



# China Electronics Corporation Holdings Company Limited

中國電子集團控股有限公司

(Stock Code : 00085)

*Interim Report 2008*

## Corporate Information

### Board of Directors

#### *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

### Audit Committee

Chan Kay Cheung (*Chairman*)

Wong Po Yan

Yin Yongli

### Remuneration Committee

Wong Po Yan (*Chairman*)

Chan Kay Cheung

Yin Yongli

Fan Qingwu

### Company Secretary and Qualified Accountant

Yam Pui Hung Robert

### Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

### Principal Office in Hong Kong

Room 3503, 35th Floor

China Resources Building

26 Harbour Road

Wanchai

Hong Kong

### Principal Bankers

Bank of China (HK) Limited

The Hongkong and Shanghai

Banking Corporation Limited

The Bank of East Asia, Limited

### Investor Relations

Telephone: (852) 2598 9088

Facsimile: (852) 2598 9018

Website: [www.cecholding.com](http://www.cecholding.com)

Email: [corp@cecholdings.com.hk](mailto:corp@cecholdings.com.hk)

### Stock Code

00085

### Principal Share Registrar

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke HM 08

Bermuda

### Hong Kong Branch Share Registrar and Transfer Office

Tricor Abacus Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Hong Kong

### Auditors

PricewaterhouseCoopers

### Legal Advisors

*As to Hong Kong Law*

Linklaters

*As to Bermuda Law*

Conyers Dill & Pearman

The board of directors (the "Board") of China Electronics Corporation Holdings Company Limited (the "Company") is pleased to present the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2008. The interim financial report is unaudited but has been reviewed by PricewaterhouseCoopers 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 Hong Kong Institute of Certified Public Accountants.

## BUSINESS REVIEW

The first half of 2008 continued to be a difficult period for mobile handset players. Faced with the increasing domestic inflation and rising labour cost, the operating environment was particularly tough in the PRC market, and the competition was even more intense in emerging markets and other parts of the world. In late 2007, the Group took over the management of *Philips* mobile handset business and migrated from an OEM/ODM supplier that simply delivered products to its business partners, to a brand operator whereby extending its footprint to the global consumer electronics market and emerging as one of the world's leading mobile handset industry players. Since then, the Group underwent a series of business reengineering to redefine and streamline its PRC and overseas sales network, and to re-establish the *Philips* distribution channel recognition as well as to recover the market share of the business. The overall progress of the business reform was however slower than expected. During the period, sales order from distributors were substantially deferred and reduced which adversely affected the sales performance during the period. In addition, due to certain delay in product roll-out, new products were mostly launched in late second quarter and the result was not fully reflected.

Under these challenges, the performance of the Group in the first half of 2008 was unsatisfactory. Hampered by the business reengineering during the period, sales of *Philips* mobile handsets dropped by 53% to 807,000 units. Moreover, in order to make optimal use of its resources, the Group streamlined its brand portfolio and put more emphasis on the *Philips* mobile handset business. Sales of own-branded mobile handsets were primarily focused on the clearance of old models or end-of life products. As a result, sales of own-branded mobile handsets during the period dropped by 33% to 118,000 units. Despite the reduction in sales volume, the new business model after taking over the management of *Philips* mobile handset business offered a substantial improvement on the product margin which partially offset the impact of decline in business. The overall sales revenue of *Philips* and own-branded mobile handsets during the period was HK\$518.4 million, representing a decrease of 42% from 2007.

The portable multimedia player business continued to give satisfactory performance. During the period, the Group sold 1.1 million units of portable multimedia players and recorded revenue of HK\$278.4 million, which were in line with the corresponding period of last year. Besides, the Group has also been making progressive development in other ODM and EMS businesses. During the period under review, the business recorded sales revenue of HK\$240.5 million, representing an increase of 55% over 2007.

The overall sales revenue during the period was HK\$1,037.3 million, representing a decrease of 21% as compared to the same period of last year. The Group's gross profit for the period reduced from HK\$167.9 million in 2007 to HK\$155.8 million in 2008.

