266	–	16
	<u>–</u>	<u>266</u>	<u>–</u>	<u>16</u>
End of year/period	<u>–</u>	<u>266</u>	<u>266</u>	<u>282</u>

The individual impaired receivables mainly related to customers which are in unexpected difficult economic situation. Impairment has been fully provided for against such receivables.

Trade receivables of HK\$7,888,000, HK\$31,063,000, HK\$146,611,000 and HK\$142,612,000 as at 31 December 2006, 2007, 2008 and 30 June 2009 were past due but not impaired. These related to a number of distributors with high reputation for whom there is no recent history of default, the ageing analysis of these trade receivable is as follows:

	As at 31 December			As at
Ageing	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Within 30 days	2,065	10,093	68,094	36,680
31 – 60 days	2,561	12,151	51,361	32,478
Over 60 days and within 1 year	1,725	8,324	27,151	47,893
Over 1 year	<u>1,537</u>	<u>495</u>	<u>5</u>	<u>25,561</u>
	<u>7,888</u>	<u>31,063</u>	<u>146,611</u>	<u>142,612</u>

The other classes within trade and other receivables do not contain impaired assets.

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Currency				
Renminbi	156,454	170,672	106,764	63,663
HK dollar	469	918	2,786	39,597
US dollar	336,256	165,208	112,892	216,975
Euro	–	540,225	82,208	23,390
TRY	–	–	44,579	7,526
RUR	–	–	131,913	102,617
Other currencies	–	127	4,618	639
	<u>493,179</u>	<u>877,150</u>	<u>485,760</u>	<u>454,407</u>

11. Financial assets at fair value through profit or loss – Group

	As at 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Forward foreign exchange contracts	<u>–</u>	<u>–</u>	<u>1,271</u>	<u>–</u>

12. Restricted bank deposits

	As at 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Pledged bank deposits (<i>Note 17</i>)	–	–	–	19,345
Deposits for issue of forward contracts	–	–	–	7,795
Deposits for purchases of raw materials	<u>–</u>	<u>–</u>	<u>–</u>	<u>8,508</u>
	<u>–</u>	<u>–</u>	<u>–</u>	<u>35,648</u>

13. Cash and cash equivalents

Group

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at bank and on hand	221,726	163,841	124,935	181,238
Short-term bank deposits	198,083	227,900	218,194	254,207
	<u>419,809</u>	<u>391,741</u>	<u>343,129</u>	<u>435,445</u>

Company

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at bank and on hand	9,151	6,105	9,256	2,398
Short-term bank deposits	187,005	216,441	206,614	206,967
	<u>196,156</u>	<u>222,546</u>	<u>215,870</u>	<u>209,365</u>

The effective interest rate on short-term bank deposits at 31 December 2006, 2007 and 2008 and 30 June 2009 was 2.46%, 1.68%, 0.49% and 0.87% per annum, respectively. The maturity days of these deposits at 31 December 2006, 2007 and 2008 and 30 June 2009 were all within 90 days.

14. Issued equity/share capital

(a) Issued equity – Group

	Number of shares	Issued equity HK\$'000
At 1 January and 31 December 2006	<u>1,083,560,000</u>	<u>370,074</u>
At 1 January and 31 December 2007	<u>1,083,560,000</u>	<u>370,074</u>
At 1 January and 31 December 2008	<u>1,083,560,000</u>	<u>370,074</u>
At 1 January and 30 June 2009	<u>1,083,560,000</u>	<u>370,074</u>

- (i) The number of shares reflects the Company's ordinary share of HK\$0.01 each issued and fully paid.
- (ii) On 10 December 2003, CEC, the Company, the Company's then holding company, Winsan International Holdings Limited entered into a sale and purchase agreement. Pursuant to the agreement, the Company acquired CEC's 65% equity interest in Sang Fei (the "Acquisition") and the consideration was satisfied by the issuance of the Company's 6,500,000,000 shares to CEC. The Acquisition was completed on 24 September 2004 and has been accounted for as a reverse acquisition. For accounting purpose, Sang Fei is regarded as the acquirer while the Company and

its then subsidiaries are deemed to have been acquired by Sang Fei. Accordingly, the amount recognised as issued equity of the Group, which consists of share capital and share premium, has been determined by adding to the issued equity of Sang Fei immediately before the completion of the Acquisition the cost of the acquisition of the Company and its then subsidiaries.

(b) Share capital – Company

	Number of shares – ordinary share of HK\$0.01 each		Share capital HK\$'000	Share premium HK\$'000	Total HK\$'000
	Authorised	Issued and fully paid			
At 1 January and 31 December 2006	<u>30,000,000,000</u>	<u>1,083,560,000</u>	<u>10,836</u>	<u>325,055</u>	<u>335,891</u>
At 1 January and 31 December 2007	<u>30,000,000,000</u>	<u>1,083,560,000</u>	<u>10,836</u>	<u>325,055</u>	<u>335,891</u>
At 1 January and 31 December 2008	<u>30,000,000,000</u>	<u>1,083,560,000</u>	<u>10,836</u>	<u>325,055</u>	<u>335,891</u>
At 1 January and 30 June 2009	<u>30,000,000,000</u>	<u>1,083,560,000</u>	<u>10,836</u>	<u>325,055</u>	<u>335,891</u>

15. Other reserves

Group

	Capital reserve (Note (a)) HK\$'000	Surplus reserves (Note (b)) HK\$'000	Share option reserve (Note (c)) HK\$'000	Translation reserve HK\$'000	Total HK\$'000
At 1 January 2006	(1,806)	25,992	6,572	4,304	35,062
Share options granted	–	–	3,654	–	3,654
Appropriation from retained earnings	–	7,333	–	–	7,333
Currency translation differences	–	–	–	9,088	9,088
At 31 December 2006	<u>(1,806)</u>	<u>33,325</u>	<u>10,226</u>	<u>13,392</u>	<u>55,137</u>
At 1 January 2007	(1,806)	33,325	10,226	13,392	55,137
Share options granted	–	–	1,737	–	1,737
Currency translation differences	–	–	–	14,933	14,933
At 31 December 2007	<u>(1,806)</u>	<u>33,325</u>	<u>11,963</u>	<u>28,325</u>	<u>71,807</u>
At 1 January 2008	(1,806)	33,325	11,963	28,325	71,807
Share options lapsed	–	–	(4,822)	–	(4,822)
Currency translation differences	–	–	–	10,771	10,771
At 31 December 2008	<u>(1,806)</u>	<u>33,325</u>	<u>7,141</u>	<u>39,096</u>	<u>77,756</u>
At 1 January 2009	(1,806)	33,325	7,141	39,096	77,756
Share options lapsed	–	–	(252)	–	(252)
Currency translation differences	–	–	–	(2,391)	(2,391)
At 30 June 2009	<u>(1,806)</u>	<u>33,325</u>	<u>6,889</u>	<u>36,705</u>	<u>75,113</u>

(a) Capital reserve

Capital reserve represents the exchange differences arising from paid-in capital paid by foreign currencies in the principal subsidiary, Sang Fei.

(b) Surplus reserves

In accordance with the “Laws of the People’s Republic of China on Joint Ventures Using Chinese and Foreign Investment” and Sang Fei’s Articles of Association, appropriations of the reserve fund and the enterprise expansion fund from profit after taxation have to be made prior to profit distribution to the equity owners. The percentage of appropriation of reserve fund and the enterprise expansion fund is approved by the board of directors.

Upon approval from the board of directors, the reserve fund can be used to offset against accumulated losses or to increase capital while the enterprise expansion fund can be used to expand production and to increase capital.

Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is distributable to shareholders in certain circumstances as specified in section 54 thereof.

(c) Share option reserve

On 25 October 2005, 28,450,000 options were granted to certain directors, employees and other participants at an exercise price of HK\$1.488 under the share option scheme approved in 2002 (“Share Option Scheme”). 40% of the options granted are exercisable from 1 November 2005 to 31 October 2008, another 30% are exercisable from 1 November 2006 to 31 October 2009 and the remaining 30% are exercisable from 1 November 2007 to 31 October 2010. The options have an option term of 3 years commencing from the exercisable date. No option was exercised during the Relevant Periods.

The average fair value of the options granted in 2005, determined using the Black-Scholes valuation model, was HK\$0.571 per share. The significant inputs into the model were share price of HK\$1.45 at the grant date, exercise price shown above, standard deviation of expected share price returns of 63.6%, average expected life of options of 2.4 years, and annual risk-free interest rate of approximately 4%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over one year immediately preceding the grant date.

Movements in the number of share options outstanding are as follows:

	As at 31 December			As at 30 June 2009
	2006	2007	2008	
At 1 January	28,450,000	21,150,000	20,950,000	11,070,000
Lapsed	(7,300,000)	(200,000)	(9,880,000)	(390,000)
	<u>21,150,000</u>	<u>20,950,000</u>	<u>11,070,000</u>	<u>10,680,000</u>
At 31 December/30 June	<u>21,150,000</u>	<u>20,950,000</u>	<u>11,070,000</u>	<u>10,680,000</u>

As at 31 December 2006, 14,805,000 outstanding share options were exercisable. As at 31 December 2007 and 2008 and 30 June 2009, all share options outstanding were exercisable.

Share options outstanding as at 31 December 2006, 2007 and 2008 and 30 June 2009 have the following expiry date:

	As at 31 December			As at 30 June 2009
	2006	2007	2008	
Expiry date – 31 October				
2008	8,460,000	8,380,000	–	–
2009	6,345,000	6,285,000	5,535,000	5,340,000
2010	6,345,000	6,285,000	5,535,000	5,340,000
	<u>21,150,000</u>	<u>20,950,000</u>	<u>11,070,000</u>	<u>10,680,000</u>

During the year ended 31 December 2006 and 2007, expense arising from the share option scheme recognised in administrative expenses amounted to HK\$3,654,000 and HK\$1,737,000 respectively. No expenses were charged for the year ended 31 December 2008 and the six months ended 30 June 2009.

During the year ended 31 December 2008 and six months ended 30 June 2009, 9,880,000 and 390,000 options lapsed, and an amount of HK\$4,822,000 and HK\$252,000 was transferred from reserve to retained earnings respectively.

Company

	Contributed surplus <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006	61,672	6,572	68,244
Share options granted	–	3,654	3,654
At 31 December 2006	<u>61,672</u>	<u>10,226</u>	<u>71,898</u>
At 1 January 2007	61,672	10,226	71,898
Share options granted	–	1,737	1,737
At 31 December 2007	<u>61,672</u>	<u>11,963</u>	<u>73,635</u>
At 1 January 2008	61,672	11,963	73,635
Share options lapsed	–	(4,822)	(4,822)
At 31 December 2008	<u>61,672</u>	<u>7,141</u>	<u>68,813</u>
At 1 January 2009	61,672	7,141	68,813
Share options lapsed	–	(252)	(252)
At 30 June 2009	<u>61,672</u>	<u>6,889</u>	<u>68,561</u>

16. Trade and other payables

Group

	As at 31 December			As at 30 June 2009
	2006 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	2008 <i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables (<i>Note 30(b)</i>)	511,472	381,597	316,536	363,160
Other payables from related parties (<i>Note 30(b)</i>)	17,072	1,332	4,086	27,955
Accrued expenses	47,205	192,149	131,896	82,973
Advance from customers (<i>Note 30(b)</i>)	52,870	65,197	71,009	94,333
Other payables	<u>89,207</u>	<u>100,755</u>	<u>109,533</u>	<u>42,897</u>
	<u>717,826</u>	<u>741,030</u>	<u>633,060</u>	<u>611,318</u>

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

Company

	As at 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Accrued expenses	2,744	4,040	5,521	3,526
Other payables	–	16	7	7
	<u>2,744</u>	<u>4,056</u>	<u>5,528</u>	<u>3,533</u>

The ageing analysis of the Group's trade payables as at 31 December 2006, 2007, 2008 and 30 June 2009 is as follows:

	As at 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Current to 30 days	487,812	367,655	299,448	338,810
31 – 60 days	14	474	8,788	5,403
Over 60 days	23,646	13,468	8,300	18,947
	<u>511,472</u>	<u>381,597</u>	<u>316,536</u>	<u>363,160</u>

The directors are of the opinion that the carrying amounts of trade and other payables approximate their fair values.

17. Borrowings – Group

	As at 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Short term bank loans:				
Secured (<i>Note (a)</i>)	–	–	25,536	140,269
Guaranteed (<i>Note (b)</i>)	–	–	–	373,324
Unsecured	–	394,111	425,277	43,710
	<u>–</u>	<u>394,111</u>	<u>450,813</u>	<u>557,303</u>

(a) Short term bank loans are secured by:

	As at 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Trade receivables (<i>Note 10</i>)	–	–	28,373	168,157
Bank deposits	–	–	–	19,345
	<u>–</u>	<u>–</u>	<u>28,373</u>	<u>187,502</u>

- (b) Such short term bank loans are guaranteed by CEC.
- (c) The bank loans as at 31 December 2007, 2008 and 30 June 2009 were repayable within one year. They were all at fixed interest rate and bore interest at the average borrowing rate of 6.19%, 6.21% and 5.25% per annum, respectively.
- (d) The carrying amounts of the short term bank loans approximate their fair value, which are denominated in the following currencies:

	As at 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Renminbi	–	354,839	425,277	412,615
US dollar	–	39,272	25,536	144,688
	<u>–</u>	<u>394,111</u>	<u>450,813</u>	<u>557,303</u>

The Group has undrawn borrowing facilities of approximately HK\$1,000,000,000, HK\$466,104,000, HK\$5,616,000 and HK\$43,169,000 as at 31 December 2006, 2007, 2008 and 30 June 2009 respectively. The facilities are at floating rate and expiring within one year which are subject to review at various dates within the next 12 months.

18. Provision for warranty – Group

The Group provides free repair and replacement services ranging from 12 to 15 months after sales. The cost of the warranty obligation under which the Group agrees to remedy defects in its products is accrued at the time the related sales are recognised. As at 31 December 2006, 2007, 2008 and 30 June 2009, the Group had provided for expected warranty claims on mobile products and certain ODM/OEM products based on past experience of the level of repairs and returns.

	As at 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
At 1 January	2,106	12,634	77,260	43,015
Charged for the year/period				
(Note (a))	21,089	64,437	34,065	24,079
Provision related to OEM products				
(Note (b))	–	53,055	–	–
Less: utilised during the year/period	<u>(10,561)</u>	<u>(52,866)</u>	<u>(68,310)</u>	<u>(28,405)</u>
At 31 December/30 June	<u>12,634</u>	<u>77,260</u>	<u>43,015</u>	<u>38,689</u>

- (a) Provision for warranty of HK\$21,089,000, HK\$64,437,000, HK\$34,065,000 and HK\$24,079,000 for each of the years ended 31 December 2006, 2007, 2008 and six months ended 30 June 2009 have been charged to selling and marketing costs respectively.
- (b) Provision for warranty of HK\$53,055,000 was related to OEM products which were sold to Philips Group before 1 April 2007. The Group subsequently assumed the business of “Philips” mobile products and were responsible for the related after sale services. In this respect, Philips Group reimbursed nearly the same amount to the Group.

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

19. Other gains/(losses) – net

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(Unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Foreign exchange (loss)/gain – net	–	(4,948)	(111,680)	16,049	(7,013)
Sales of samples and materials	5,355	1,633	1,487	–	–
Fair value gain/(loss) from foreign exchange forward contracts	–	–	1,271	–	(1,582)
Write-off of payables (<i>Note (a)</i>)	–	7,504	–	–	–
Others	(225)	562	461	84	21
	<u>5,130</u>	<u>4,751</u>	<u>(108,461)</u>	<u>16,133</u>	<u>(8,574)</u>

- (a) These represented long-aged trading payables which the directors were of the opinion that the obligation for future settlement was remote.

20. Expenses by nature

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

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(Unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation and amortisation expenses (<i>Notes 6 and 7</i>)	49,646	44,240	36,038	18,256	15,774
Employee benefit expenses (<i>Note 21</i>)	149,056	173,221	196,993	107,213	72,069
Changes in inventories of finished goods and work in progress	61,363	(91,023)	55,618	(72,126)	88,575
Raw materials and consumables used	3,065,667	2,491,099	1,669,757	797,715	578,654
Impairment provision for receivables	–	266	–	–	–
(Reversal)/Write-down of inventories to net realisable value (<i>Note 9</i>)	(4,952)	27,908	16,375	5,299	3,876
Provision for warranty (<i>Note 18</i>)	21,089	64,437	34,065	20,015	24,079
Operating lease expenses on property and machinery (<i>Note 6</i>)	14,860	25,791	29,531	16,038	17,606
Research and development costs	34,667	49,071	82,414	43,322	29,985
Auditor's remuneration	1,247	1,890	2,500	600	400
	<u>3,301,378</u>	<u>2,818,783</u>	<u>1,968,254</u>	<u>1,008,551</u>	<u>849,339</u>

21. Employee benefit expenses

	Years ended 31 December			Six months ended	
	2006	2007	2008	2008	2009
				(Unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	137,000	156,359	183,974	101,635	67,558
Contribution to retirement schemes (Notes (a) and (b))	8,402	15,125	13,019	5,578	4,511
Share-based compensation (Note 15(c))	3,654	1,737	—	—	—
	<u>149,056</u>	<u>173,221</u>	<u>196,993</u>	<u>107,213</u>	<u>72,069</u>

- (a) The Group operates a MPF for the eligible employees in Hong Kong. The Group's contribution to MPF are set at 5% of employees' salaries and are expensed as incurred.
- (b) The principal subsidiary, Sang Fei, participates in a defined contribution retirement scheme based on laws and regulations in the PRC. The local government authority of the PRC is responsible for the pension liabilities to these retired employees in the PRC. Sang Fei made monthly contributions to the retirement scheme at a minimum rate of 8% of the salaries of employees in the PRC during the Relevant Periods.

22. Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of each director for the year ended 31 December 2006 is set out below:

Name of Director	Fees	Salaries, allowance and benefits in kind	Employer's contribution to pension scheme	Share- based compensation	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Chen Zhaoxiong*	—	—	—	—	—
Mr. Yang Xiaotang	167	—	8	—	175
Mr. Tong Baoan	500	—	19	960	1,479
Mr. Fan Qingwu	—	400	20	909	1,329
Mr. Hua Longxing	—	404	—	909	1,313
Mr. Chan Kay Cheung	180	—	—	—	180
Mr. Wong Po Yan	180	—	—	—	180
Mr. Yin Yongli	180	—	—	—	180
	<u>1,207</u>	<u>804</u>	<u>47</u>	<u>2,778</u>	<u>4,836</u>

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

The remuneration of each director for the year ended 31 December 2007 is set out below:

Name of Director	Fees HK\$'000	Salaries, allowance and benefits in kind HK\$'000	Employer's contribution to pension scheme HK\$'000	Share- based compensation HK\$'000	Total HK\$'000
Mr. Chen Zhaoxiong*	–	–	–	–	–
Mr. Tong Baoan	500	–	–	333	833
Mr. Fan Qingwu	–	400	49	315	764
Mr. Hua Longxing	–	526	–	315	841
Mr. Chan Kay Cheung	180	–	–	–	180
Mr. Wong Po Yan	180	–	–	–	180
Mr. Yin Yongli	180	–	–	–	180
	<u>1,040</u>	<u>926</u>	<u>49</u>	<u>963</u>	<u>2,978</u>

The remuneration of each director for the year ended 31 December 2008 is set out below:

Name of Director	Fees HK\$'000	Salaries, allowance and benefits in kind HK\$'000	Employer's contribution to pension scheme HK\$'000	Share- based compensation HK\$'000	Total HK\$'000
Mr. Xiong Qunli	624	–	–	–	624
Mr. Chen Zhaoxiong*	–	–	–	–	–
Mr. Tong Baoan	550	–	–	–	550
Mr. Fan Qingwu	–	521	60	–	581
Mr. Hua Longxing	–	483	–	–	483
Mr. Chan Kay Cheung	200	–	–	–	200
Mr. Wong Po Yan	200	–	–	–	200
Mr. Yin Yongli	200	–	–	–	200
	<u>1,774</u>	<u>1,004</u>	<u>60</u>	<u>–</u>	<u>2,838</u>

The remuneration of each director for the six months ended 30 June 2008 (unaudited) is set out below:

Name of Director	Fees HK\$'000	Salaries, allowance and benefits in kind HK\$'000	Employer's contribution to pension scheme HK\$'000	Share- based compensation HK\$'000	Total HK\$'000
Mr. Xiong Qunli	293	–	–	–	293
Mr. Chen Zhaoxiong*	–	–	–	–	–
Mr. Tong Baoan	275	–	–	–	275
Mr. Fan Qingwu	–	200	27	–	227
Mr. Hua Longxing	–	282	–	–	282
Mr. Chan Kay Cheung	100	–	–	–	100
Mr. Wong Po Yan	100	–	–	–	100
Mr. Yin Yongli	100	–	–	–	100
	<u>868</u>	<u>482</u>	<u>27</u>	<u>–</u>	<u>1,377</u>

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

The remuneration of each director for the six months ended 30 June 2009 is set out below:

Name of Director	Fees HK\$'000	Salaries, allowance and benefits in kind HK\$'000	Employer's contribution to pension scheme HK\$'000	Share- based compensation HK\$'000	Total HK\$'000
Mr. Xiong Qunli	330	–	–	–	330
Mr. Tong Baoan	275	–	–	–	275
Mr. Fan Qingwu	–	260	29	–	289
Mr. Hua Longxing	–	161	–	–	161
Mr. Chan Kay Cheung	100	–	–	–	100
Mr. Wong Po Yan	100	–	–	–	100
Mr. Yin Yongli	100	–	–	–	100
	<u>905</u>	<u>421</u>	<u>29</u>	<u>–</u>	<u>1,355</u>

* Resigned on 14 January 2008.

During the Relevant Periods, no director has waived emolument or has agreed to waive the directors' emolument.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2006 included two directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals for the year ended 31 December 2006 and the five individuals whose emoluments were the highest in the Group during year ended 31 December 2007, 2008 and six months ended 30 June 2008 and 2009 are as follows:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008 (Unaudited)	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	4,064	12,434	9,678	4,535	4,141
Bonuses	1,194	2,192	1,162	1,500	–
Contributions to retirement schemes	179	460	204	–	–
Share-based compensation (Note 15(c))	315	109	–	–	–
	<u>5,752</u>	<u>15,195</u>	<u>11,044</u>	<u>6,035</u>	<u>4,141</u>

(c) *The emoluments fell within the following band:*

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008 (Unaudited)	2009
Nil – HK\$1,000,000	–	–	–	2	4
HK\$1,000,001 – HK\$1,500,000	1	1	1	1	1
HK\$1,500,001 – HK\$2,000,000	–	–	–	2	–
HK\$2,000,001 – HK\$2,500,000	2	2	2	–	–
HK\$2,500,001 – HK\$3,000,000	–	–	2	–	–
HK\$3,000,001 – HK\$4,000,000	–	1	–	–	–
HK\$4,000,001 – HK\$5,000,000	–	1	–	–	–
	<u>3</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

23. Finance income/(costs) – net

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008 (Unaudited)	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income on short-term deposits	8,109	11,442	9,234	4,299	1,818
Interest on bank loans	(6,444)	(9,075)	(33,605)	(16,506)	(11,646)
	<u>1,665</u>	<u>2,367</u>	<u>(24,371)</u>	<u>(12,207)</u>	<u>(9,828)</u>

24. Taxation

(a) *Income tax expense/(credit)*

The amount of taxation charged/(credited) to the consolidated income statements represents:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(Unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current taxation – PRC enterprise income tax	6,760	6,135	–	–	–
Deferred taxation	(4,402)	(37,775)	–	(19,761)	–
	<u>2,358</u>	<u>(31,640)</u>	<u>–</u>	<u>(19,761)</u>	<u>–</u>

- (b) During the Relevant Periods, no provision for profits tax in the Bermuda, Hong Kong, Russia and Turkey has been made as the Group has no assessable profit in those jurisdictions.

- (c) The principal subsidiary, Sang Fei, is a foreign investment production enterprise established in Shenzhen Special Economic Zone in the PRC, the prevailing PRC enterprise income tax rate before 2008 was 15%. As approved by the tax authorities in 1998, Sang Fei is entitled to exemption from income tax for two years followed by a 50% tax reduction for three years, commencing from the year ended 31 December 2000, the first cumulative profit-making year net of losses carried forward. Such tax holiday ended at 31 December 2004.

Sang Fei was certified as a high-tech enterprise from 2002 and as approved by the tax authorities in 2004, Sang Fei is entitled to 50% tax reduction from enterprise income tax for further three years starting from 2005. Consequently, enterprise income tax has been provided at the rate of 7.5% for the years ended 31 December 2005, 2006 and 2007. Such tax reduction ended at 31 December 2007.

The Corporate Income Tax Law of the PRC (the “new CIT Law”) was effective from 1 January 2008. In accordance with the new CIT Law, Sang Fei’s applicable tax rate will be changed to 25% with a transitional period of 5 years from 2008 in which the tax rate will be changed to 18%, 20%, 22%, 24% and 25% for the five years from 2008 to 2012 respectively. Accordingly, the applicable tax rates for the year ended 31 December 2008 and six months ended 30 June 2009 were 18% and 20% respectively.

No provision for PRC enterprise income tax has been made as the Group has no assessable tax profits for the year ended 31 December 2008 and each of the six months ended 30 June 2008 and 2009.

- (d) The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the respective applicable tax rates during the Relevant Periods is as follows:

	Years ended 31 December			Six months ended	
	2006	2007	2008	2008	2009
				(Unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) before income tax	71,517	(19,117)	(333,459)	(113,292)	(96,096)
Calculated at applicable tax rate	10,728	(2,868)	(60,023)	(20,393)	(19,219)
Effect of tax concession	(9,804)	(406)	–	–	–
Expenses not deductible for taxation purposes	313	136	333	176	36
Tax losses for which no deferred income tax asset was recognised (<i>Note (e)</i>)	1,121	266	75,684	3,557	19,183
Effect on change of tax rates	–	(28,768)	(15,994)	(3,101)	–
Income tax expense/(credit)	2,358	(31,640)	–	(19,761)	–

(e) Deferred taxation

The movement on the deferred tax assets during the Relevant Periods is as follows:

	Impairment of inventories <i>HK\$'000</i>	Accelerated depreciation of property, plant and equipment <i>HK\$'000</i>	Provision for warranty and other accruals <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006	2,939	540	158	–	877	4,514
(Charged)/credited to the income statement	(405)	4,177	790	–	(160)	4,402
At 31 December 2006	<u>2,534</u>	<u>4,717</u>	<u>948</u>	<u>–</u>	<u>717</u>	<u>8,916</u>
At 1 January 2007	2,534	4,717	948	–	717	8,916
Credited/(charged) to the income statement	9,028	8,314	21,150	–	(717)	37,775
At 31 December 2007	<u>11,562</u>	<u>13,031</u>	<u>22,098</u>	<u>–</u>	<u>–</u>	<u>46,691</u>
At 1 January 2008	11,562	13,031	22,098	–	–	46,691
Exchange differences	524	590	1,433	–	–	2,547
(Charged)/credited to the income statement	(12,086)	(13,621)	(23,531)	49,238	–	–
At 31 December 2008	<u>–</u>	<u>–</u>	<u>–</u>	<u>49,238</u>	<u>–</u>	<u>49,238</u>
At 1 January 2009	–	–	–	49,238	–	49,238
Exchange differences	–	–	–	21	–	21
At 30 June 2009	<u>–</u>	<u>–</u>	<u>–</u>	<u>49,259</u>	<u>–</u>	<u>49,259</u>

The amounts shown in the balance sheets include the following:

	As at 31 December			As at
	2006	2007	2008	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2009</i>
Deferred taxation assets to be recovered after more than 12 months	7,251	10,879	49,238	49,259
Deferred taxation assets to be recovered within 12 months	<u>1,665</u>	<u>35,812</u>	<u>–</u>	<u>–</u>
	<u>8,916</u>	<u>46,691</u>	<u>49,238</u>	<u>49,259</u>

Deferred tax assets are recognised for tax loss carrying-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. At 31 December 2006, 2007 and 2008 and 30 June 2009, the Group did not recognise deferred income tax assets of HK\$3,984,000, HK\$4,250,000, HK\$79,934,000 and HK\$99,117,000 in respect of losses amounted to approximately HK\$22,184,000, HK\$23,210,000, HK\$418,892,000 and HK\$514,788,000 that can be carried forward against future taxable income, respectively. Such tax losses expired at 5 years after the respective balance sheet dates.

25. Profit/(loss) attributable to equity holders of the Company

For each of the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, the profit/loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of the profit of HK\$58,692,000 and HK\$40,985,000, loss of HK\$268,648,000 and HK\$4,582,000 respectively.

26. Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based on the Group's profit/(loss) attributable to equity holders of the Company for each of the years ended 31 December 2006, 2007, 2008 and six months ended 30 June 2008 and 2009 of profit of HK\$43,276,000 and HK\$8,074,000, loss of HK\$220,035,000, HK\$60,605,000 and HK\$74,994,000, respectively, and 1,083,560,000 ordinary shares for each of the Relevant Periods.

(b) Diluted earnings/(loss) per share

As the impact of exercise of share option was anti-dilutive as at 31 December 2006 and 2008 and 30 June 2008 and 2009, the diluted earnings/loss per share is equal to the basic earnings/loss per share. As at 31 December 2007, diluted earnings per share was calculated by adjusting the number of 1,083,560,000 ordinary shares by adding 6,405,096 ordinary shares to assume conversion of all dilutive potential ordinary shares granted. A calculation is done to determine the number of shares that could have been acquired at fair value (determine as the average market price during the year) based on the monetary value of subscription rights attached to outstanding share options as following:

Profit attributable to equity holders of the Company	HK\$8,074,000
Weighted average number of shares outstanding	1,083,560,000
Weighted average number of shares under Share Option Scheme	15,712,500
Weighted average number of shares that would have been issued at average market price	(9,307,404)
Weighted average number of ordinary shares in issue on fully diluted basis	1,089,965,096
Diluted earnings per share	HK\$ cent 0.74

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP
27. Cash generated from/(used in) operations

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(Unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) before income tax	71,517	(19,117)	(333,459)	(113,292)	(96,096)
Adjustment for:					
Depreciation	45,324	38,725	29,557	15,164	12,451
Amortisation of intangible assets	4,322	5,515	6,481	3,092	3,323
Loss/(gain) on disposal of property, plant and equipment	6	(337)	(95)	–	26
Interest income	(8,109)	(11,442)	(9,234)	(4,299)	(1,818)
Interest expense	6,444	9,075	33,605	16,506	11,646
Share-based compensation	3,654	1,737	–	–	–
	123,158	24,156	(273,145)	(82,829)	(70,468)
Changes in working capital					
Inventories	111,232	(108,387)	(24,098)	(65,949)	106,044
Trade and other receivables	598,609	(365,589)	402,242	(104,673)	12,587
Financial assets at fair value through profit or loss	–	–	(1,271)	–	1,579
Trade and other payables	(411,368)	22,386	(107,970)	61,250	(22,050)
Provision for warranty	10,528	64,626	(34,245)	(5,165)	(4,326)
Net cash generated from/(used in) operations	<u>432,159</u>	<u>(362,808)</u>	<u>(38,487)</u>	<u>(197,366)</u>	<u>23,366</u>

28. Commitments
(a) Capital commitments – Group

The Group's capital commitments which were contracted but not provided for are as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Purchase of property, plant and equipment and computer software	<u>1,259</u>	<u>2,502</u>	<u>2,094</u>	<u>742</u>

(b) Operating lease commitments

The Group's future aggregate minimum lease payments under non-cancellable operating leases for factories and office premises are as follows:

Group

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	26,218	30,612	31,913	18,982
In the second to fifth years	19,774	21,901	32,207	24,575
	<u>45,992</u>	<u>52,513</u>	<u>64,120</u>	<u>43,557</u>

Company

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	651	343	359	212
In the second to fifth years	–	344	30	–
	<u>651</u>	<u>687</u>	<u>389</u>	<u>212</u>

29. Contingent liabilities

The Group did not have any material contingent liabilities outstanding as at 31 December 2006, 2007, 2008 and 30 June 2009.

30. Related party transactions and balances

During the Relevant Periods, the Group entered into transactions with companies under common control of CEC, the ultimate holding company of the Company. These companies are defined as "Fellow subsidiaries" of the Group;

During the Relevant Periods, the Group also entered into transactions with companies under common control of Koninklijke Philips Electronics N.V. ("KPE") (a company incorporated in Holland), the ultimate holding company of the then minority shareholder with significant influence on operation of the principal subsidiary, Sang Fei before 31 March 2007. These companies are defined as "Philips Group" below. In March 2007, KPE disposed of its equity interests in Sang Fei and ceased to be a related party of the Group. Consequently, the Group's transactions and balances with Philips Group since 1 April 2007 are not disclosed as related party transactions and balances.

(a) Significant related party transactions

In addition to those transactions and balances disclosed elsewhere in the Financial Information, the Group entered into the following material related party transactions during the Relevant Periods:

	Years ended 31 December			Six months ended	
	2006	2007	2008	2008	2009
				(Unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of products, materials and samples to:					
Philips Group	2,894,515	447,751	–	–	–
Fellow subsidiaries	4,428	418,464	342,503	114,272	85,472
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Sales of maintenance services to:					
Philips Group	25,338	3,158	–	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Purchase of goods from:					
Philips Group	219,418	847	–	–	–
Fellow subsidiaries	21,533	120,771	91,929	32,817	24,068
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Processing services from:					
Fellow subsidiaries	11,543	10,911	9,136	4,507	1,698
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fitment and decoration services from:					
Fellow subsidiaries	1,820	221	–	37	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Canteen services from:					
Fellow subsidiaries	10,918	11,899	13,917	6,592	4,653
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Repair and maintenance services from:					
Fellow subsidiaries	2,772	12,435	11,223	5,807	2,120
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Rental expenses paid to:					
Fellow subsidiaries	8,621	11,030	13,520	5,471	5,811
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Licence fee paid to:					
Fellow subsidiaries	–	14,063	17,983	2,955	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Comprehensive services from:					
Fellow subsidiaries	–	40,059	34,837	15,353	10,372
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Comprehensive services were charged at the actual costs incurred for the provision of such services. The other above transactions were carried out on normal commercial terms and with reference to market rates.

(b) Significant balances with related parties

	As at 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Trade receivables due from:				
Philips Group	352,597	–	–	–
Fellow subsidiaries	–	31,418	51,711	25,073
	<u>352,597</u>	<u>31,418</u>	<u>51,711</u>	<u>25,073</u>
Other receivables due from:				
Philips Group	23,826	–	–	–
Fellow subsidiaries	200	7,091	560	398
	<u>24,026</u>	<u>7,091</u>	<u>560</u>	<u>398</u>
Prepayments due from:				
Fellow subsidiaries	<u>6,205</u>	<u>22,796</u>	<u>4,608</u>	<u>20,192</u>
Trade payables due to:				
Philips Group	27,223	–	–	–
Fellow subsidiaries	1,837	2,444	9,642	1,525
	<u>29,060</u>	<u>2,444</u>	<u>9,642</u>	<u>1,525</u>
Other payables due to:				
Philips Group	15,533	–	–	–
Fellow subsidiaries	1,539	1,332	4,086	27,955
	<u>17,072</u>	<u>1,332</u>	<u>4,086</u>	<u>27,955</u>
Advance received from:				
Fellow subsidiaries	<u>2,027</u>	<u>14,058</u>	<u>24,997</u>	<u>54,403</u>
Deposits in:				
Fellow subsidiaries	<u>51,595</u>	<u>–</u>	<u>–</u>	<u>32,991</u>
Borrowings from:				
Fellow subsidiaries	<u>–</u>	<u>–</u>	<u>–</u>	<u>43,710</u>

(c) Additional information on other state-owned enterprises

The Company is controlled by CEC, and is ultimately controlled by Mainland China government, which also controls a significant portion of the productive assets and entities in the Mainland China. In accordance with Hong Kong Accounting Standard 24 “Related Party Disclosures”, state-owned enterprises and their subsidiaries, other than CEC Group, are also defined as related parties of the Group (“Other State-owned Enterprises”).

(i) Summary of significant transactions with Other State-owned Enterprises

	Years ended 31 December			Six months ended	
	2006	2007	2008	30 June	2009
	HK\$'000	HK\$'000	HK\$'000	2008 (Unaudited)	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of products and materials	85	428,418	448,419	212,677	87,513
Purchase of materials	–	24,431	23,651	11,286	8,363
Interest income from state-owned banks	6,982	9,955	8,840	2,246	599
Interest expenses to state-owned banks	6,444	9,075	33,605	16,506	11,646

(ii) Summary of balances with Other State-owned Enterprises

	As at 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	394	13,383	13,843	5,396
Trade and other payables	–	170	3,127	4,138
Bank deposits in state-owned banks	341,292	311,477	322,129	334,420
Bank borrowings from state-owned banks	–	394,111	450,813	557,303

Balances with Other State-owned Enterprises, except for bank deposits and bank borrowings, were unsecured and interest-free.

III. EVENTS AFTER THE BALANCE SHEET DATE**(a) Acquisition completed after the balance sheet date**

Pursuant to agreements entered into with the shareholders of CEC Huada Electronic Design Co., Ltd. (“Huada Electronics”) on 20 June 2008, the Company has conditionally agreed to purchase the entire equity interest in Huada Electronics by issuing an aggregate of 608,000,000 new shares of the Company each at the price of HK\$2.50 for settlement of the consideration for the acquisition. The acquisition of Huada Electronics has been approved by the independent shareholders of the Company on 21 July 2008 and was completed in September 2009. After completion of the acquisition, Huada Electronics became a wholly-owned subsidiary of the Company and the financial statements of Huada Electronics will be consolidated into those of the Group. The Company will apply the principle of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA, in accounting for the acquisition of Huada Electronics. Financial statements of Huada Electronics will be included in the consolidated financial statements of the Group for the year ending 31 December 2009, and for any comparative periods disclosed as if the acquisition had occurred at the previous balance sheet dates presented.