During the period under review, the Group incurred selling and marketing costs of HK\$123.7 million and administrative expenses of HK\$133.2 million, representing an increase of 1.6 times and 23% respectively over the same period of last year. The increase in these operating expenses reflected the additional resources invested in the *Philips* mobile handset operation. During the second half of 2007, the Group set up new functional units to handle the additional sales and marketing activities for the new business. In addition, to pave way for its global sales operation, the Group established two subsidiaries in Russia and Turkey in the second quarter of this year to strengthen its business operation in Europe. The Group also operates a sales coordination centre in Singapore to manage its sales activities in Asia and other overseas countries. The establishment of these offices improved the Group's overall operation efficiency and set a promising foundation for future business growth.

The Group incurred a net loss attributable to shareholders of HK\$60.6 million during the period (2007: net profit of HK\$17 million), and basic loss per share was HK cents 5.59 (2007: earnings per share of HK cents 1.57). The Board resolved not to pay any interim dividend for the six months ended 30 June 2008 (2007: Nil).

## OUTLOOK

Looking ahead, the competition will continue to be fierce in the PRC and overseas arena. The management is keen on minimising the risk arising from its single core operation through progressive business diversification, and is optimistic to the Group's overall performance for 2008. In terms of the mobile handset product roadmap, the Group has scheduled to launch 11 models in the second half of the year, most of which will be mid-to-high end products. The Group will focus on product quality so as to enhance brand recognition and regain the growth momentum. In addition, the gradual rollout of the 3G projects in China as well as the ongoing growth of the emerging global markets gives new opportunities in favour of the Group's development. The Group will continue to implement proactive but prudent strategies in its mobile handset business with enhanced efforts towards rationalising its business model, streamlining its organisation structure and improving the overall operational efficiency, with an aim to materialise the synergies in the business reorganisation and capitalise the growth of the global telecommunication industry in the coming future.

During the period, the Group took one significant step towards the diversification of its business. In June 2008, the Company entered into the acquisition agreements to acquire all the equity interest in CEC Huada Electronic Design Co., Ltd. ("Huada Electronics"). Huada Electronics is a leading company in the design and sale of integrated circuits and the research and development of electronic design automation tools. The technologies and products of Huada Electronics have been widely applied in the areas of telecommunications, social security, electronic payments and consumer electronics. The acquisition provides the Group with a valuable opportunity to enter into the integrated circuits chips design market, which is a high-tech area with better profit margin, and enables the Group to offer products for a wider range of applications such as telecommunications, home network, consumer electronics in the future. 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 Group intends to leverage off Huada Electronics' expertise in the integrated circuits industry to enhance its capability in the consumer electronics and communications products sector. Through the acquisition of Huada Electronics, the Group intends to transform itself from a manufacturer of mobile handsets and other portable electronic products to an active player in the industry possessing comprehensive capability in the upstream of the industry value chain. The acquisition is expected to be completed by the fourth quarter of 2008.

The global information technology industry tends to focus on the advancement and development of their core technologies and businesses. The Group will seize this opportunity to continue the business development in its existing mobile handset operations and at the same time to advance its core technology from low end to mid-to-high end stream and to promote its core business to the upstream of the industry value chain. The ultimate objective is to bring the best return to our shareholders.

## FINANCIAL REVIEW

The Group generally finances its operation by internal resources and short term bank facilities. The Group had cash and bank balances of HK\$426.3 million as at 30 June 2008 (31 December 2007: HK\$391.7 million), which were primarily denominated in Hong Kong dollars, Renminbi and United States dollars.

As at 30 June 2008, the Group had unsecured short term bank borrowings of HK\$664.2 million (31 December 2007: HK\$394.1 million), which were all denominated in Renminbi and were borrowed at contracted fixed interest rate. The Group had undrawn borrowing facilities of approximately HK\$226.9 million. As at 30 June 2008, the Group did not have any pledged assets or guarantee.

The Group's export sales are predominantly invoiced in Euro and United States dollars and its domestic sales are invoiced in Renminbi. The Group imports some of its raw materials and production and testing equipment from overseas suppliers which are paid in United States dollars, Japanese Yen and Euro. The Group will make use of hedging contracts, when appropriate, to leverage the risk of foreign exchange fluctuation arising from its operation.

As at 30 June 2008, the Group had net current assets of HK\$391.4 million (31 December 2007: HK\$497 million). The overall gearing ratio, which is calculated as the total liabilities over total assets of the Group, was 74% (31 December 2007: 67%).