(b) Disposal after the balance sheet date

On 9 November 2009, the Company entered into a conditional agreement to dispose the entire issued share capital of Sang Fei (BVI) Company Limited (“Sang Fei (BVI)”) at a consideration of HK\$10,000,000 in cash to P-Marshall Hong Kong Limited.

The assets and liabilities for Sang Fei (BVI) and its subsidiary, Shenzhen Sang Fei Consumer Communications Company Limited, as at 31 December 2006, 2007 and 2008 and 30 June 2009, and revenue, expenses and results and cash flows for each of the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2008 and 2009 are set out as follows:

(i) *Assets and liabilities*

	As at 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
ASSETS				
Non-current assets				
Property, plant and equipment	60,242	39,898	46,451	41,935
Intangible assets	16,251	16,144	15,686	13,081
Deferred taxation assets	8,916	46,691	49,238	49,259
	<u>85,409</u>	<u>102,733</u>	<u>111,375</u>	<u>104,275</u>
Current assets				
Inventories	335,802	444,189	468,287	362,243
Trade and other receivables	492,452	876,088	485,031	453,861
Financial assets at fair value				
through profit or loss	–	–	1,271	–
Restricted bank deposits	–	–	–	35,648
Cash and cash equivalents	212,516	157,643	115,609	214,412
	<u>1,040,770</u>	<u>1,477,920</u>	<u>1,070,198</u>	<u>1,066,164</u>
Total assets	<u><u>1,126,179</u></u>	<u><u>1,580,653</u></u>	<u><u>1,181,573</u></u>	<u><u>1,170,439</u></u>

	As at 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
EQUITY				
Capital and reserves				
attributable to equity				
holders of Sang Fei (BVI)				
Share capital	1	1	1	1
Other reserves	211,427	225,521	235,661	234,103
Retained earnings/				
(Accumulated losses)	46,298	14,172	(196,472)	(267,363)
	257,726	239,694	39,190	(33,259)
Minority interests	138,775	129,066	21,102	–
Total equity/(deficit)	396,501	368,760	60,292	(33,259)
LIABILITIES				
Current liabilities				
Trade and other payables	715,000	736,797	627,453	607,706
Current income tax liabilities	2,044	3,725	–	–
Borrowings	–	394,111	450,813	557,303
Provision for warranty	12,634	77,260	43,015	38,689
Total liabilities	729,678	1,211,893	1,121,281	1,203,698
Total equity/(deficit) and liabilities	1,126,179	1,580,653	1,181,573	1,170,439

(ii) Revenue, expenses and results

	Year ended 31 December			Six months ended	
	2006	2007	2008	30 June	2009
	(Unaudited)				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	3,549,329	3,167,708	2,267,343	1,037,337	877,883
Cost of sales	<u>(3,317,032)</u>	<u>(2,608,046)</u>	<u>(1,827,268)</u>	<u>(881,570)</u>	<u>(772,615)</u>
Gross profit	232,297	559,662	440,075	155,767	105,268
Other gains/(losses) – net	3,039	4,819	(108,385)	12,075	(8,574)
Selling and marketing costs	<u>(42,457)</u>	<u>(259,104)</u>	<u>(325,926)</u>	<u>(123,740)</u>	<u>(91,368)</u>
Administrative expenses	<u>(113,146)</u>	<u>(319,645)</u>	<u>(300,316)</u>	<u>(143,045)</u>	<u>(85,430)</u>
Operating profit/(loss)	79,733	(14,268)	(294,552)	(98,943)	(80,104)
Finance income	3,023	4,416	4,089	1,727	430
Finance costs	<u>(6,444)</u>	<u>(9,075)</u>	<u>(33,605)</u>	<u>(16,506)</u>	<u>(11,646)</u>
Finance costs – net	<u>(3,421)</u>	<u>(4,659)</u>	<u>(29,516)</u>	<u>(14,779)</u>	<u>(11,216)</u>
Profit/(loss) before					
income tax	76,312	(18,927)	(324,068)	(113,722)	(91,320)
Income tax (expenses)/credit	<u>(2,358)</u>	<u>31,640</u>	<u>–</u>	<u>19,761</u>	<u>–</u>
Profit/(loss) for the					
year/period	<u>73,954</u>	<u>12,713</u>	<u>(324,068)</u>	<u>(93,961)</u>	<u>(91,320)</u>
Attributable to:					
Equity holders of					
the Sang Fei (BVI)	48,071	8,264	(210,644)	(61,035)	(70,218)
Minority interests	<u>25,883</u>	<u>4,449</u>	<u>(113,424)</u>	<u>(32,926)</u>	<u>(21,102)</u>
	<u>73,954</u>	<u>12,713</u>	<u>(324,068)</u>	<u>(93,961)</u>	<u>(91,320)</u>

(iii) Cash Flows

	Year ended 31 December			Six months ended	
	2006	2007	2008	2008	2009
				(Unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash flows from operating activities					
Cash generated from/(used in) operations	448,931	(391,383)	(27,195)	(194,553)	31,215
Interest paid	(6,444)	(9,075)	(33,605)	(16,506)	(11,646)
Income tax paid	(10,289)	(4,454)	(3,725)	(3,725)	–
Net cash generated from/ (used in) operating activities	432,198	(404,912)	(64,525)	(214,784)	19,569
Cash flows from investing activities					
Interest received	3,023	4,416	4,089	1,727	430
Purchase of property, plant and equipment and intangible assets	(30,555)	(19,009)	(38,538)	(25,166)	(8,349)
Proceeds on disposal of property, plant and equipment	40	1,135	238	33	8
Net cash used in investing activities	(27,492)	(13,458)	(34,211)	(23,406)	(7,911)
Cash flows from financing activities					
Dividend paid	(94,347)	(30,614)	–	–	–
Pledged bank deposits	–	–	–	–	(19,345)
Proceeds from bank loans	1,194,175	1,387,440	1,500,905	707,579	861,237
Repayment of bank loans	(1,424,944)	(993,329)	(1,444,203)	(437,419)	(754,747)
Net cash (used in)/generated from financing activities	(325,116)	363,497	56,702	270,160	87,145
Net (decrease)/increase in cash and cash equivalents	79,590	(54,873)	(42,034)	31,970	98,803
Cash and cash equivalents at beginning of the year/period	132,926	212,516	157,643	157,643	115,609
Cash and cash equivalents at end of the year/period	212,516	157,643	115,609	189,613	214,412

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company and its subsidiaries in respect of any period subsequent to 30 June 2009 and up to the date of this report. No dividend has been declared, made or paid by the Company or any of its subsidiaries in respect of any period subsequent to 30 June 2009.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

B. WORKING CAPITAL

Taking into consideration the financial resources available to the Group, including the internally generated funds of the Group, the loan facilities and other financial resources available to the Group, and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group will, following completion of the Disposal, have sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

C. INDEBTEDNESS STATEMENT**Borrowings**

As at the close of business on 30 September 2009, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding short-term borrowings of HK\$508,920,000.

	<i>HK\$'000</i>
Secured (<i>Note (a)</i>)	48,864
Guaranteed (<i>Note (b)</i>)	329,080
Unsecured	130,976
	508,920

Notes:

- (a) Such short-term borrowings were secured by trade receivables and bank deposits.
- (b) Such short-term borrowings were guaranteed by CEC.

In March 2009, CEC agreed to provide financial assistance of RMB500,000,000 to Sang Fei. Such financial assistance includes CEC providing guarantee of RMB400,000,000 for Sang Fei to obtain short-term bank loans and the granting of financing facilities of up to RMB100,000,000 by CEC. As at the close of business on 30 September 2009, Sang Fei has obtained borrowings of RMB95,408,000 from CEC and utilised the guarantee from CEC to obtain banking facilities of RMB330,000,000.

Disclaimer

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have, at the close of business on 30 September 2009, any mortgages, charges, debentures, debt securities issued and outstanding, and authorised or otherwise created but unissued, outstanding borrowings or indebtedness in the nature of borrowing including term loans, bank overdrafts, liabilities under acceptances, acceptance credits, hire purchase and finance lease commitments or other similar indebtedness, or any guarantees or other material contingent liabilities.

D. LOAN FACILITIES AND CAPITAL COMMITMENT

As at 30 September 2009, the Group had undrawn borrowing facilities of HK\$91,200,000 and unutilised financial assistance of RMB74,592,000 from CEC.

As at 30 September 2009, the Group has capital commitment in relation to the purchase of property, plant and equipment and computer software which were contracted but not provided of HK\$910,000.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation into this circular.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

27 November 2009

The Directors
China Electronics Corporation Holdings Company Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) of 北京中電華大電子設計有限責任公司 (CEC Huada Electronic Design Co., Ltd.) (“Huada Electronics”) and its subsidiaries (together, the “Huada Electronics Group”) set out in Sections I to III below, for inclusion in the circular of China Electronics Corporation Holdings Company Limited (the “CEC Holdings”) dated 27 November 2009 (the “Circular”) in connection with the proposed disposal of Sang Fei (BVI) Company Limited by CEC Holdings (the “Proposed Disposal”). The Financial Information comprises the consolidated balance sheets of the Huada Electronics Group as at 31 December 2006 and 2007, the balance sheets of Huada Electronics as at 31 December 2008 and 30 June 2009, the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Huada Electronics Group for each of the years ended 31 December 2006, 2007 and 2008 and for the six months ended 30 June 2008, and the income statement, the statement of comprehensive income, the statement of changes in equity and cash flow statement of Huada Electronics for the six months ended 30 June 2009, and a summary of significant accounting policies and other explanatory notes. Huada Electronics disposed or dissolved all its subsidiaries during the year ended 31 December 2008. Therefore, the financial information for the six months ended 30 June 2009 presented in this report only represents the financial results of Huada Electronics. The period from 1 January 2006 to 30 June 2009 is hereinafter referred to as “Relevant Periods”.

Huada Electronics was established in the People's Republic of China (the “PRC”) on 6 June 2002 as a company with limited liability under the Company Law of the PRC.

The consolidated financial statements of the Huada Electronics Group for each of the years ended 31 December 2006 and 2007 which have been prepared in accordance with “Accounting System for Business Enterprise” and the Accounting Standards for Business Enterprises (“Old PRC GAAP”) were audited by 利安達信隆會計師事務所 (Reanda Certified Public Accountants), and the consolidated financial statements of the Huada Electronics Group

for the year ended 31 December 2008 which have been prepared in accordance with Accounting Standards for Business Enterprises (2006) (“CAS”) were audited by 大信會計師事務所 (Daxin Certified Public Accountants). The Old PRC GAAP and CAS are hereinafter collectively referred to as “PRC GAAP”.

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) based on the audited financial statements of the Huada Electronics Group and Huada Electronics for each of the years ended 31 December 2006, 2007 and 2008 and unaudited financial statements for the six months ended 30 June 2008 and 2009 prepared in accordance with PRC GAAP, after making such adjustments as are appropriate. The financial information of the Huada Electronics Group prepared in accordance with HKFRS for the years ended 31 December 2006 and 2007 has been previously audited by PricewaterhouseCoopers.

RESPONSIBILITY OF DIRECTORS

The directors of Huada Electronics during the Relevant Periods are responsible for the preparation and the true and fair presentation of the financial statements of Huada Electronics Group and Huada Electronics in accordance with PRC GAAP. For the financial information for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the directors of CEC Holdings and Huada Electronics are responsible for the preparation and the true and fair presentation of the financial information in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

For the financial information for the six months ended 30 June 2008, the directors of CEC Holdings and Huada Electronics are responsible for the preparation and the presentation of the financial information in accordance with the accounting policies set out in Note 2 of Section II below which are in conformity with HKFRS.

RESPONSIBILITY OF REPORTING ACCOUNTANT

For the financial information for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our responsibility is to express an opinion on the financial information based on our examination and to report our opinion to you. For the purpose of this report, we have examined the audited financial statements or where appropriate, the unaudited financial statements of Huada Electronics Group and Huada Electronics used in preparing the financial information and the related adjustments made therein, and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

For the financial information for the six months ended 30 June 2008, our responsibility is to express a conclusion on the financial information based on our review and to report our conclusion to you. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of the financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

OPINION AND REVIEW CONCLUSION

In our opinion, the financial information for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, for the purpose of this report, gives a true and fair view of the state of affairs of Huada Electronics and of the Huada Electronics Group as at 31 December 2006, 2007, 2008 and of the Huada Electronics as at 30 June 2009 and of the results and cash flows of the Huada Electronics Group or Huada Electronics for the respective years and period then ended.

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the financial information for the six months ended 30 June 2008, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in note 2 of Section II below which are in conformity with HKFRS.

I. FINANCIAL INFORMATION

The following is the financial information of the Huada Electronics Group as at 31 December 2006, 2007 and 2008 and 30 June 2009, and for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009. Huada Electronics disposed or dissolved all its subsidiaries during the year ended 31 December 2008. Therefore, the financial information for the six months ended 30 June 2009 presented below only represents the financial information of Huada Electronics.

Consolidated Balance Sheets – Group

		As at 31 December			As at
		2006	2007	2008	30 June
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS					
Non-current assets					
Property, plant and equipment	5	7,199	22,296	20,955	19,295
Intangible assets	6	9,825	5,333	2,809	2,464
Deferred taxation assets	22(d)	1,625	8,865	10,350	9,950
Interests in an associate	8	–	–	494	–
Available-for-sale financial assets	9	4,000	4,300	2,268	2,269
		<u>22,649</u>	<u>40,794</u>	<u>36,876</u>	<u>33,978</u>
Current assets					
Inventories	10	180,992	158,059	128,033	75,582
Trade and other receivables	11	270,260	227,567	208,927	291,351
Restricted bank deposits		–	–	–	1,269
Cash and cash equivalents	12	87,952	188,902	217,035	104,456
		<u>539,204</u>	<u>574,528</u>	<u>553,995</u>	<u>472,658</u>
Total assets		<u><u>561,853</u></u>	<u><u>615,322</u></u>	<u><u>590,871</u></u>	<u><u>506,636</u></u>

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

		As at 31 December			As at
		2006	2007	2008	30 June
	Note	HK\$'000	HK\$'000	HK\$'000	2009
					HK\$'000
EQUITY					
Capital and reserves					
attributable to Huada					
Electronics's equity					
holders					
Paid-in capital	13	32,642	32,642	47,849	47,849
Reserves	14	25,968	48,025	68,471	68,447
Retained earnings					
– Proposed final dividend	24	45,045	159,183	153,080	–
– Others		97,850	61,830	3,293	47,500
		<u>201,505</u>	<u>301,680</u>	<u>272,693</u>	<u>163,796</u>
Minority interests		<u>1,065</u>	<u>956</u>	<u>–</u>	<u>–</u>
Total equity		<u>202,570</u>	<u>302,636</u>	<u>272,693</u>	<u>163,796</u>
LIABILITIES					
Current liabilities					
Trade and other payables	15	336,165	239,822	270,158	218,581
Current income tax liabilities		3,118	8,348	–	–
Dividend payable	24	–	–	2,663	78,883
Short term bank loans	16	20,000	64,516	45,357	45,376
Total liabilities		<u>359,283</u>	<u>312,686</u>	<u>318,178</u>	<u>342,840</u>
Total equity and liabilities		<u>561,853</u>	<u>615,322</u>	<u>590,871</u>	<u>506,636</u>
Net current assets		<u>179,921</u>	<u>261,842</u>	<u>235,817</u>	<u>129,818</u>
Total assets less current liabilities		<u>202,570</u>	<u>302,636</u>	<u>272,693</u>	<u>163,796</u>

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

Balance Sheets – Company

		As at 31 December			As at
		2006	2007	2008	30 June
	Note	HK\$'000	HK\$'000	HK\$'000	2009
					HK\$'000
ASSETS					
Non-current assets					
Property, plant and equipment	5	6,454	21,569	20,955	19,295
Intangible assets	6	6,287	2,644	2,809	2,464
Deferred taxation assets	22(d)	1,625	8,865	10,350	9,950
Investments in subsidiaries	7	12,715	8,347	–	–
Interests in an associate	8	–	–	494	–
Available-for-sale financial assets	9	4,000	4,300	2,268	2,269
		<u>31,081</u>	<u>45,725</u>	<u>36,876</u>	<u>33,978</u>
Current assets					
Inventories	10	180,453	157,087	128,033	75,582
Trade and other receivables	11	271,431	219,775	208,927	291,351
Restricted bank deposits		–	–	–	1,269
Cash and cash equivalents	12	76,674	183,799	217,035	104,456
		<u>528,558</u>	<u>560,661</u>	<u>553,995</u>	<u>472,658</u>
Total assets		<u><u>559,639</u></u>	<u><u>606,386</u></u>	<u><u>590,871</u></u>	<u><u>506,636</u></u>
EQUITY					
Capital and reserves					
Paid-in capital	13	32,642	32,642	47,849	47,849
Reserves	14	25,892	48,171	68,471	68,447
Retained earnings					
– Proposed final dividend	24	45,045	159,183	153,080	–
– Others		99,439	65,299	3,293	47,500
		<u>203,018</u>	<u>305,295</u>	<u>272,693</u>	<u>163,796</u>
Total equity		<u><u>203,018</u></u>	<u><u>305,295</u></u>	<u><u>272,693</u></u>	<u><u>163,796</u></u>
LIABILITIES					
Current liabilities					
Trade and other payables	15	333,503	228,227	270,158	218,581
Current income tax liabilities		3,118	8,348	–	–
Dividend payable	24	–	–	2,663	78,883
Short term bank loans	16	20,000	64,516	45,357	45,376
		<u>356,621</u>	<u>301,091</u>	<u>318,178</u>	<u>342,840</u>
Total liabilities		<u><u>356,621</u></u>	<u><u>301,091</u></u>	<u><u>318,178</u></u>	<u><u>342,840</u></u>
Total equity and liabilities		<u><u>559,639</u></u>	<u><u>606,386</u></u>	<u><u>590,871</u></u>	<u><u>506,636</u></u>
Net current assets		<u><u>171,937</u></u>	<u><u>259,570</u></u>	<u><u>235,817</u></u>	<u><u>129,818</u></u>
Total assets less current liabilities		<u><u>203,018</u></u>	<u><u>305,295</u></u>	<u><u>272,693</u></u>	<u><u>163,796</u></u>

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

Income Statements

		Group			Company
		Year ended 31 December			Six months ended
		2006	2007	2008	30 June
					2008
					(Unaudited)
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue		508,717	652,767	621,805	374,910
Cost of sales	18	(327,554)	(399,877)	(388,990)	(230,341)
Gross profit		181,163	252,890	232,815	144,569
Selling and marketing costs	18	(11,741)	(15,928)	(15,948)	(7,899)
Administrative expenses	18	(59,974)	(111,905)	(103,056)	(47,951)
Other gains – net	17	19,900	8,457	20,216	9,047
Operating profit		129,348	133,514	134,027	97,766
Finance costs – net	21	(632)	(1,451)	(3,065)	(1,807)
Profit before income tax		128,716	132,063	130,962	95,959
Income tax expense	22(a)	(8,690)	(4,756)	(16,997)	(25,084)
Profit for the year/period		120,026	127,307	113,965	70,875
Attributable to:					
Equity holders of Huada Electronics		120,202	127,443	114,206	71,113
Minority interests		(176)	(136)	(241)	(238)
		120,026	127,307	113,965	70,875
Dividends	24	45,045	159,183	153,080	–