As at 30 June 2008, the Group had contracted but not provided for capital commitments of HK\$19.7 million (31 December 2007: HK\$2.5 million) for the acquisition of fixed assets and intangible assets. The Group did not have any material contingent liabilities outstanding as at 30 June 2008.

## EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2008, the Group had approximately 1,500 employees (2007: 1,560 employees), who were primarily based in China, Singapore, Russia and Turkey. Personnel expenses during the period were HK\$108.4 million (2007: HK\$75.5 million).

The Group recognises the importance of high calibre and competent staff and has a strict recruitment policy and performance appraisal scheme. Remuneration packages are largely in line with industry practices, and are formulated on the basis of performance and experience and will be reviewed regularly. Bonus and other merit payments are linked with the performance of the Group and of the individuals as incentive to optimise performance. The Company has in place a share option scheme, pursuant to which share options may be granted to selected personnel of the Group, with a view to encouraging employees to work towards enhancing the value of the Group.

## CONNECTED TRANSACTIONS

On 9 April 2008, the Group's principal operating subsidiary, Shenzhen Sang Fei Consumer Communications Company Limited ("Sang Fei") entered into a tenancy agreement ("Sang Da Tenancy Agreement") with Shenzhen SED Industry Co., Ltd. ("Sang Da"). Pursuant to the Sang Da Tenancy Agreement, Sang Da agreed to lease to Sang Fei the premises which is situated in Shenzhen, PRC. Sang Fei will use the premises as its offices, factory and warehouse.

The aggregate rentals, management fees, air-conditioning fees and utilities surcharges payable by Sang Fei to Sang Da under the Sang Da Tenancy Agreement for the nine months ending 31 December 2008, each of the two financial years ending 31 December 2009 and 2010 and the four months ending 30 April 2011 are expected not to exceed the respective total amounts as set out in the following table:

|                       | <b>For the<br/>months ending<br/>31 December<br/>2008<br/>(RMB'000)</b> | <b>For the<br/>year ending<br/>31 December<br/>2009<br/>(RMB'000)</b> | <b>For the<br/>year ending<br/>31 December<br/>2010<br/>(RMB'000)</b> | <b>For the<br/>four months<br/>ending 30 April<br/>2011<br/>(RMB'000)</b> |
|-----------------------|---|---|---|---|
| Rentals               | 4,459   | 6,272   | 6,272   | 1,814   |
| Management fees       | 632   | 883   | 883   | 251   |
| Air-conditioning fees | 108   | 162   | 162   | 54  |
| Utilities surcharges  | 100   | 160   | 190   | 76  |
|                       | <hr/>   | <hr/>   | <hr/>   | <hr/>   |
| Total:                | 5,299   | 7,477   | 7,507   | 2,195   |
|                       | <hr/>   | <hr/>   | <hr/>   | <hr/>   |

Based on the aggregate rentals, management fees, air-conditioning fees and utilities surcharges payable by Sang Fei to Sang Da under the Sang Da Tenancy Agreement, the annual caps for the transactions contemplated under the Sang Da Tenancy Agreement for the nine months ending 31 December 2008, each of the two financial years ending 31 December 2009 and 2010 and the four months ending 30 April 2011 are therefore set at RMB5,299,000, RMB7,477,000, RMB7,507,000 and RMB2,195,000, respectively.

Sang Da is a substantial shareholder of Sang Fei holding 10% of its equity interest. Sang Da is indirectly owned as to approximately 42.23% by China Electronics Corporation ("CEC") as at the latest practicable date prior to the printing of this report. CEC is the Company's ultimate controlling shareholder, holding 74.98% interest in the Company. As such, Sang Da is a connected person of the Company as well as an associate of CEC. Accordingly, the transactions contemplated under the Sang Da Tenancy Agreement constitute continuing connected transactions of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and are subject to the reporting and announcement requirements. Details of the Sang Da Tenancy Agreement were included in the announcement of the Company dated 9 April 2008.