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

Statements of Comprehensive Income

	Group			Company
	Year ended 31 December			Six months ended
	2006	2007	2008	30 June
				2008
				(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the year/period	120,026	127,307	113,965	70,875
Other comprehensive income:				
Currency translation differences	6,810	17,851	16,100	11,755
				(24)
Total comprehensive income for the year/period	<u>126,836</u>	<u>145,158</u>	<u>130,065</u>	<u>82,630</u>
Attributable to:				
Equity holders of Huada				
Electronics	126,970	145,220	130,263	82,828
Minority interests	(134)	(62)	(198)	(198)
	<u>126,836</u>	<u>145,158</u>	<u>130,065</u>	<u>82,630</u>
	<u>126,836</u>	<u>145,158</u>	<u>130,065</u>	<u>44,183</u>

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

Statements of Changes in Equity

	Note	Attributable to equity holders of Huada Electronics				Minority interests	Total equity
		Paid-in capital	Reserves	Retained earnings	Total		
		(Note 13) HK\$'000	(Note 14) HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2006		32,642	11,410	43,918	87,970	1,157	89,127
Total comprehensive income		–	6,768	120,202	126,970	(134)	126,836
Dividends related to 2005	24	–	–	(13,435)	(13,435)	–	(13,435)
Acquisition of subsidiaries	7	–	–	–	–	42	42
Appropriation to other reserves		–	7,790	(7,790)	–	–	–
As at 31 December 2006		<u>32,642</u>	<u>25,968</u>	<u>142,895</u>	<u>201,505</u>	<u>1,065</u>	<u>202,570</u>
Total comprehensive income		–	17,777	127,443	145,220	(62)	145,158
Dividends related to 2006	24	–	–	(45,045)	(45,045)	–	(45,045)
Acquisition of additional interest in subsidiaries		–	–	–	–	(47)	(47)
Appropriation to other reserves		–	4,280	(4,280)	–	–	–
As at 31 December 2007		<u>32,642</u>	<u>48,025</u>	<u>221,013</u>	<u>301,680</u>	<u>956</u>	<u>302,636</u>
Total comprehensive income		–	16,057	114,206	130,263	(198)	130,065
Transfer from capital reserve and retained earnings to paid-in capital		15,207	(1,299)	(13,908)	–	–	–
Dividends related to 2007	24	–	–	(159,183)	(159,183)	–	(159,183)
Disposal of subsidiaries	7	–	(67)	–	(67)	(758)	(825)
Appropriation to other reserves		–	5,755	(5,755)	–	–	–
As at 31 December 2008		<u>47,849</u>	<u>68,471</u>	<u>156,373</u>	<u>272,693</u>	<u>–</u>	<u>272,693</u>
Total comprehensive income		–	(24)	44,207	44,183	–	44,183
Dividends related to 2008	24	–	–	(153,080)	(153,080)	–	(153,080)
As at 30 June 2009		<u>47,849</u>	<u>68,447</u>	<u>47,500</u>	<u>163,796</u>	<u>–</u>	<u>163,796</u>
As at 1 January 2008		32,642	48,025	221,013	301,680	956	302,636
Total comprehensive income		–	11,715	71,113	82,828	(198)	82,630
Dividends related to 2007	24	–	–	(155,530)	(155,530)	–	(155,530)
Disposal of subsidiaries	7	–	(67)	–	(67)	(758)	(825)
As at 30 June 2008 (Unaudited)		<u>32,642</u>	<u>59,673</u>	<u>136,596</u>	<u>228,911</u>	<u>–</u>	<u>228,911</u>

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

Cash Flow Statements

	Note	Group			Company
		Year ended 31 December			Six months ended
		2006	2007	2008	30 June 2009
		HK\$'000	HK\$'000	HK\$'000	30 June 2009 (Unaudited) HK\$'000
Cash flows from operating activities					
Cash generated from/ (used in) operations	25	98,070	121,387	240,328	(12,528)
Interest paid		(1,624)	(2,595)	(4,293)	(2,475)
Income tax paid		(7,564)	(7,933)	(25,944)	(11,653)
Net cash generated from/(used in) operating activities		88,882	110,859	210,091	(26,656)
Cash flows from investing activities					
Interest received		992	1,144	1,228	668
Purchase of property, plant and equipment and intangible assets		(8,924)	(17,606)	(5,234)	(1,943)
Proceeds on disposal of property, plant and equipment		–	81	–	–
Dividend received		–	376	567	567
Disposal of available-for-sale financial assets		–	–	3,136	–
Net cash inflow/(outflow) for acquisition of subsidiaries	7	2,433	(47)	–	–
Net cash (outflow)/inflow for disposal of subsidiaries	7	–	–	(13,094)	3,997
Net cash (used in)/generated from investing activities		(5,499)	(16,052)	(13,397)	3,289

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

	<i>Note</i>	Group			Company
					Six months ended
		Year ended 31 December 2006	2007	2008	30 June 2008 (Unaudited) 30 June 2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash flows from financing activities					
Dividend paid	24	(13,435)	(45,045)	(156,544)	(76,715)
Proceeds from bank loans		33,980	83,333	44,958	–
Repayment of bank loans		(43,689)	(41,667)	(67,437)	–
Net cash used in financing activities		(23,144)	(3,379)	(179,023)	(76,715)
Effects of exchange rate changes on cash and cash equivalents		2,947	9,522	10,462	8,764
Net increase/(decrease) in cash and cash equivalents		63,186	100,950	28,133	(91,318)
Cash and cash equivalents at beginning of the year/period		24,766	87,952	188,902	188,902
Cash and cash equivalents at end of the year/period		<u>87,952</u>	<u>188,902</u>	<u>217,035</u>	<u>97,584</u>
					<u>104,456</u>

II. NOTES TO THE FINANCIAL INFORMATION

1. Background of the Huada Electronics Group

Huada Electronics was established in the PRC on 6 June 2002 as a limited liability company under the Company Law of the PRC. The Huada Electronics Group is engaged in the design and sale of integrated circuit. The address of Huada Electronics's registered office is No.1. Gaojiayuan, Chaoyang District, Beijing, the PRC.

Huada Electronics was controlled by China Huada Integrated Circuit Design (Group) Co., Ltd. ("CIDC") which owns 64.75% of Huada Electronics's interests. CIDC is jointly owned and controlled by China Electronics Corporation Limited ("CEC") and State Development & Investment Corp. ("SDIC"). Both CEC and SDIC are state-owned enterprises established in the PRC.

On 20 June 2008, China Electronics Corporation Holdings Company Limited ("CEC Holdings") entered into an equity transfer agreement with the shareholders of Huada Electronics to purchase the entire equity interest in Huada Electronics (the "Huada Acquisition"). Upon completion of the Huada Acquisition on 9 September 2009, Huada Electronics became a wholly-owned subsidiary of CEC Holdings.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the Relevant Periods presented, unless otherwise stated.

2.1 Basis of preparation

(a) Compliance with HKFRS

The Financial Information of the Huada Electronics Group has been prepared in accordance with HKFRS issued by the HKICPA. The Financial Information has been prepared under the historical cost convention.

The preparation of Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Huada Electronics Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 4.

(b) New Standards, amendments to standards and interpretations

During the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the Huada Electronics Group has adopted all of the new or revised HKFRS, which term collectively includes Hong Kong Accounting Standards ("HKAS") and related interpretations, that are relevant to its operations and effective for the respective accounting periods of the Huada Electronics Group.

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

At the date of authorisation of this Financial Information, the following new or revised standards, amendments to standards and interpretations have been issued but are not yet effective:

HKAS 24 (Revised)	Related Party Disclosures (effective from 1 January 2011)
HKAS 27 (Revised)	Consolidated and Separate Financial Statements (effective from 1 July 2009)
HKAS 32 (Amendment)	Classification of Rights Issues (effective from 1 February 2010)
HKAS 39 (Amendment)	Eligible Hedged Items (effective from 1 January 2010)
HKFRS 3 (Revised)	Business Combinations (effective from 1 July 2009)
HKFRS 9	Financial Instruments (effective from 1 January 2013)
HK(IFRIC) Interpretation 17	Distributions of Non-cash Assets to Owners (effective from 1 July 2009)
HK(IFRIC) Interpretation 18	Transfers of Assets from Customers (effective from 1 July 2009)
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions (effective from 1 July 2009)
Improvements to HKFRS 2009	(effective from 1 July 2009)

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

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Huada Electronics Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Huada Electronics controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to Huada Electronics. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Huada Electronics Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Huada Electronics Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the financial statements to ensure consistency with the policies adopted by the Huada Electronics Group.

In Huada Electronics's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.7). The results of subsidiaries are accounted for by Huada Electronics on the basis of dividend received and receivable.

(b) Associates

Associates are all entities over which the Huada Electronics Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Huada Electronics Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2.6).

The Huada Electronics Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Huada Electronics Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Huada Electronics Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Huada Electronics Group and its associates are eliminated to the extent of the Huada Electronics Group's interest in the associates. Unrealised losses are also 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 Huada Electronics Group.

In Huada Electronics's balance sheet the investments in associates are stated at cost less provision for impairment losses (Note 2.7). The results of associates are accounted for by Huada Electronics on the basis of dividend received and receivable.

2.3 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker ("CODM"), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

The CODM considers that Huada Electronics Group operates and manages its business as a single segment.

2.4 *Foreign currency translation*

(a) *Functional and presentation currency*

Items included in the Financial Information of each of the Huada Electronics Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The Financial Information are presented in Hong Kong dollar ("presentation currency"), which is different from Huada Electronics's functional currency of Renminbi. The Directors of Huada Electronics consider that presentation of Financial Information in Hong Kong dollars will facilitate analysis of the Financial Information of the Huada Electronics Group.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year/period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) *Group companies*

For the purpose of presenting the Financial Information, the results and financial position of all the Huada Electronics Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of equity.

When a foreign operation is partially disposed of or sold, such exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Huada Electronics Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost over their estimated useful lives, as follows:

– Machinery	5-10 years
– Motor vehicles	10 years
– Furniture and fixtures	3 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other gains- net" in the income statement.

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Huada Electronics Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (four to five years). Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

2.7 Impairment of investments in subsidiaries, associate and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 *Financial assets*

2.8.1 *Classification*

The Huada Electronics Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise “trade and other receivables” and “cash and cash equivalents” in the balance sheet (Notes 2.10 and 2.11).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2.8.2 *Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Huada Electronics Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. However, the available-for-sale financial assets that do not have a quoted market price, the range of reasonable fair value estimates is significant and the possibilities of the various estimates can not be reasonably assessed, is measured at cost. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Huada Electronics Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Huada Electronics Group’s right to receive payments is established.

The Huada Electronics Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss and in equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.10.

2.9 *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work in progress comprises raw material, manufacturing cost of subcontractors, testing and packaging. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Huada Electronics Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulty of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. Where evidence exists that a receivable can not be collected, either due to long time overdue or the customer is liquidated or dissolved, the receivable is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and financial institutions and other short-term highly liquid investments with original maturities of three months or less.

2.12 Paid-in capital

Paid-in capital represents contributions made by investors in accordance with the amount specified in the contracts, agreements or the enterprise's application document for incorporation.

2.13 Government grants

Government grants are recognised at their fair values where there is a reasonable assurance that the grant will be received and the Huada Electronics Group will comply with all attached conditions. Grant relating to an asset is included in non-current liabilities, which is credited to the income statement on a straight-line basis over the expected useful life of the related asset. Grant relating to an expense item is deferred and recognised as income in the income statement over the period necessary to match with the cost that it is intended to compensate.

2.14 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Huada Electronics Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Current and deferred income tax

The income tax expenses for the periods comprise current and deferred tax. Tax is recognised in the income statement or in equity if it relates to items that are recognised directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where Huada Electronics and its subsidiaries and associates operate and generate taxable income. Management of Huada Electronics periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, it establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Huada Electronics Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Provision

Provisions are recognised when a present legal or constructive obligation as a result of past events has arisen; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.18 Related parties

A party is considered to be related to the Huada Electronics Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Huada Electronics Group; (ii) has an interest in the Huada Electronics Group that gives it significant influence over the Huada Electronics Group; or (iii) has joint control over the Huada Electronics Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Huada Electronics Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

2.19 Employee benefits

(a) Pension obligations

Huada Electronics and its subsidiaries operating in the PRC have to make contribution to staff retirement scheme managed by local government authorities in accordance with the relevant rules and regulations. Contributions to these schemes are charged to the income statement as and when incurred. The Huada Electronics Group has no legal or constructive obligations to pay further contributions.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(c) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Huada Electronics Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

2.20 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Huada Electronics Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, net of value-added tax, returns, rebates and discounts. Revenue is recognised when the goods are delivered to customers, the customers have accepted the goods or the product quality inspection time period has elapsed and collectability of the related receivables is reasonably assured.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Huada Electronics Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Dividend income is recognised when the right to receive payment is established.

2.22 Operating leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.23 Research and development

Research and development costs are expensed as incurred.

2.24 Dividend distribution

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been declared by directors and approved by the shareholders, they are recognised as a liability.

3. Financial risk management**3.1 Financial risk factors**

The Huada Electronics Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The Huada Electronics Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Huada Electronics Group's financial performance.

(a) Foreign exchange risk

The Huada Electronics Group has no significant concentrations of foreign exchange risk. Foreign exchange risks of the Huada Electronics Group occur due to the fact that the Huada Electronics Group has some business activities denominated in foreign currencies, primarily with respect to the United States dollar ("US dollar") and Hong Kong dollar ("HK dollar"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities, which include cash and cash equivalents and trade and other payables denominated in foreign currencies. In addition, the conversion of Renminbi ("RMB") into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The Huada Electronics Group currently does not have a foreign currency hedge policy.

As less than 10% of the Huada Electronics Group's transactions are denominated in foreign currencies, the directors of the Huada Electronics Group are of the view that foreign exchange risk in relation to transactions denominated in foreign currencies is low. Therefore, no sensitivity analysis for these currencies is presented.

(b) Cash flow and fair value interest rate risk

The Huada Electronics Group has no significant concentrations of cash flow interest rate risk since it has no financial instruments bearing floating interest rate.

Other than deposits held in banks and other financial institutions, the Huada Electronics Group does not have significant interest-bearing assets. The average rates of deposits as at 31 December 2006, 2007 and 2008 and 30 June 2009 were approximately 1.52%, 1.07%, 0.96% and 0.84% per annum respectively. Any change in the interest rate from time to time is not considered to have significant impact to the Huada Electronics Group.

The Huada Electronics Group's fair value interest rate risk which affects its results and operating cash flows mainly arises from bank borrowings. The bank borrowings were at fixed rates and expose the Huada Electronics Group to fair value interest rate risk. As all of the Huada Electronics Group's bank borrowings were short term loans, any change in the interest rate from time to time is not considered to have significant impact to the Huada Electronics Group.

Since the financial assets and liabilities that are exposed to fair value interest rate risk are accounted for at amortised cost based on effective interest rate, its income statement and equity would not be affected by interest rate variability, therefore no sensitivity analysis has been presented.

(c) Credit risk

Credit risk arises from cash and cash equivalents, restricted bank deposits and trade and other receivables. The maximum exposure to credit risk at the balance sheet dates is their carrying value.

As at 31 December 2006, 2007 and 2008 and 30 June 2009, all the Huada Electronics Group's bank deposits are placed with banks and financial institutions with good reputation and credit policies without significant exposure to credit risk.

For trade and other receivables, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. The counterparties of the trade and other receivables are mainly state-owned enterprises or related companies. As there was no history of defaults by them that have resulted into material bad debts expenses during the Relevant Period, the directors of the Huada Electronics Group are of the view that credit quality of the trade and other receivables is high.

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

Revenue earned from the top 5 customers represents 94%, 91%, 90% and 81% of total revenue of the Huada Electronics Group for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively. Amounts due from these top 5 customers represents 90%, 82%, 72% and 82% of total trade receivables as of 31 December 2006, 2007, 2008 and 30 June 2009, respectively.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient working capital, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, the Huada Electronics Group maintains flexibility in funding by keeping availability of committed credit lines.

The table below analyses the Huada Electronics Group and Huada Electronics's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Group				Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
Less than 1 year	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Short term bank loans	20,000	64,516	45,357	45,376	20,000	64,516	45,357	45,376
Interest payment on short term bank loans	1,624	2,595	4,293	1,271	1,624	2,595	4,293	1,271
Trade and other payables	328,501	193,014	205,072	156,638	326,605	182,289	205,072	156,638

3.2 Capital risk management

The Huada Electronics Group's objectives when managing capital are to safeguard the Huada Electronics Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Huada Electronics Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Huada Electronics Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

The Huada Electronics Group's strategy is to maintain an operation with minimal capital risk. As at 31 December 2006, 2007, 2008 and 30 June 2009, the cash and cash equivalents balances were greater than the balances of total borrowings. The directors are of the opinion that the Huada Electronics Group does not have significant capital risk.

3.3 Fair value estimation

The Huada Electronics Group's financial instruments mainly consist of cash and cash equivalents, trade and other receivables (excluding prepayment), available-for-sale financial assets, trade and other payables and short term bank loans.

The carrying amounts of financial instruments approximated their fair values at 31 December 2006, 2007 and 2008 and 30 June 2009 because of the short-term maturities of these financial assets and financial liabilities.

4. Critical accounting estimates and judgements

(a) Estimated impairment of non-financial assets

At each balance sheet date, the Huada Electronics Group considers both internal and external sources of information to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognised to reduce the carrying amount of the asset to its recoverable amount. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the assets.

(b) Income taxes

The Huada Electronics Group is subject to income taxes in several jurisdictions before 1 January 2009. Significant judgement is required in determining the total provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Huada Electronics Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Revenue recognition

Goods shipped to certain customers are subject to quality inspection procedures. The customers have the right to return all the goods delivered during the inspection period. Since the quality inspection is performed by customers, the fulfilment of the quality standard is subject to various risks, including the quality checking method, tools and sampling risk. Management can not reliably estimate the possibility of return, therefore, revenue is recognised when the products are formally accepted by the customer or the quality inspection period has elapsed.

5. Property, plant and equipment

Group	Machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006				
Cost	11,201	1,284	–	12,485
Accumulated depreciation	(7,117)	(173)	–	(7,290)
Net book amount	4,084	1,111	–	5,195
Year ended 31 December 2006				
Opening net book amount	4,084	1,111	–	5,195
Exchange differences	214	44	–	258
Additions	3,343	178	74	3,595
Acquisition of a subsidiary	138	–	–	138
Disposals	(121)	–	–	(121)
Depreciation charge	(1,667)	(195)	(4)	(1,866)
Closing net book amount	5,991	1,138	70	7,199
At 31 December 2006				
Cost	15,111	1,517	74	16,702
Accumulated depreciation	(9,120)	(379)	(4)	(9,503)
Net book amount	5,991	1,138	70	7,199

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

Group	Machinery HK\$'000	Motor vehicles HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
Year ended 31 December 2007				
Opening net book amount	5,991	1,138	70	7,199
Exchange differences	866	124	5	995
Additions	15,225	1,533	136	16,894
Disposals	–	(131)	–	(131)
Depreciation charge	(2,371)	(207)	(83)	(2,661)
	<u>19,711</u>	<u>2,457</u>	<u>128</u>	<u>22,296</u>
Closing net book amount	<u>19,711</u>	<u>2,457</u>	<u>128</u>	<u>22,296</u>
At 31 December 2007				
Cost	25,402	3,021	215	28,638
Accumulated depreciation	(5,691)	(564)	(87)	(6,342)
	<u>19,711</u>	<u>2,457</u>	<u>128</u>	<u>22,296</u>
Net book amount	<u>19,711</u>	<u>2,457</u>	<u>128</u>	<u>22,296</u>
Year ended 31 December 2008				
Opening net book amount	19,711	2,457	128	22,296
Disposal of subsidiaries	(331)	(127)	(115)	(573)
Exchange differences	972	139	6	1,117
Additions	3,467	–	–	3,467
Disposals	(10)	–	–	(10)
Depreciation charge	(5,008)	(315)	(19)	(5,342)
	<u>18,801</u>	<u>2,154</u>	<u>–</u>	<u>20,955</u>
Closing net book amount	<u>18,801</u>	<u>2,154</u>	<u>–</u>	<u>20,955</u>
At 31 December 2008				
Cost	28,676	2,863	–	31,539
Accumulated depreciation	(9,875)	(709)	–	(10,584)
	<u>18,801</u>	<u>2,154</u>	<u>–</u>	<u>20,955</u>
Net book amount	<u>18,801</u>	<u>2,154</u>	<u>–</u>	<u>20,955</u>

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

Depreciation expense has been expensed in cost of sales, selling and marketing costs and administrative expenses as follows:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	(Unaudited)				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of sales	–	–	–	–	1,150
Selling and marketing costs	47	213	162	218	36
Administrative expenses	1,819	2,448	5,180	2,302	1,622
	<u>1,866</u>	<u>2,661</u>	<u>5,342</u>	<u>2,520</u>	<u>2,808</u>

Company	Machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At 1 January 2006			
Cost	10,615	1,175	11,790
Accumulated depreciation	<u>(6,674)</u>	<u>(150)</u>	<u>(6,824)</u>
Net book amount	<u>3,941</u>	<u>1,025</u>	<u>4,966</u>
Year ended 31 December 2006			
Opening net book amount	3,941	1,025	4,966
Exchange differences	199	38	237
Additions	2,990	–	2,990
Disposals	(397)	–	(397)
Depreciation charge	<u>(1,223)</u>	<u>(119)</u>	<u>(1,342)</u>
Closing net book amount	<u>5,510</u>	<u>944</u>	<u>6,454</u>
At 31 December 2006			
Cost	13,711	1,222	14,933
Accumulated depreciation	<u>(8,201)</u>	<u>(278)</u>	<u>(8,479)</u>
Net book amount	<u>5,510</u>	<u>944</u>	<u>6,454</u>
Year ended 31 December 2007			
Opening net book amount	5,510	944	6,454
Exchange differences	832	111	943
Additions	15,225	1,533	16,758
Disposals	(5)	(126)	(131)
Depreciation charge	<u>(2,299)</u>	<u>(156)</u>	<u>(2,455)</u>
Closing net book amount	<u>19,263</u>	<u>2,306</u>	<u>21,569</u>
At 31 December 2007			
Cost	23,894	2,707	26,601
Accumulated depreciation	<u>(4,631)</u>	<u>(401)</u>	<u>(5,032)</u>
Net book amount	<u>19,263</u>	<u>2,306</u>	<u>21,569</u>

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

Company	Machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Year ended 31 December 2008			
Opening net book amount	19,263	2,306	21,569
Exchange differences	1,029	132	1,161
Additions	3,467	–	3,467
Disposals	(10)	–	(10)
Depreciation charge	(4,948)	(284)	(5,232)
Closing net book amount	<u>18,801</u>	<u>2,154</u>	<u>20,955</u>
At 31 December 2008			
Cost	28,676	2,863	31,539
Accumulated depreciation	<u>(9,875)</u>	<u>(709)</u>	<u>(10,584)</u>
Net book amount	<u>18,801</u>	<u>2,154</u>	<u>20,955</u>
Six months ended 30 June 2009			
Opening net book amount	18,801	2,154	20,955
Exchange differences	10	1	11
Additions	1,199	–	1,199
Disposals	(62)	–	(62)
Depreciation charge	<u>(2,665)</u>	<u>(143)</u>	<u>(2,808)</u>
Closing net book amount	<u>17,283</u>	<u>2,012</u>	<u>19,295</u>
At 30 June 2009			
Cost	29,823	2,864	32,687
Accumulated depreciation	<u>(12,540)</u>	<u>(852)</u>	<u>(13,392)</u>
Net book amount	<u>17,283</u>	<u>2,012</u>	<u>19,295</u>

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

6. Intangible assets

	Group			Company
	Goodwill	Computer software	Total	Computer software
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006				
Cost	–	16,024	16,024	9,610
Accumulated amortisation	–	(7,647)	(7,647)	(5,940)
Net book amount	–	8,377	8,377	3,670
Year ended 31 December 2006				
Opening net book amount	–	8,377	8,377	3,670
Exchange differences	20	355	375	219
Additions	398	4,932	5,330	4,932
Amortisation charge	–	(4,257)	(4,257)	(2,534)
Closing net book amount	418	9,407	9,825	6,287
At 31 December 2006				
Cost	418	21,745	22,163	15,075
Accumulated amortisation	–	(12,338)	(12,338)	(8,788)
Net book amount	418	9,407	9,825	6,287
Year ended 31 December 2007				
Opening net book amount	418	9,407	9,825	6,287
Exchange differences	32	544	576	496
Additions	3	709	712	709
Amortisation charge	–	(5,780)	(5,780)	(4,848)
Closing net book amount	453	4,880	5,333	2,644
At 31 December 2007				
Cost	453	18,594	19,047	11,422
Accumulated amortisation	–	(13,714)	(13,714)	(8,778)
Net book amount	453	4,880	5,333	2,644

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

	Group			Company
	Goodwill	Computer software	Total	Computer software
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2008				
Opening net book amount	453	4,880	5,333	2,644
Disposal of subsidiaries	(480)	(1,850)	(2,330)	–
Exchange differences	27	246	273	145
Additions	–	1,767	1,767	1,767
Amortisation charge	–	(2,234)	(2,234)	(1,747)
Closing net book amount	–	2,809	2,809	2,809
At 31 December 2008				
Cost	–	15,118	15,118	15,118
Accumulated amortisation	–	(12,309)	(12,309)	(12,309)
Net book amount	–	2,809	2,809	2,809
Six months ended 30 June 2009				
Opening net book amount	–	2,809	2,809	2,809
Exchange differences	–	1	1	1
Additions	–	298	298	298
Amortisation charge	–	(644)	(644)	(644)
Closing net book amount	–	2,464	2,464	2,464
At 30 June 2009				
Cost	–	15,421	15,421	15,421
Accumulated amortisation	–	(12,957)	(12,957)	(12,957)
Net book amount	–	2,464	2,464	2,464

The amortisation of computer software has been expensed in administrative expenses.

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

7. Investments in subsidiaries – Company

	As at 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Investments – unlisted shares, at cost (<i>Note (a)</i>)	13,775	9,487	–	–
Less: provision for impairment	(1,060)	(1,140)	–	–
	<u>12,715</u>	<u>8,347</u>	<u>–</u>	<u>–</u>

(a) Subsidiaries

(1) Particulars of the principal subsidiaries of Huada Electronics at 31 December 2006:

Name	Place of incorporation/ establishment and type of legal entity	Principal place of operation and activities	Particulars of issued share capital/registered and paid-in capital	Interest held
<i>Directly held:</i>				
CIDC (H.K.) Limited ("CIDC (HK)")	Hong Kong, limited liability company	Hong Kong, sale of digital video and related technology	Issued and fully paid share capital of HK\$1,000,000	100%
Beijing Huada Infosec Technology Co., Ltd. ("Beijing Huada Infosec")	PRC, limited liability company	PRC, development and sale of digital system software and hardware	Registered and paid-in capital of RMB17,000,000	70%
Guangdong Huada Electronic Design Co., Ltd. ("Guangdong Huada")	PRC, limited liability company	PRC, design and sale of integrated circuit	Registered and paid-in capital of RMB8,000,000	99.38%

(2) Particulars of the principal subsidiaries of Huada Electronics at 31 December 2007:

Name	Place of incorporation/ establishment and type of legal entity	Principal place of operation and activities	Particulars of issued share capital/registered and paid-in capital	Interest held
<i>Directly held:</i>				
CIDC (HK)	Hong Kong, limited liability company	Hong Kong, sale of digital video and related technology	Issued and fully paid share capital of HK\$1,000,000	100%
Beijing Huada Infosec	PRC, limited liability company	PRC, development and sale of digital system software and hardware	Registered and paid-in capital of RMB16,700,000	71.26%
Guangdong Huada	PRC, limited liability company	PRC, design and sale of integrated circuit	Registered and paid-in capital of RMB3,000,000	100%

(3) The above three subsidiaries were dissolved or disposed by Huada Electronics in 2008. For details please refer to Note (b). As at 31 December 2008 and 30 June 2009 Huada Electronics did not have any subsidiaries.

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

(b) *Change of investments in subsidiaries*

During the Relevant Periods, the major change of investments in subsidiaries are analysed below:

(1) *Acquisition of Guangdong Huada*

During the year ended 31 December 2006, Huada Electronics acquired an additional 61.88% interest in Guangdong Huada. After the acquisition, Huada Electronics held a total 99.38% interest in Guangdong Huada. The carrying amounts of the assets and liabilities acquired approximated their fair value, details are analysed as follows:

	Carrying amount <i>HK\$'000</i>
Cash and cash equivalents	6,966
Property, plant and equipment	138
Inventories	371
Trade and other receivables	4,383
Trade and other payables	(5,116)
Net assets	6,742
Minority interests in equity (0.62%)	(42)
Goodwill on acquisition	402
Net assets held	7,102
Equity interest held before acquisition	(2,569)
Net assets acquired	4,533
Purchase consideration settled in cash	(4,533)
Cash and cash equivalents acquired	6,966
Net cash inflow on acquisition	2,433

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

(2) Dissolve of CIDC (HK)

Pursuant to a shareholders' resolution on 25 December 2007, Huada Electronics decided to dissolve CIDC (HK). The application of deregistration was approved by the Companies Registry of Hong Kong Special Administrative Region on 22 February 2008.

(3) Disposal of Beijing Huada Infosec

During the year ended 31 December 2008, Huada Electronics sold its entire 71.26% interest in Beijing Huada Infosec to a third party for a consideration of HK\$5,617,000. The carrying amounts of the assets and liabilities disposed are analysed as follows:

	Carrying amount <i>HK\$'000</i>
Cash and cash equivalents	1,620
Property, plant and equipment	306
Intangible assets	1,850
Inventories	2,334
Trade and other receivables	910
Trade and other payables	(4,550)
Net assets	2,470
Share of net assets disposed (71.26% of the net assets)	(1,760)
Sales consideration	5,617
Gain on disposal recognised in income statement	3,857
Sales consideration received in cash	5,617
Cash and cash equivalents disposed	(1,620)
Net cash inflow on disposal	3,997

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

(4) Disposal of Guangdong Huada

During the year ended 31 December 2008, Huada Electronics sold 80% interest in Guangdong Huada to a third party for a net consideration of HK\$1,833,000. The carrying amounts of the assets and liabilities disposed are analysed as follows:

	Carrying amount HK\$'000
Cash and cash equivalents	18,924
Property, plant and equipment	267
Inventories	5,480
Trade and other receivables	15,162
Trade and other payables	(38,087)
Net assets	1,746
Share of net assets disposed (80% of the net assets)	(1,397)
Goodwill	(384)
Net sales consideration	1,833
Gain on disposal recognised in income statement	52
Net sales consideration received in cash	1,833
Cash and cash equivalents disposed	(18,924)
Net cash outflow on disposal	(17,091)

Upon completion of the disposal of 80% interest in Guangdong Huada, Huada Electronics's shareholding in Guangdong Huada has decreased to 20%. Huada Electronics accounted for its remaining investments in Guangdong Huada as investment in an associate.

8. Interests in an associate

	Group				Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Share of net assets	–	–	494	–	–	–	494	–

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

Huada Electronics's share of the results of its associate, which is unlisted, and its aggregated assets and liabilities, are as follows:

Name	Registered and paid-in capital	Place of establishment	Assets	Liabilities	Revenues	Loss	Interest held
			As at 31 December 2008 HK\$'000	As at 31 December 2008 HK\$'000	Year ended 31 December 2008 HK\$'000	Year ended 31 December 2008 HK\$'000	
Guangdong Huada	RMB3,000,000	PRC	28,959	27,015	59,273	(188)	20.00%
			As at 30 June 2009 HK\$'000	As at 30 June 2009 HK\$'000	Six months ended 30 June 2009 HK\$'000	Six months ended 30 June 2009 HK\$'000	
			21,764	20,012	8,010	(624)	20.00%

9. Available-for-sale financial assets

Available-for-sale financial assets represent unlisted equity interest in companies established in the PRC and are measured at costs less impairment at each balance sheet date.

10. Inventories

Group	As at 31 December			As at 30 June 2009
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Finished goods	64,266	125,901	82,067	47,262
Work in progress	116,726	32,158	45,966	28,320
	<u>180,992</u>	<u>158,059</u>	<u>128,033</u>	<u>75,582</u>

Company	As at 31 December			As at 30 June 2009
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Finished goods	63,727	124,929	82,067	47,262
Work in progress	116,726	32,158	45,966	28,320
	<u>180,453</u>	<u>157,087</u>	<u>128,033</u>	<u>75,582</u>

The cost of inventories recognised as expense and included in cost of sales amounted to HK\$316,712,000, HK\$382,729,000, HK\$385,821,000 and HK\$171,526,000 for each of the years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, respectively.

For the year ended 31 December 2006, the Huada Electronics Group did not provide any provision for net realisable value of inventories. Write-down of inventories to net realisable value have been made for certain finished goods if the net realisable value is less than their cost and included in cost of sales for each of the years ended 31 December 2007, 2008 and the six months ended 30 June 2009 (Note 18).

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

11. Trade and other receivables

	Group				Company			
	As at 31 December			As at	As at 31 December			As at
	2006	2007	2008	30 June	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables (Note (a))	272,020	226,588	204,480	280,907	275,806	216,772	204,480	280,907
Less: provision for impairment	(2,895)	(1,710)	(1,453)	(1,454)	(6,593)	(1,237)	(1,453)	(1,454)
Trade receivables – net	269,125	224,878	203,027	279,453	269,213	215,535	203,027	279,453
Prepayments and deposits	427	330	1,501	5,403	–	199	1,501	5,403
Other receivables	708	2,359	4,399	6,495	2,218	4,041	4,399	6,495
	<u>270,260</u>	<u>227,567</u>	<u>208,927</u>	<u>291,351</u>	<u>271,431</u>	<u>219,775</u>	<u>208,927</u>	<u>291,351</u>

The directors of Huada Electronics are of the opinion that the carrying amounts of trade and other receivables approximate their fair values. All trade and other receivables were due within 1 year, non interest-bearing, denominated in Renminbi and unsecured.

Trade receivables from related parties of HK\$29,458,000, HK\$37,346,000 and HK\$85,206,000 and HK\$75,120,000 were included in the above balances as at 31 December 2006, 2007 and 2008 and 30 June 2009 (Notes 28(a), (b) and (c)), respectively.

- (a) The majority of the Huada Electronics Group's sales are with credit term of 30 to 135 days, the remaining amounts are due immediately after the delivery of goods. The ageing analysis of the Huada Electronics Group and Huada Electronics's gross trade receivables was as follow:

	Group				Company			
	As at 31 December			As at	As at 31 December			As at
	2006	2007	2008	30 June	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 30 days	54,821	138,817	24,106	151,020	54,469	137,120	24,106	151,020
31 – 60 days	83,863	10,397	30,277	32,909	82,563	10,797	30,277	32,909
Over 60 days and within 1 year	129,791	74,375	142,264	93,818	127,277	67,508	142,264	93,818
Over 1 year	3,545	2,999	7,833	3,160	11,497	1,347	7,833	3,160
	<u>272,020</u>	<u>226,588</u>	<u>204,480</u>	<u>280,907</u>	<u>275,806</u>	<u>216,772</u>	<u>204,480</u>	<u>280,907</u>

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

- (b) Movement on the provision for impairment of the Huada Electronics Group and Huada Electronics's trade receivables are as follows:

	Group				Company			
	As at 31 December			As at	As at 31 December			As at
	2006	2007	2008	30 June	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of year/period	2,196	2,895	1,710	1,453	5,881	6,593	1,237	1,453
Disposal of subsidiaries	–	–	(598)	–	–	–	–	–
Provision for impairment	594	1,032	278	–	463	336	278	–
Written off	–	(2,468)	–	–	–	(6,200)	–	–
Exchange differences	105	251	63	1	249	508	(62)	1
End of year/period	<u>2,895</u>	<u>1,710</u>	<u>1,453</u>	<u>1,454</u>	<u>6,593</u>	<u>1,237</u>	<u>1,453</u>	<u>1,454</u>

The individual impaired receivables mainly related to customers which are in unexpected difficult economic situation. Impairment has been fully provided for against such receivables.

The trade receivables of the Huada Electronics Group which were past due but not impaired amounted to HK\$24,012,000, HK\$19,958,000, HK\$25,930,000 and HK\$40,985,000 as at 31 December 2006, 2007 and 2008 and 30 June 2009 respectively.

The trade receivables of Huada Electronics which were past due but not impaired amounted to HK\$20,506,000, HK\$7,894,000, HK\$25,930,000 and HK\$40,985,000 as at 31 December 2006, 2007 and 2008 and 30 June 2009 respectively.

These related to a number of customers with high reputation for whom there is no recent history of default, the ageing analysis of these trade receivables is as follows:

Ageing	Group				Company			
	As at 31 December			As at	As at 31 December			As at
	2006	2007	2008	30 June	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 – 60 days	4,076	1,934	8,910	18,499	3,810	259	8,910	18,499
Over 60 days and within 1 year	19,241	16,717	13,339	20,992	16,020	7,507	13,339	20,992
Over 1 year	695	1,307	3,681	1,494	676	128	3,681	1,494
	<u>24,012</u>	<u>19,958</u>	<u>25,930</u>	<u>40,985</u>	<u>20,506</u>	<u>7,894</u>	<u>25,930</u>	<u>40,985</u>

The other classes within trade and other receivables do not contain impaired assets.

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

12. Cash and cash equivalents

	Group				Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash								
At banks and on hand	85,216	121,112	165,242	59,044	73,938	116,009	165,242	59,044
At other financial institutions	2,736	36,766	5,216	24	2,736	36,766	5,216	24
	<u>87,952</u>	<u>157,878</u>	<u>170,458</u>	<u>59,068</u>	<u>76,674</u>	<u>152,775</u>	<u>170,458</u>	<u>59,068</u>
Short-term deposits								
At banks	–	756	34,709	33,454	–	756	34,709	33,454
At other financial institutions	–	30,268	11,868	11,934	–	30,268	11,868	11,934
	<u>–</u>	<u>31,024</u>	<u>46,577</u>	<u>45,388</u>	<u>–</u>	<u>31,024</u>	<u>46,577</u>	<u>45,388</u>
	<u>87,952</u>	<u>188,902</u>	<u>217,035</u>	<u>104,456</u>	<u>76,674</u>	<u>183,799</u>	<u>217,035</u>	<u>104,456</u>

The effective interest rate on short-term deposits with banks and financial institutions ranged from 0.72% to 1.71% during the Relevant Periods.