On 20 June 2008, the Company entered into an acquisition agreement (the “China Huada Agreement”) with China Huada Integrated Circuit Design (Group) Co., Ltd. (“China Huada”). Pursuant to the China Huada Agreement, the Company agreed to purchase a 64.75% equity interest in Huada Electronics at a consideration of HK\$984.2 million (the “China Huada Acquisition”). On the same day, the Company also entered into acquisition agreements with Beijing Shoufa Xinan Data System Technology Company Limited and with eight individuals respectively to acquire all the remaining 35.25% equity interest in Huada Electronics at an aggregate consideration of HK\$535.8 million. The aggregate consideration payable by the Company for the acquisition of Huada Electronics of HK\$1,520 million shall be satisfied by the Company allotting and issuing an aggregate of 608,000,000 shares of the Company (“Consideration Share”), credited as fully paid, at an issue price of HK\$2.50 per Consideration Share.

The acquisition of all the equity interest in Huada Electronics constituted a major transaction of the Company. Moreover, as China Huada is owned as to 50% by CEC, China Huada is a connected person of the Company and the entering into of the China Huada Agreement constituted a connected transaction of the Company. The acquisition was approved by the independent shareholders of the Company on 21 July 2008 and is expected to be completed by the fourth quarter of 2008.

Huada Electronics has on-going transactions with CEC and its subsidiaries (“CEC Group”) in its ordinary and usual course of business. These transactions will, after completion of the China Huada Acquisition, become continuing connected transactions of the Company. In this regard, Huada Electronics and CEC entered into certain continuing connected transactions agreements to regulate the continuing connected transactions between Huada Electronics and the CEC Group.

### **(1) Huada Business Services Agreement**

On 20 June 2008, Huada Electronics entered into a business services agreement (the “Huada Business Services Agreement”) with CEC which covers (i) the provision of products processing, testing and assembling services by the CEC Group and the purchase of raw materials and modules from the CEC Group; (ii) the sales of integrated circuit cards and smart cards modules, chips and electronic design automation (“EDA”) tools to the CEC Group; and (iii) the provision of canteen services by the CEC Group to Huada Electronics. The Huada Business Services Agreement takes effect from the date of completion of the China Huada Acquisition and will be valid until 31 December 2010.

It is expected that for the period commencing from the completion of the China Huada Acquisition until 31 December 2008 and the two financial years ending 31 December 2009 and 2010, the amount of consideration payable by Huada Electronics to the CEC Group for the provision of processing, testing and assembling services by the CEC Group and the purchase of raw materials and modules from the CEC Group, the amount of consideration receivable by Huada Electronics from the CEC Group for the sales of products and the amount of consideration payable by Huada Electronics to the CEC Group for the provision of canteen services will not exceed the amounts set out in the following table. Accordingly, these amounts were set as the annual caps for the relevant continuing connected transactions.

| Type of transaction  | For the period<br>commencing from the<br>completion of the<br>China Huada |  |  |
|--|---|--|--|
|  | Acquisition until<br>31 December 2008<br>(RMB'000)                        | For the year ending<br>31 December 2009<br>(RMB'000) | For the year ending<br>31 December 2010<br>(RMB'000) |
| Processing, testing and<br>assembling services and<br>purchase of raw materials<br>and modules |   |  |  |
| – Annual service charges<br>payable by Huada   |   |  |  |
| Electronics  | 284,640   | 293,310  | 421,140  |
| Canteen services   |   |  |  |
| – Annual service charges<br>payable by Huada   |   |  |  |
| Electronics  | 550   | 1,120  | 1,160  |
| Total annual service charges<br>payable by Huada   |   |  |  |
| Electronics  | 285,190   | 294,430  | 422,300  |
| Sales of products  |   |  |  |
| – Annual charges receivable by<br>Huada Electronics  | 19,620  | 36,000   | 43,200   |

## (2) Huada Deposit Services Agreement

Huada Electronics and China Electronics Corporation Finance Co., Ltd. ("CEC Finance") entered into a deposit services agreement (the "Huada Deposit Services Agreement") on 20 June 2008. CEC Finance is a subsidiary of CEC and therefore a connected person of the Company. CEC Finance is a non-bank financial institution approved and regulated by the People's Bank of China and China Banking Regulatory Commission. CEC Finance was established for the purpose of enhancing the centralised management of funds among members of the CEC Group and for improving the fund utilisation efficiency of the CEC Group as a whole. As an intra-group service provider, CEC Finance generally has a better and more efficient communication with Huada Electronics which will allow expedient and efficient service provision by CEC Finance.