13. Registered and paid-in capital

	Registered and paid-in capital HK\$'000
At 1 January 2006, 2007 and 2008	32,642
Transferred from reserves and retained earnings in 2008	<u>15,207</u>
At 31 December 2008 and 30 June 2009	<u>47,849</u>

Pursuant to a resolution of Huada Electronics's shareholders meeting held on 7 November 2008, the shareholders approved to transfer RMB15,405,400 (equivalent to approximately HK\$15,207,000) from reserves and retained earnings to its paid-in capital account. See statements of changes in equity and note 14.

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

14. Reserves

Group	Capital reserve (Note (a)) HK\$'000	Statutory surplus reserve (Note (b)) HK\$'000	Translation reserve HK\$'000	Total HK\$'000
At 1 January 2006	2,791	7,362	1,257	11,410
Appropriation from retained earnings	–	7,790	–	7,790
Currency translation differences	–	–	6,768	6,768
At 31 December 2006	<u>2,791</u>	<u>15,152</u>	<u>8,025</u>	<u>25,968</u>
At 1 January 2007	2,791	15,152	8,025	25,968
Appropriation from retained earnings	–	4,280	–	4,280
Currency translation differences	–	–	17,777	17,777
At 31 December 2007	<u>2,791</u>	<u>19,432</u>	<u>25,802</u>	<u>48,025</u>
At 1 January 2008	2,791	19,432	25,802	48,025
Transfer to paid-in capital	(1,299)	–	–	(1,299)
Disposal of subsidiaries	(56)	–	(11)	(67)
Appropriation from retained earnings	–	5,755	–	5,755
Currency translation differences	–	–	16,057	16,057
At 31 December 2008	<u>1,436</u>	<u>25,187</u>	<u>41,848</u>	<u>68,471</u>
At 1 January 2009	1,436	25,187	41,848	68,471
Currency translation differences	–	–	(24)	(24)
At 30 June 2009	<u>1,436</u>	<u>25,187</u>	<u>41,824</u>	<u>68,447</u>

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

Company	Capital reserve (Note (a)) HK\$'000	Statutory surplus reserve (Note (b)) HK\$'000	Translation reserve HK\$'000	Total HK\$'000
At 1 January 2006	2,735	7,362	1,236	11,333
Appropriation from retained earnings	–	7,790	–	7,790
Currency translation differences	–	–	6,769	6,769
At 31 December 2006	<u>2,735</u>	<u>15,152</u>	<u>8,005</u>	<u>25,892</u>
At 1 January 2007	2,735	15,152	8,005	25,892
Appropriation from retained earnings	–	4,280	–	4,280
Currency translation differences	–	–	17,999	17,999
At 31 December 2007	<u>2,735</u>	<u>19,432</u>	<u>26,004</u>	<u>48,171</u>
At 1 January 2008	2,735	19,432	26,004	48,171
Transfer to paid-in capital	(1,299)	–	–	(1,299)
Appropriation from retained earnings	–	5,755	–	5,755
Currency translation differences	–	–	15,844	15,844
At 31 December 2008	<u>1,436</u>	<u>25,187</u>	<u>41,848</u>	<u>68,471</u>
At 1 January 2009	1,436	25,187	41,848	68,471
Currency translation differences	–	–	(24)	(24)
At 30 June 2009	<u>1,436</u>	<u>25,187</u>	<u>41,824</u>	<u>68,447</u>

(a) Capital reserve

Capital reserve represents premium paid on capital contributed by shareholders.

(b) Statutory surplus reserve

Huada Electronics and its subsidiaries are required to appropriate at least 10% of its profit after tax as reported in their PRC statutory accounts to the statutory surplus reserve until the cumulative amounts reach 50% of the registered capital. The statutory surplus reserve can only be used, upon approval obtained from the relevant authority, to offset accumulated losses or increase capital.

As at 31 December 2008, the statutory surplus reserve balances of Huada Electronics has already reached 50% of the registered capital.

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

15. Trade and other payables

	Group				Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Notes payables	202,477	30,074	88,622	21,465	202,477	30,074	88,622	21,465
Trade payables	92,575	112,794	67,753	93,169	90,889	102,259	67,753	93,169
Advance from customers	1,823	2,069	929	1,795	3,169	2,069	929	1,795
Salary and welfare payables	15,860	34,769	37,673	30,268	14,686	33,764	37,673	30,268
Other taxes payables	832	17,113	11,693	19,856	925	17,252	11,693	19,856
Other payables	18,704	17,918	15,344	16,087	18,566	17,724	15,344	16,087
Deferred government grants	2,951	24,875	48,144	35,941	1,848	24,875	48,144	35,941
Accrued expenses	943	210	–	–	943	210	–	–
	<u>336,165</u>	<u>239,822</u>	<u>270,158</u>	<u>218,581</u>	<u>333,503</u>	<u>228,227</u>	<u>270,158</u>	<u>218,581</u>

Notes payables represents non interest bearing commercial paper issued to suppliers with maturity period within 6 months.

Trade and other payables from related parties amounted to HK\$84,283,000, HK\$101,826,000, HK\$64,151,000 and HK\$87,434,000 were included in the above balances at 31 December 2006, 2007 and 2008 and 30 June 2009 respectively (Note 28(a)).

The ageing analysis of the Huada Electronics Group's trade payables was as follow:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current to 30 days	43,597	16,266	35,288	32,247
31 – 60 days	30,109	21,073	7,115	34,181
Over 60 days	18,869	75,455	25,350	26,741
	<u>92,575</u>	<u>112,794</u>	<u>67,753</u>	<u>93,169</u>

The directors are of the opinion that the carrying amounts of notes payables and trade payables approximate their fair values.

16. Short term bank loans

The bank loans as at 31 December 2006, 2007 and 2008 and 30 June 2009 were all at fixed interest rate, dominated in Renminbi, unsecured and repayable within one year. The average borrowing rate are 6.12%, 7.29%, 7.07% and 5.31% per annum as at 31 December in 2006, 2007 and 2008 and 30 June 2009 respectively.

The carrying amounts of the short term bank loans approximate their fair value.

The Huada Electronics Group has undrawn borrowing facilities of approximately HK\$20,000,000, nil, HK\$22,679,000 and HK\$22,688,000 as at 31 December 2006, 2007 and 2008 and 30 June 2009 respectively.

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

17. Other gains – net

	Group			Company
	Year ended 31 December			Six months ended
	2006	2007	2008	30 June
				2008
				(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Government grants	18,956	7,535	17,107	7,310
Other income	1,075	996	5,204	3,580
Other losses	(131)	(74)	(2,095)	(1,843)
	<u>19,900</u>	<u>8,457</u>	<u>20,216</u>	<u>9,047</u>
				<u>13,446</u>

18. Expenses by nature

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

	Group			Company
	Year ended 31 December			Six months ended
	2006	2007	2008	30 June
				2008
				(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation and amortisation expenses (Notes 5 and 6)	6,123	8,441	7,576	3,712
Employee benefit expenses (Note 19)	44,689	76,518	68,997	34,838
Changes in inventories	(152,968)	20,592	29,850	3,030
Purchase of inventories	469,680	362,137	355,971	223,599
Write-down of inventories (Note 10)	–	2,269	1,532	1,207
Impairment provision for receivables (Note 11(b))	594	1,032	278	–
Operating lease expenses on property	2,309	3,716	3,372	1,958
Research and development costs	<u>14,143</u>	<u>26,374</u>	<u>27,947</u>	<u>6,440</u>
				<u>9,304</u>

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

19. Employee benefit expenses

	Group			Company
	Year ended 31 December			Six months ended
	2006	2007	2008	30 June
				2008
				(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	43,342	74,602	62,986	31,929
Contributions to retirement schemes	1,347	1,916	6,011	2,909
	<u>44,689</u>	<u>76,518</u>	<u>68,997</u>	<u>34,838</u>
				<u>34,059</u>

20. Directors', supervisors' and senior management's emoluments

(a) Directors' and supervisors' emoluments

The remuneration of each director and supervisor for the year ended 31 December 2006 is set out below:

Name of director and supervisor	Fees	Salaries, allowance and benefits in kind	Total
	HK\$'000	HK\$'000	HK\$'000
Mr. Lu Ming*	—	—	—
Mr. Liu Jinping*	—	—	—
Mr. Liu Weiping	—	1,660	1,660
Mr. Ji Xiaozhong*	—	—	—
Ms. Wang Qinsheng	—	78	78
Mr. Sun Xiaonian*	—	—	—
Mr. Cheng Shuguang*	—	—	—
Mr. Zhang Wenxiong*	—	—	—
Mr. Hou Jinsong	—	347	347
	<u>—</u>	<u>2,085</u>	<u>2,085</u>

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

The remuneration of each director and supervisor for the year ended 31 December 2007 is set out below:

Name of director and supervisor	Fees HK\$'000	Salaries, allowance and benefits in kind HK\$'000	Total HK\$'000
Mr. Lu Ming*	—	—	—
Mr. Liu Jinping*	—	—	—
Mr. Liu Weiping	—	1,583	1,583
Mr. Ji Xiaozhong*	—	—	—
Ms. Wang Qinsheng	—	125	125
Mr. Sun Xiaonian*	—	—	—
Mr. Cheng Shuguang*	—	—	—
Mr. Zhang Wenxiong*	—	—	—
Mr. Hou Jinsong	—	361	361
	—	2,069	2,069

The remuneration of each director and supervisor for the year ended 31 December 2008 is set out below:

Name of director and supervisor	Fees HK\$'000	Salaries, allowance and benefits in kind HK\$'000	Total HK\$'000
Mr. Lu Ming*	—	—	—
Mr. Liu Jinping*	—	—	—
Mr. Liu Weiping	—	1,687	1,687
Mr. Ji Xiaozhong*	—	—	—
Ms. Wang Qinsheng	—	247	247
Mr. Sun Xiaonian*	—	69	69
Mr. Cheng Shuguang*	—	—	—
Mr. Zhang Wenxiong*	—	—	—
Mr. Hou Jinsong	—	354	354
	—	2,357	2,357

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

The remuneration of each director and supervisor for the six months ended 30 June 2009 is set out below:

Name of director and supervisor	Fees HK\$'000	Salaries, allowance and benefits in kind HK\$'000	Total HK\$'000
Mr. Lu Ming*	—	—	—
Mr. Liu Jinping*	—	—	—
Mr. Liu Weiping	—	174	174
Mr. Ji Xiaozhong*	—	—	—
Ms. Wang Qinsheng	—	68	68
Mr. Sun Xiaonian*	—	119	119
Mr. Cheng Shuguang*	—	—	—
Mr. Zhang Wenxiong*	—	—	—
Mr. Hou Jinsong	—	143	143
	—	504	504

The remuneration of each director and supervisor for the six months ended 30 June 2008 is set out below:

Name of director and supervisor	Fees (Unaudited) HK\$'000	Salaries, allowance and benefits in kind (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Mr. Lu Ming*	—	—	—
Mr. Liu Jinping*	—	—	—
Mr. Liu Weiping	—	166	166
Mr. Ji Xiaozhong*	—	—	—
Ms. Wang Qinsheng	—	67	67
Mr. Sun Xiaonian*	—	—	—
Mr. Cheng Shuguang*	—	—	—
Mr. Zhang Wenxiong*	—	—	—
Mr. Hou Jinsong	—	140	140
	—	373	373

* These directors and supervisors are employees of certain subsidiaries of CEC Group and receive emoluments from these subsidiaries. No appropriation has been made as the directors and supervisors of Huada Electronics considered it is impracticable to apportion this amount between their services to the Huada Electronics Group and certain subsidiaries of CEC Group.

During the Relevant Periods, no director or supervisor had waived or agreed to waive any emolument. No director or supervisor received any compensation for loss of office during the Relevant Periods.

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Huada Electronics Group included one director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four individuals during the Relevant Periods are as follows:

	Group			Company
	Year ended 31 December			Six months ended
	2006	2007	2008	30 June 2009
	HK\$'000	HK\$'000	HK\$'000	(Unaudited) HK\$'000
Salaries, allowances and benefits in kind	4,945	4,048	4,440	637
Bonuses	358	1,199	4,140	–
	5,303	5,247	8,580	637

The emoluments fell within the following band:

	Group			Company
	Year ended 31 December			Six months ended
	2006	2007	2008	30 June 2009
				(Unaudited)
Nil – HK\$1,000,000	–	1	1	4
HK\$1,000,001 – HK\$1,500,000	2	2	2	–
HK\$1,500,001 – HK\$2,000,000	2	1	1	–
	4	4	4	4

21. Finance costs – net

	Group			Company
	Year ended 31 December			Six months ended
	2006	2007	2008	30 June 2009
	HK\$'000	HK\$'000	HK\$'000	(Unaudited) HK\$'000
Interest income on short-term deposits	(992)	(1,144)	(1,228)	(668)
Interest expense	1,624	2,595	4,293	2,475
	632	1,451	3,065	1,807

22. Taxation

(a) Income tax expense

The amount of taxation charged to the income statements represents:

	Group			Company
	Year ended 31 December			Six months ended
	2006	2007	2008	30 June
				2008
				(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation				
– PRC enterprise income tax	8,786	11,651	17,989	21,600
Deferred taxation	(96)	(6,895)	(992)	3,484
	<u>8,690</u>	<u>4,756</u>	<u>16,997</u>	<u>25,084</u>
				<u>8,045</u>

- (b)** Huada Electronics was certified as a high/new technology enterprise (“HNTE”) established in Beijing New Technology Industry Development Zone in the PRC. Therefore, the applicable income tax rate is 15%. As approved by the tax authorities in 2003, Huada Electronics was entitled to exemption from income tax for two years and followed by a 50% tax reduction for three years, commencing from the year ended 31 December 2003.

The Corporate Income Tax Law of the PRC (the “new CIT Law”) was effective from 1 January 2008. Accordingly, Huada Electronics’s applicable tax rate changed to 25% for the six months ended 30 June 2008, before its certification of HNTE status has been reapproved in December 2008. Upon the approval has been granted, Huada Electronics is subject to the 15% preferential tax rate which was retrospectively effective from 1 January 2008.

CIDC (HK) assessed its profit tax liability in Hong Kong using a tax rate of 17.5%, 17.5%, and 16.5% for the year ended 31 December 2006, 2007 and 2008 respectively. During the years ended 31 December 2006, 2007 and 2008, CIDC (HK) did not have any assessable profits sourced from Hong Kong.

Beijing Huada Infosec and Guangdong Huada were registered in the PRC and were subject to 33% statutory income tax rate for the years ended 31 December 2006 and 2007. According to the new CIT Law, these two companies were subject to 25% statutory income tax rate for the year ended 31 December 2008.

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

- (c) The taxation on the Huada Electronics Group's profit before taxation differs from the theoretical amount that would arise using respective applicable tax rates during the Relevant Periods in the PRC is as follows:

	Group			Company
	Year ended 31 December			Six months ended
	2006	2007	2008	30 June 2008
				(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit before income tax	128,716	132,063	130,962	95,959
Statutory tax rate	33%	33%	25%	25%
Tax calculated at statutory tax rate	42,476	43,581	32,741	23,990
Effect of tax concession	(30,090)	(28,549)	(9,657)	–
Realisation of tax losses on disposal of subsidiaries	–	–	(1,198)	(980)
Expenses not deductible for taxation purposes	562	1,110	1,021	1,867
Tax losses for which no deferred income tax asset was recognised	184	275	319	207
Research and development costs additional deduction	(4,442)	(7,555)	(8,534)	–
Effect on change of tax rates	–	(4,106)	2,305	–
Income tax expense	8,690	4,756	16,997	25,084

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

(d) *Deferred income tax*

The movement on the deferred taxation assets during the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009 are as follows:

Group/Company	Impairment provision for receivables HK\$'000	Salary payables HK\$'000	Government grant HK\$'000	Impairment of inventories HK\$'000	Revenue recognition HK\$'000	Total HK\$'000
At 1 January 2006	283	835	350	–	–	1,468
Credited/(Charged) to the income statement	88	226	(218)	–	–	96
Currency translation differences	14	40	7	–	–	61
At 31 December 2006	<u>385</u>	<u>1,101</u>	<u>139</u>	<u>–</u>	<u>–</u>	<u>1,625</u>
At 1 January 2007	385	1,101	139	–	–	1,625
(Charged)/Credited to the income statement	(229)	7,030	5,880	567	(6,353)	6,895
Currency translation differences	22	310	200	18	(205)	345
At 31 December 2007	<u>178</u>	<u>8,441</u>	<u>6,219</u>	<u>585</u>	<u>(6,558)</u>	<u>8,865</u>
At 1 January 2008	178	8,441	6,219	585	(6,558)	8,865
Credited/(Charged) to the income statement	50	(6,188)	658	(382)	6,854	992
Currency translation differences	10	405	345	29	(296)	493
At 31 December 2008	<u>238</u>	<u>2,658</u>	<u>7,222</u>	<u>232</u>	<u>–</u>	<u>10,350</u>
At 1 January 2009	238	2,658	7,222	232	–	10,350
Credited/(Charged) to the income statement	–	1,233	(1,836)	198	–	(405)
Currency translation differences	–	–	5	–	–	5
At 30 June 2009	<u>238</u>	<u>3,891</u>	<u>5,391</u>	<u>430</u>	<u>–</u>	<u>9,950</u>

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

The amounts shown in the balance sheets include the following:

	Year ended 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Deferred taxation assets to be recovered after more than 12 months	385	178	238	238
Deferred taxation assets to be recovered within 12 months	1,240	8,687	10,112	9,712
	<u>1,625</u>	<u>8,865</u>	<u>10,350</u>	<u>9,950</u>

Deferred tax assets are recognised for tax loss carrying-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Huada Electronics Group did not recognise deferred income tax assets of HK\$1,194,000, HK\$1,402,000 at 31 December 2006 and 2007 respectively, in respect of losses amounting HK\$3,619,000, HK\$4,452,000 that can be carried forward against future taxable income. Upon the completion of the disposal of all the subsidiaries in 2008, the tax losses were realised.

On 16 March 2007, the new CIT Law was approved and became effective from 1 January 2008. Accordingly, Huada Electronics's applicable tax rate was 25% from January 2008. In this regard, the new applicable tax rates was adopted in computing the deferred taxation as at 31 December 2007. The change of tax rates resulted a tax credit of approximately HK\$4,106,000 for the year ended 31 December 2007.

Huada Electronics has been granted a high/new technology enterprise status in December 2008 under the new CIT Law. Accordingly, the new applicable tax rate of 15% was adopted in computing the deferred taxation as at 31 December 2008. The change of tax rates resulted a tax charges of approximately HK\$2,305,000 for the year ended 31 December 2008.

23. Profit attributable to equity holders of Huada Electronics

The profit attributable to equity holders of Huada Electronics is dealt within the financial statements of Huada Electronics to the extent of HK\$121,590,000, HK\$129,323,000, HK\$110,454,000 and HK\$44,207,000 for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 respectively.

24. Dividends

Final dividend for the year ended 31 December 2005 of Huada Electronics totalling RMB13,838,000 (equivalent to approximately HK\$13,435,000) was declared and paid in March 2006.

Final dividend for the year ended 31 December 2006 of Huada Electronics totalling RMB43,243,000 (equivalent to approximately HK\$45,045,000) was declared and paid in March 2007.

At the shareholders' meeting held on 19 March 2008, 16 June 2008 and 7 November 2008, the shareholders of Huada Electronics approved the payment of final dividends for the year ended 31 December 2007 of RMB69,189,000 (equivalent to approximately HK\$77,765,000), RMB69,189,000 (equivalent to approximately HK\$77,765,000) and RMB3,250,000 (equivalent to approximately HK\$3,653,000) respectively. Total final dividend for the year ended 31 December 2007 of RMB141,628,000 (equivalent to approximately HK\$159,183,000) was declared in 2008 and paid in 2008 and 2009.

Final dividend for the year ended 31 December 2008 of Huada Electronics totalling RMB135,000,000 (equivalent to approximately HK\$153,080,000) was declared in March 2009. Among that, RMB65,463,000 (equivalent to approximately HK\$74,260,000) was paid in March 2009.

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

25. Cash generated from/(used in) operations

	Group			Company
	Year ended 31 December			Six months ended
	2006	2007	2008	30 June
				2008
				(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit before income tax	128,716	132,063	130,962	95,959
Adjustment for:				52,252
Depreciation	1,866	2,661	5,342	2,520
Amortisation of intangible assets	4,257	5,780	2,234	1,192
Loss on disposal of property, plant and equipment	121	50	10	–
Interest income	(992)	(1,144)	(1,228)	(668)
Interest expense	1,624	2,595	4,293	2,475
Dividend received	–	(376)	(567)	(567)
Gain on disposal of subsidiaries	–	–	(3,909)	(3,857)
Gain on disposal of available-for-sale financial assets	–	–	(834)	–
Share of results of an associate	–	–	(110)	–
	<u>135,592</u>	<u>141,629</u>	<u>136,193</u>	<u>97,054</u>
Changes in working capital				
Inventories	(147,051)	35,415	30,640	9,773
Trade and other receivables	(83,120)	61,064	14,935	(205,772)
Trade and other payables	<u>192,649</u>	<u>(116,721)</u>	<u>58,560</u>	<u>86,417</u>
Net cash generated from/(used in) operations	<u>98,070</u>	<u>121,387</u>	<u>240,328</u>	<u>(12,528)</u>
				<u>(24,081)</u>

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

26. Commitments

(a) Capital commitments

As at 31 December 2006, 2007, 2008 and 30 June 2009, the Huada Electronics Group and Huada Electronics did not have any material capital commitments.

(b) Operating lease commitments

The Huada Electronics Group and Huada Electronics's future aggregate minimum lease payments under non-cancellable operating leases for office premises are as follows:

	Group				Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	2,913	1,879	2,120	5,661	2,760	1,599	2,120	5,661
In the second to fifth years	664	430	–	12,018	664	–	–	12,018
	<u>3,577</u>	<u>2,309</u>	<u>2,120</u>	<u>17,679</u>	<u>3,424</u>	<u>1,599</u>	<u>2,120</u>	<u>17,679</u>

27. Contingent liabilities

The Huada Electronics Group and Huada Electronics did not have any material outstanding contingent liabilities as at 31 December 2006, 2007 and 2008 and 30 June 2009.

28. Significant related-party transactions and balances

(a) Transactions and balances with CEC's subsidiaries

During the Relevant Periods, the Huada Electronics Group entered into transactions with companies under common control of CEC.

(1) Transactions

	Group				Company
	Year ended 31 December			Six months ended 30 June	Six months ended 30 June
	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	(Unaudited) HK\$'000	HK\$'000
Sales of products	41,739	48,840	48,627	24,684	28,024
Purchases of goods and services	500,825	390,831	385,560	174,885	131,379
Interest income	70	231	44	43	23
Interest expenses	51	–	–	–	–
Rental expenses	1,631	2,099	2,066	1,183	883
Canteen services	446	624	–	–	–
	<u>41,739</u>	<u>48,840</u>	<u>48,627</u>	<u>24,684</u>	<u>28,024</u>

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

(2) *Balances arising from above transactions*

	As at 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Trade receivables	29,458	37,346	33,733	44,741
Trade and other payables	84,283	101,826	64,151	87,434
Deposits	2,736	30,268	12,705	11,954

(b) *Transactions and balances with an associate – Guangdong Huada*

(1) *Transactions*

	Group			Company
	Year ended 31 December			Six months ended
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2008
				(Unaudited)
				HK\$'000
Sales of products	–	–	24,459	–
				966

(2) *Balances arising from above transactions*

	As at 31 December			As at
	2006	2007	2008	30 June
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Trade receivables	–	–	41,476	21,992

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

(c) *Transactions and balances with other related-party that Huada Electronics can exercise significant influence – Beijing Huada Infosec*

(1) *Transactions*

	Group			Company
	Year ended 31 December			Six months ended
	2006	2007	2008	30 June 2008
	HK\$'000	HK\$'000	HK\$'000	(Unaudited) HK\$'000
Sales of products	–	–	7,858	–
				869

(2) *Balances arising from above transactions*

	As at 31 December			As at
	2006	2007	2008	30 June 2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	–	–	9,997	8,387

(d) *Additional information on other state-owned enterprises*

Huada Electronics is controlled by CEC and SDIC, and is ultimately controlled by Mainland China government, which also controls a significant portion of the productive assets and entities in the Mainland China. In accordance with Hong Kong Accounting Standard 24 “Related Party Disclosures”, state-owned enterprises and their subsidiaries, other than CEC Group and SDIC Group, are also defined as related parties of Huada Electronics and its subsidiaries (“Other State-owned Enterprises”).

(i) *Summary of significant transactions with Other State-owned Enterprises*

	Group			Company
	Year ended 31 December			Six months ended
	2006	2007	2008	30 June 2008
	HK\$'000	HK\$'000	HK\$'000	(Unaudited) HK\$'000
Sales of products and materials	421,684	497,520	367,821	249,306
Purchases of materials	20,874	8,831	8,783	5,224
				6,309

APPENDIX II FINANCIAL INFORMATION OF HUADA ELECTRONICS GROUP

(ii) Summary of balances with Other State-owned Enterprises

	As at 31 December			As at
	2006	2007	2008	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	210,998	129,336	59,772	101,515
Trade payables	3,725	3	1,286	2,481
Bank deposits in state-owned banks	2,844	3,570	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Balances with Other State-owned Enterprises, except for bank deposits, were unsecured and interest-free.

29. Events after the balance sheet date

On 9 September 2009, the Acquisition of Huada Electronics by CEC Holdings was completed and Huada Electronics became a wholly-owned subsidiary of CEC Holdings.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Huada Electronics in respect of any period subsequent to 30 June 2009. No dividend has been declared, made or paid by the Company in respect of any period subsequent to 30 June 2009.

Yours faithfully,
PricewaterhouseCoopers
Certificated Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The following is an illustrative and pro forma consolidated balance sheet, consolidated income statement and consolidated cash flow statement of the Remaining Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Disposal as if it had taken place on 30 June 2009 for the pro forma consolidated balance sheet and 1 January 2008 for the pro forma consolidated income statement and pro forma consolidated cash flow statement. This pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position and financial results of the Remaining Group had the Disposal been completed as at 30 June 2009 and 1 January 2008 respectively or at any future date.

I. Unaudited Pro Forma Consolidated Balance Sheet as at 30 June 2009

	The Group (Audited) <i>HK\$'000</i> <i>(Note 1)</i>	Pro forma adjustments <i>HK\$'000</i> <i>(Note 2)</i>	Pro forma Remaining Group <i>HK\$'000</i> <i>(Note 7)</i>
ASSETS			
Non-current assets			
Property, plant and equipment	42,348	(41,935) (i)	413
Intangible assets	13,081	(13,081) (i)	–
Deferred taxation assets	49,259	(49,259) (i)	–
	<u>104,688</u>		<u>413</u>
Current assets			
Inventories	362,243	(362,243) (i)	–
Trade and other receivables	454,407	(453,861) (i)	546
Restricted bank deposits	35,648	(35,648) (i)	–
Cash and cash equivalents	435,445	(214,412) (i) 4,895 (ii)	225,928
	<u>1,287,743</u>		<u>226,474</u>
Total assets	<u><u>1,392,431</u></u>		<u><u>226,887</u></u>

	The Group (Audited)	Pro forma adjustments	Pro forma Remaining Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 7)</i>
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Issued equity	370,074		370,074
Other reserves	75,113	(34,788) (i)	40,325
Accumulated losses	(260,066)	72,942 (iii)	(187,124)
Total equity	<u>185,121</u>		<u>223,275</u>
LIABILITIES			
Current liabilities			
Trade and other payables	611,318	(607,706) (i)	3,612
Short term bank loans	557,303	(557,303) (i)	–
Provision for warranty	38,689	(38,689) (i)	–
Total liabilities	<u>1,207,310</u>		<u>3,612</u>
Total equity and liabilities	<u><u>1,392,431</u></u>		<u><u>226,887</u></u>

II. Unaudited Pro Forma Consolidated Income Statement for the Year Ended 31 December 2008

	The Group (Audited)	Pro forma adjustments		Pro forma Remaining Group
	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
	<i>(Note 1)</i>	<i>(Note 3)</i>		<i>(Note 7)</i>
Revenue	2,267,343	(2,267,343)	(i)	–
Cost of sales	<u>(1,827,268)</u>	1,827,268	(i)	<u>–</u>
Gross profit	440,075			–
Other losses – net	(108,461)	108,385	(i)	(207,830)
		(207,754)	(ii)	
Selling and marketing costs	(325,926)	325,926	(i)	–
Administrative expenses	<u>(314,776)</u>	300,316	(i)	<u>(14,460)</u>
Operating loss	(309,088)			(222,290)
Finance income	9,234	(4,089)	(i)	5,145
Finance costs	<u>(33,605)</u>	33,605	(i)	<u>–</u>
Finance (costs)/income – net	<u>(24,371)</u>			<u>5,145</u>
Loss before income tax	(333,459)			(217,145)
Income tax expense	<u>–</u>			<u>–</u>
Loss for the year	<u>(333,459)</u>			<u>(217,145)</u>
Attributable to:				
Equity holders of the Company	(220,035)	2,890	(i)	(217,145)
Minority interests	<u>(113,424)</u>	113,424	(i)	<u>–</u>
	<u>(333,459)</u>			<u>217,145</u>

III. Unaudited Pro Forma Consolidated Cash Flow Statement for the Year Ended 31 December 2008

	The Group	Pro forma adjustments		Pro forma Remaining Group
	(Audited)			
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 1)</i>	<i>(Note 4)</i>	<i>(Note 5)</i>	<i>(Note 7)</i>
Cash flows from operating activities				
Cash used in operations	(38,487)	27,195		(11,292)
Interest paid	(33,605)	33,605		–
Income tax paid	<u>(3,725)</u>	3,725		<u>–</u>
Net cash used in operating activities	<u>(75,817)</u>			<u>(11,292)</u>
Cash flows from investing activities				
Interest received	9,234	(4,089)		5,145
Purchase of property, plant and equipment and intangible assets	(39,149)	38,538		(611)
Disposal of property, plant and equipment	418	(238)		180
Net cash inflow for disposal of subsidiaries	<u>–</u>		4,895	<u>4,895</u>
Net cash (used in)/generated from investing activities	<u>(29,497)</u>			<u>9,609</u>

	The Group	Pro forma adjustments		Pro forma Remaining Group
	(Audited)			
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 1)</i>	<i>(Note 4)</i>	<i>(Note 5)</i>	<i>(Note 7)</i>
Cash flows from financing activities				
Proceeds from bank loans	1,500,905	(1,500,905)		—
Repayment of bank loans	<u>(1,444,203)</u>	1,444,203		<u>—</u>
Net cash generated from financing activities	<u>56,702</u>			<u>—</u>
Net decrease in cash and cash equivalents	<u>(48,612)</u>			<u>(1,683)</u>
Cash and cash equivalents at beginning of the year	<u>391,741</u>	(157,643)		<u>234,098</u>
Cash and cash equivalents at end of the year	<u><u>343,129</u></u>			<u><u>232,415</u></u>

IV. Notes to the Unaudited Pro Forma Financial Information

1. The figures are extracted from the audited financial information of the Group as included in the accountant's report set out in Appendix I to this circular.
2. The adjustment relates to (i) the exclusion of assets and liabilities of Sang Fei (BVI) and its subsidiaries, assuming that the Disposal had been taken place on 30 June 2009; (ii) the cash consideration amounting to HK\$10,000,000 less estimated expenses and taxes, resulting in a net cash inflow of HK\$4,895,000; and (iii) the estimated gain of HK\$72,942,000 resulted from the Disposal, assuming that the Disposal had been taken place on 30 June 2009, which is calculated with reference to the consideration of the Disposal, the net liabilities and the currency translation reserve attributable to Sang Fei (BVI) and its subsidiaries as at 30 June 2009.
3. The adjustment relates to (i) the exclusion of the results of Sang Fei (BVI) and its subsidiaries for the year ended 31 December 2008, assuming that the Disposal had been taken place on 1 January 2008; and (ii) the estimated loss of HK\$207,754,000 resulted from the Disposal, assuming that the Disposal had been taken place on 1 January 2008, which is calculated with reference to the consideration of the Disposal, the net assets and the currency translation reserve attributable to Sang Fei (BVI) and its subsidiaries as at 1 January 2008.
4. The adjustment relates to the exclusion of the cash flows of Sang Fei (BVI) and its subsidiaries for the year ended 31 December 2008, assuming that the Disposal had been taken place on 1 January 2008.
5. The adjustment reflects the cash consideration amounting to HK\$10,000,000 less estimated expenses and taxes, resulting in a net cash inflow of HK\$4,895,000, assuming that the Disposal had been taken place on 1 January 2008.
6. The above adjustments are not recurring. No adjustments have been made to reflect any trading results or other transactions of the Group and Sang Fei (BVI) and its subsidiaries entered into subsequent to 30 June 2009.
7. Pursuant to the agreements entered into with the shareholders of Huada Electronics on 20 June 2008, the Company has conditionally agreed to purchase the entire equity interest in Huada Electronics by issuing an aggregate of 608,000,000 new shares at the price of HK\$2.50 for settlement of the consideration for the acquisition. The acquisition of Huada Electronics was completed on 9 September 2009. Prior to the acquisition, Huada Electronics was controlled by China Huada, which in turn is owned as to 50% by each of CEC and The State Development & Investment Corporation ("SDIC"). Both CEC and SDIC are state-owned enterprises and controlled by State-owned Assets Supervision and Administration Commission of the State Council. Accordingly, the Company applies the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants, in accounting for the acquisition of Huada Electronics.

The above pro forma information has not reflected the effect of the acquisition of Huada Electronics on the consolidated balance sheet, consolidated income statement and consolidated cash flow statement. Please refer to the accountant's report set out in Appendix II to this circular for detailed financial information of Huada Electronics.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA ELECTRONICS CORPORATION HOLDINGS COMPANY LIMITED

We report on the unaudited pro forma financial information set out on pages 146 to 151 under the heading of “Unaudited Pro Forma Financial Information of the Remaining Group” (the “Unaudited Pro Forma Financial Information”) in Appendix III to the circular dated 27 November 2009 (the “Circular”) of China Electronics Corporation Holdings Company Limited (the “Company”), in connection with the proposed disposal of Sang Fei (BVI) Company Limited (the “Transaction”) by the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Transaction might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 146 to 151 of the Circular.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted audited consolidated balance sheet as at 30 June 2009, unadjusted audited consolidated income statement and unadjusted audited consolidated cash flow statement of the Group for the year ended 31 December 2008 with the accountant’s report as set out in Appendix I of this Circular, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 June 2009 or any future date, or
- the results and cash flows of the Group for year ended 31 December 2008 or any future periods.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 November 2009

A. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

The Company is an investment holding company. Prior to the Disposal, Sang Fei is the principal operating subsidiary of the Company, which is primarily engaged in the manufacturing and sales of mobile handsets and other portable electronic products. Following completion of the Disposal, the Company will cease to hold any interest in Sang Fei (BVI), a company which holds 65% equity interest in Sang Fei, and its subsidiaries. Accordingly, Sang Fei (BVI) and its subsidiaries will cease to be subsidiaries of the Company. For the purpose of the unaudited pro forma financial information for the year ended 31 December 2008 and as at 30 June 2009 and this circular, the Remaining Group primarily consists of the Company and China Electronics Corporation Management Limited (“**CEC Management**”), a wholly-owned subsidiary of the Company providing group management services to the members of the Group.

The financial information of the Group prepared in accordance with HKFRS for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 are set out in Appendix I to this circular. The unaudited pro forma financial information of the Remaining Group is set out in Appendix III to this circular.

Operating Results

As the Company is an investment holding company and CEC Management is only involved in the provision of group management services to the members of the Group, the Remaining Group did not have any operating revenue for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009. For each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the Remaining Group incurred administrative expenses of HK\$11,972,000, HK\$7,147,000, HK\$14,460,000 and HK\$6,329,000, respectively. Such administrative expenses mainly represent employee benefit expenses, professional fees and office expenditures.

Capital Resources and Liquidity

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Remaining Group had cash and cash equivalents of HK\$207,293,000, HK\$234,098,000, HK\$227,520,000 and HK\$225,928,000, respectively, which were denominated in Hong Kong dollar and Renminbi. As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Remaining Group did not have any outstanding bank loans or borrowings and members of the Remaining Group neither pledged any assets or bank deposits nor granted any guarantee to secure loan facilities.

The Remaining Group’s gearing ratio is calculated as net debt divided by total capital, whereby net debt is calculated as total borrowings less cash and cash equivalents and total capital is calculated as total equity plus net debt. As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Remaining Group did not have any borrowings, thereby attributing to a negative gearing ratio.

Capital Commitment and Contingent Liabilities

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Remaining Group did not have any material capital commitments. In addition, the Remaining Group did not have any material contingent liabilities outstanding as at 31 December 2006, 2007 and 2008 and 30 June 2009.

Employee and Remuneration Policies

The Remaining Group had 17 employees as at 31 December 2006, 2007 and 2008 and 30 June 2009, and the majority of such employees were based in Hong Kong and Mainland China. Employee benefit expenses of the Remaining Group for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 were HK\$7,826,000, HK\$6,052,000, HK\$5,419,000 and HK\$2,698,000, respectively, which include salaries, allowances, benefits in kind and contribution to staff retirement schemes. The Remaining Group undertakes a review of salaries and the extent of salary increment annually, with reference to the relevant labour market and economic situation.

B. MANAGEMENT DISCUSSION AND ANALYSIS OF HUADA ELECTRONICS GROUP

Upon completion of the Huada Acquisition on 9 September 2009, Huada Electronics became a wholly-owned subsidiary of the Company. Huada Electronics will, upon completion of the Disposal, become the principal operating subsidiary of the Company. Accordingly, the principal activities of the Group after completion of the Disposal will be design, research and development and sales of integrated circuits.

Financial Summary

The financial information of Huada Electronics Group prepared in accordance with HKFRS for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 are set out in Appendix II to this circular. Set out below are certain key financial information of Huada Electronics Group, as extracted from the financial information of Huada Electronics Group:

	Year ended 31 December			Six months ended	
	2006	2007	2008	30 June	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2008</i>	<i>2009</i>
				<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	508,717	652,767	621,805	374,910	267,506
Profit before income tax	128,716	132,063	130,962	95,959	52,252
Net profit attributable to equity holders of Huada Electronics	<u>120,202</u>	<u>127,443</u>	<u>114,206</u>	<u>71,113</u>	<u>44,207</u>
	As at 31 December			As at	
	2006	2007	2008	30 June	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2009</i>	
				<i>HK\$'000</i>	
Net Assets	<u>202,570</u>	<u>302,636</u>	<u>272,693</u>		<u>163,796</u>

Operating Results

As shown from the above table, Huada Electronics Group has experienced high growth rate in both revenue and profit before income tax during the year ended 31 December 2007. The main driver for the growth in revenue and profit before income tax is the healthy growth and expansion of Huada Electronics' operations, which is attributable to the strong demand in the smart cards market, in particular, the rapid growth in products such as national identification cards, telecommunications smart cards and social security cards, and effective cost reduction. As the replacement for new national identification cards reached its peak in late 2008, the demand for national identification cards returned to a relatively normal level and as a result the revenue and profit before income tax of Huada Electronics Group for the year ended 31 December 2008 and the six months ended 30 June 2009 decreased compared to the same period of the previous year.

Capital Resources and Liquidity

Huada Electronics Group finances its operations primarily by internal resources and short term bank borrowings. As at 31 December 2006, 2007 and 2008 and 30 June 2009, Huada Electronics Group has cash and cash equivalents amounted to HK\$87,952,000, HK\$188,902,000, HK\$217,035,000 and HK\$104,456,000, respectively, which were denominated in RMB. Huada Electronics Group's source of funds is mainly derived from its operating activities and increasing cash flow generated by Huada Electronics Group as a result of its healthy growth and expansion of its operations.

As at 31 December 2006, 2007 and 2008 and 30 June 2009, Huada Electronics Group had unsecured short-term bank loans of HK\$20,000,000, HK\$64,516,000, HK\$45,357,000 and HK\$45,376,000, respectively, which was denominated in RMB. The average borrowing rates were 6.12%, 7.29%, 7.07% and 5.31% per annum as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively. Huada Electronics Group has unutilised loan facilities of HK\$20,000,000, nil, HK\$22,679,000 and HK\$22,688,000 as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively. As at 31 December 2006, 2007 and 2008 and 30 June 2009, Huada Electronics Group neither pledged any assets or bank deposits nor granted any guarantee to secure loan facilities.

As at 31 December 2006, 2007 and 2008 and 30 June 2009, Huada Electronics Group had net current assets of HK\$179,921,000, HK\$261,842,000, HK\$235,817,000 and HK\$129,818,000, respectively. Huada Electronics Group's gearing ratio is calculated as net debt divided by total capital, whereby net debt is calculated as total borrowings less cash and cash equivalents and total capital is calculated as total equity plus net debt. As at 31 December 2006, 2007 and 2008 and 30 June 2009, the cash and cash equivalents balances were greater than the balances of total borrowings, thereby attributing to a negative gearing ratio. The directors of Huada Electronics are of the view that Huada Electronics does not have significant concentrations of capital risk. Huada Electronics' strategy is to maintain a low gearing ratio.

Huada Electronics Group has no significant concentrations of foreign exchange risk. Foreign exchange risks of Huada Electronics Group occur due to the fact that Huada

Electronics Group has some business activities denominated in foreign currencies, primarily with respect to the United States dollar and Hong Kong dollar. As less than 10% of Huada Electronics Group's transactions are denominated in foreign currencies, the directors of Huada Electronics are of the view that foreign exchange risk in relation to transactions denominated in foreign currencies is low, hence it is not necessary to arrange for hedging of Huada Electronics Group's foreign currency investments, nor to implement a foreign currency hedge policy.

Capital Commitment and Contingent Liabilities

As at 31 December 2006, 2007 and 2008 and 30 June 2009, Huada Electronics Group did not have any material capital commitments. In addition, Huada Electronics Group did not have any material contingent liabilities outstanding as at 31 December 2006, 2007 and 2008 and 30 June 2009.

Employee and Remuneration Policies

As at 31 December 2006, 2007 and 2008 and 30 June 2009, Huada Electronics Group had 249, 290, 291 and 305 employees, respectively, the majority of whom were based in the Mainland China. Employee benefit expenses for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 were HK\$44,689,000, HK\$76,518,000, HK\$68,997,000 and HK\$34,059,000, respectively, which include salaries, allowances, benefits in kind and contribution to staff retirement schemes managed by local government authorities in the PRC.

Huada Electronics Group undertakes a review of salaries and the extent of salary increment annually, with close reference to Huada Electronics Group's results, the relevant labour market and economic situation. Huada Electronics Group also provides bonuses based upon staff performance and profits of Huada Electronics Group. This acts as an incentive for motivating employees to provide greater contribution to Huada Electronics Group.

Segmental Information

Huada Electronics Group operates and manages its business as a single segment. Accordingly, no segmental data has been prepared and presented by Huada Electronics Group.

Excluded Assets

During the year ended 31 December 2005, Huada Electronics acquired 70% equity interest in Beijing Huada Infosec Technology Co., Ltd. ("**Beijing Huada Infosec**"), a limited liability company established under the laws of the PRC and principally engaged in the development and sales of digital system software and hardware. Huada Electronics' equity interest in Beijing Huada Infosec was subsequently increased to 71.26%. During the year ended 31 December 2008, Huada Electronics disposed of its entire 71.26% equity interest in Beijing Huada Infosec to a third party for a consideration of HK\$5,617,000.

In 2006, Huada Electronics acquired an additional 61.88% equity interest in Guangdong Huada Electronic Design Co., Ltd. (“**Guangdong Huada**”), a limited liability company established under the laws of the PRC and principally engaged in the design and sales of integrated circuits. After such acquisition, Huada Electronics held a total of 99.38% equity interest in Guangdong Huada. Further in 2007, Huada Electronics acquired the remaining 0.62% equity interest in Guangdong Huada, whereby Guangdong Huada became a wholly-owned subsidiary of Huada Electronics as at the end of 2007. During the year ended 31 December 2008, Huada Electronics disposed of its 80% equity interest in Guangdong Huada to a third party for a net consideration of HK\$1,833,000. Upon completion of the disposal of 80% equity interest in Guangdong Huada, Huada Electronics’ shareholding in Guangdong Huada has decreased to 20%. Huada Electronics accounted for its remaining investments in Guangdong Huada as investment in an associate.

In addition, pursuant to a shareholders’ resolution dated 25 December 2007, Huada Electronics decided to deregister its wholly-owned subsidiary, CIDC (H.K.) Limited (“**CIDC (HK)**”), a limited liability company incorporated in Hong Kong and principally engaged in the sale of digital video and related technology. The application of deregistration was approved by the Companies Registry of Hong Kong on 22 February 2008.

The directors of Huada Electronics believe that by disposing its interests in Beijing Huada Infosec and Guangdong Huada and by deregistering CIDC (HK), Huada Electronics will be able to focus on the development of its core businesses in the future.

Future Prospects

Huada Electronics has a strong presence in the integrated circuits industry. Integrated circuits have been widely applied in a wide range of areas including communications, home and personal entertainment, social and public business. The principal products of Huada Electronics includes chips and module for smart cards and wireless local area network (“WLAN”) chips.

Huada Electronics’ overall business strategy is to focus on and continue to expand its core business in relation to the production of smart cards and WLAN chips, and to stand as a leading supplier in the domestic market of such products. It is expected that the overall market demand of smart cards will experience stable growth due to the increasing application and utilisation of smart cards within the telecommunications, transportation, financial industries and social security purposes. Huada Electronics will continue to invest in the development and production of chips for smart cards, thereby further strengthening its position as a leading smart card chip producer in the PRC. In addition, the WLAN market has experienced substantial growth since 2004. It is expected that the WLAN market will continue to grow rapidly as a result of the broadening of the scope and capacity of the WLAN industry, with approximately a third of WLAN related products being produced in the PRC. Huada Electronics had established a team dedicated for the research and development, as well as design of new WLAN products, in particular, portable WLAN products and WLAN products for portable customer electronic products such as personal digital assistants and portable electronic gaming devices. The directors of Huada Electronics believe this will facilitate Huada Electronics in seizing the growing opportunities within the sector, and thereby strengthening Huada Electronics’ revenue generating capability.

1 RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2 DISCLOSURE OF INTERESTS

As at Latest Practicable Date, the following Directors and chief executive of the Company had, or were deemed to have, interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Name of Directors	Number and description of equity derivatives	No. of underlying shares involved in the Options	Approximate % of the issued share capital of the Company
Tong Baoan	1,140,000 Options ^(Note)	1,140,000	0.07%
Fan Qingwu (<i>Managing Director</i>)	1,080,000 Options ^(Note)	1,080,000	0.06%
Hua Longxing	1,080,000 Options ^(Note)	1,080,000	0.06%
Total		<u>3,300,000</u>	<u>0.19%</u>

All the interests disclosed above represent long position in the shares or underlying shares of the Company.

Note: The Options were all granted on 25 October 2005 under the share option scheme approved and adopted by the Shareholders on 20 June 2002. The Options represent personal interest held by the Directors as beneficial owners. Grantees of such Options are entitled to exercise the Options at a price of HK\$1.488 per share of the Company from 1 November 2007 to 31 October 2010.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Mr. Xiong Qunli, the Chairman of the Company and a non-executive Director, is the chairman of CEC and a director of CEC (BVI). Mr. Tong Baoan, the Vice Chairman of the Company and a non-executive Director, is a director of CEC (BVI). Mr. Fan Qingwu, the Managing Director and an executive Director, is also a director of CEC (BVI). Details of the shareholding of CEC and CEC (BVI) in the Company are set out in the paragraph headed “Substantial Shareholders” in this Appendix. Save as disclosed herein, none of the Directors is a director or employee of a company which has, or is deemed to have, an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

None of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group taken as a whole.

Since 30 June 2009, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to the Latest Practicable Date, none of the Directors nor any expert named in the paragraph headed “Qualifications of Experts” in this Appendix had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

3 SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons had, or were deemed to have, interests or short positions in the shares or the underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Number or attributable number of shares held	Approximate percentage or attributable percentage of total issued share capital of the Company
CEC (BVI)	812,500,000	48.03%
China Huada (<i>Note 1</i>)	393,680,000	23.27%
CEC (<i>Notes 1 and 2</i>)	1,206,180,000	71.30%
SDIC High-Tech Investment Co., Ltd. (<i>Note 1</i>)	393,680,000	23.27%
The State Development and Investment Corporation (<i>Note 1</i>)	393,680,000	23.27%

All the interests disclosed above represent long position in the shares or underlying shares of the Company.

Notes:

- (1) The equity interest of China Huada is contributed as to 50% by CEC and as to 50% by SDIC High-Tech Investment Co., Ltd. SDIC High-Tech Investment Co., Ltd. is a wholly-owned subsidiary of The State Development and Investment Corporation, which is a state-owned investment holding company established under the laws of the PRC. By virtue of the SFO, CEC, SDIC High-Tech Investment Co., Ltd. and The State Development and Investment Corporation are deemed to be interested in the 393,680,000 shares of the Company which China Huada is interested in.
- (2) CEC holds 100% interest in CEC (BVI) and is deemed to be interested in the shares held by CEC (BVI).

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following corporations were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of subsidiary	Name of shareholder	Interest held (%)
Sang Fei	Shenzhen SED (<i>Note 1</i>)	25
Sang Fei	Shenzhen SED Industry Co., Ltd. (<i>Note 2</i>)	10

Notes:

- (1) Shenzhen SED is a company established under the laws of the PRC and is a subsidiary of CEC.
- (2) Shenzhen SED Industry Co., Ltd. is a company established under the laws of the PRC with its issued shares listed on the Shenzhen Stock Exchange. Shenzhen SED Industry Co., Ltd. is indirectly owned as to approximately 42.23% by CEC as at the Latest Practicable Date.

Save as disclosed above, there is no person known to the Directors or the chief executive of the Company who, as at the Latest Practicable Date, had, or was deemed to have, an interest or short position in the shares or the underlying shares of the Company, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or any option in respect of such capital.

4 LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

5 DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, any service contract with the Company or any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensations (other than statutory compensation)).

6 COMPETING INTEREST

Mr. Xiong Qunli, the Chairman of the Company and a non-executive Director, is the chairman of CEC.

Currently, CEC is engaging in, or having subsidiaries or associates which are engaging in, mobile handsets and integrated circuits related businesses which compete or are likely to compete, either directly or indirectly, with the business of the Group.

The abovementioned competing businesses are operated and managed by independent management and administration. The Board exercises independent judgment and is always acting for the interests of the Company and the Shareholders as a whole. Accordingly, the Group is capable of carrying on its business independently of, and at arm's length from, the competing businesses mentioned above.

Apart from the above, none of the Directors nor his associates is or was interested in any business, apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business.

7 MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this circular, and are or may be material:

- (i) the Share Transfer Agreement;
- (ii) the equity transfer agreement dated 20 June 2008 entered into between the Company and China Huada in relation to the acquisition of 64.75% equity interest in Huada Electronics by the Company for a consideration of HK\$984.20 million which was satisfied by the Company allotting and issuing 393,680,000 shares to China Huada;
- (iii) the equity transfer agreement dated 20 June 2008 entered into between the Company and Beijing Shoufa Xinan Data System Technology Company Limited (北京首發信安數據系統科技有限公司) ("Beijing Shoufa Xinan") in relation to the acquisition of 7.50% equity interest in Huada Electronics by the Company for a consideration of HK\$114 million which was satisfied by the Company allotting and issuing 45,600,000 shares to Beijing Shoufa Xinan;
- (iv) the equity transfer agreement dated 20 June 2008 entered into between the Company and Wang Qinsheng, Liu Weiping, Dong Haoran, Huang Guoyong, Sun Xiaonian, Cheng Jinge, Xiao Gang and Jiang Shiping (together, the "Other Vendors") in relation to the acquisition of 27.75% equity interest in Huada Electronics by the Company for an aggregate consideration of HK\$421.80 million which was satisfied by the Company allotting and issuing an aggregate of 168,720,000 shares to the Other Vendors;
- (v) a share transaction agreement dated 21 May 2008 entered into between Huada Electronics as transferor and Beijing Xu An Da Technology Co., Ltd. (北京訊安達科技有限公司) as transferee in relation to the disposal by Huada Electronics of its 71.26% equity interest in Beijing Huada Infosec Technology Co., Ltd. for a consideration of RMB5,000,000; and
- (vi) a share transaction agreement dated 1 September 2008 entered into between Huada Electronics as transferor and certain management members of Guangdong Huada Electronic Design Co., Ltd. ("Guangdong Huada") as transferees in relation to the disposal by Huada Electronics of its 80% equity interest in Guangdong Huada for a consideration of RMB1,900,000.

8 MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 30 June 2009, being the date to which the latest published audited consolidated financial statements of the Group were made up.

9 QUALIFICATIONS OF EXPERTS

The following are the qualifications of the professional advisers who have given opinions or advice contained in this circular:

Names	Qualifications
Altus	a licensed corporation for types 4,6 and 9 regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants

10 CONSENTS

Altus and PricewaterhouseCoopers have given and have not withdrawn their respective written consent to the issue of this circular with the inclusion of their reports and letters, as the case may be, and references to their names in the form and context in which they respectively appear.

None of Altus nor PricewaterhouseCoopers is beneficially interested in the share capital of any member of the Group and none of them has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

11 MISCELLANEOUS

- (i) The company secretary of the Company is Mr. Ng Kui Kwan. Mr. Ng is a member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants.
- (ii) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda. The principal place of business of the Company in Hong Kong is at Room 3503, 35th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.
- (iii) Tricor Abacus Limited, the Company's branch share registrar in Hong Kong, is at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (iv) The English text of this circular and the form of proxy shall prevail over the Chinese text.

12 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Linklaters, 10th Floor, Alexandra House, Chater Road, Hong Kong during normal business hours on any business day from the date of this circular up to and including 16 December 2009 and at the SGM:

- (a) the Share Transfer Agreement;
- (b) the memorandum of association and bye-laws of the Company;
- (c) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 16 to 17 of this circular;
- (d) the letter of advice from Altus to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 18 to 27 of this circular;
- (e) the consent letters from Altus and PricewaterhouseCoopers referred to in the paragraph headed “Consents” in this Appendix;
- (f) the accountant’s report of the Group from PricewaterhouseCoopers, the text of which is set out in Appendix I to this circular;
- (g) the accountant’s report of Huada Electronics Group from PricewaterhouseCoopers, the text of which is set out in Appendix II to this circular;
- (h) the report from PricewaterhouseCoopers on the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix III to this circular;
- (i) statement of adjustments relating to the accountant’s report of Huada Electronics Group from PricewaterhouseCoopers;
- (j) the material contracts referred to in the paragraph headed “Material Contracts” in this Appendix;
- (k) the circular dated 4 February 2009 of the Company relating to certain possible financial assistance and continuing connected transactions; and
- (l) this circular.

NOTICE OF THE SGM



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)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of the shareholders of China Electronics Corporation Holdings Company Limited (the “**Company**”) will be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Wednesday, 16 December 2009 at 11:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“**THAT** the share transfer agreement dated 9 November 2009 and entered into between the Company as vendor, P-Marshall Hong Kong Limited as purchaser and Shenzhen SED Electronics Group Co., Ltd. as guarantor in relation to the sale and purchase of one share of US\$1.00 in the share capital of Sang Fei (BVI) Company Limited (“**Sang Fei (BVI)**”), representing the entire issued share capital of Sang Fei (BVI), at a consideration of HK\$10 million (the “**Share Transfer Agreement**”, copy of which has been produced to this meeting marked “**A**” and signed by the chairman of this meeting for the purpose of identification), be and is hereby generally and unconditionally approved and any one director of the Company be and is hereby authorised to do all such further things and acts and execute all such further documents and take all such steps which he considers necessary, desirable or expedient to implement and/or give effect to any matters relating to or in connection with the Share Transfer Agreement and any of the transactions contemplated thereunder.”

By Order of the Board

China Electronics Corporation Holdings Company Limited

Ng Kui Kwan

Company Secretary

Hong Kong, 27 November 2009

* *For identification purpose only*

NOTICE OF THE SGM

Registered office:

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

Principal place of business

in Hong Kong:
Room 3503, 35th Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Notes:

1. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the meeting. A proxy need not be a shareholder of the Company but must be present in person at the meeting to represent the shareholder. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and returned together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a shareholder from attending in person and voting at the meeting or any adjournment thereof, should he so wish.
3. In the case of joint holders of any shares, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such shares as if he were solely entitled thereto, but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
4. In accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, voting on the above ordinary resolution will be taken by poll.