The Huada Deposit Services Agreement does not create any obligation on the part of Huada Electronics to utilise any particular services of CEC Finance. Other than the fixed deposits which have specified deposit terms, Huada Electronics may at any time withdraw the funds deposited with CEC Finance without incurring any penalty. CEC Finance is one of the financial institutions which provide deposit services to Huada Electronics. Huada Electronics may obtain deposit services available from any other financial institutions in addition to or instead of CEC Finance, as it sees fit.

The interest rates for deposit shall be the standard rates promulgated by the People's Bank of China for the same type of deposits. Such interest rates will not be less than the rates offered to Huada Electronics by normal commercial banks in the PRC for comparable deposits. The Huada Deposit Services Agreement takes effect from the date of completion of the China Huada Acquisition and will be valid until 31 December 2010. Upon expiry of the initial term of the Huada Deposit Services Agreement, the agreement may be renewed for further terms of three years automatically unless either party objects by giving a written notice at least one month prior to the expiry of the Huada Deposit Services Agreement.

The Company proposed that for the period commencing from the completion of the China Huada Acquisition until 31 December 2010, the maximum balance of deposits (including the interests accrued thereon) maintained by Huada Electronics with CEC Finance shall not exceed RMB10 million on any given day. In determining the above proposed cap, the Company has taken into account the cashflow position of Huada Electronics and the treasury policy of the Group.

### **(3) Huada Tenancy Agreement**

On 20 June 2008, Huada Electronics and Beijing Huada Zhibao Electronic System Co., Ltd. ("Beijing Huada Zhibao") entered into a tenancy agreement ("Huada Tenancy Agreement") pursuant to which Beijing Huada Zhibao agreed to lease to Huada Electronics the premises which is situated in Gaojiayuan, Beijing, PRC as its research and development centre and general offices. Beijing Huada Zhibao is a subsidiary of CEC and therefore a connected person of the Company. The lease term was for one year commencing from 1 July 2008 and expiring on 30 June 2009 (both days inclusive). Huada Electronics has the right to request for the renewal of the Huada Tenancy Agreement by giving a written notice to Beijing Huada Zhibao three months prior to the expiry of the Huada Tenancy Agreement. Huada Electronics shall have priority over the others to lease the premises.

The aggregate rentals payable by Huada Electronics to Beijing Huada Zhibao under the Huada Tenancy Agreement for the period commencing from the completion of the China Huada Acquisition until 31 December 2008 and for the six months ending 30 June 2009 will not exceed RMB960,000 and RMB1,041,272, respectively. The annual caps for the transactions contemplated under the Huada Tenancy Agreement for the period commencing from the completion of the China Huada Acquisition until 31 December 2008 and for the six months ending 30 June 2009 were therefore set at such amounts accordingly.

The above continuing connected transactions were approved by the independent shareholders of the Company on 21 July 2008. Details of the acquisition by the Company of the entire equity interests of Huada Electronics and the continuing connected transactions were included in the circular of the Company dated 30 June 2008.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Certain directors of the Company personally hold options to subscribe for ordinary shares of the Company. Details of such options are disclosed under the paragraph "Share Option Scheme" below. Apart from those disclosed therein, as at 30 June 2008, none of the directors, the chief executive of the Company nor their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) that were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

### SHARE OPTION SCHEME

During the six months ended 30 June 2008, no share option has been granted under the share option scheme adopted by the Company pursuant to an ordinary resolution passed on 20 June 2002 (the "Share Option Scheme").

As at 30 June 2008, the directors and the chief executive of the Company and employees of the Group had the following personal interests in options to subscribe for shares of the Company granted under the Share Option Scheme:

| <b>Name</b>                                   | <b>Options outstanding at<br/>1.1.2008<br/>and at 30.6.2008</b> |
|---|---|
| Tong Baoan                                    | 3,800,000   |
| Fan Qingwu                                    | 3,600,000   |
| Hua Longxing                                  | <u>3,600,000</u>  |
| Subtotal                                      | 11,000,000  |
| Aggregate of employees and other participants | <u>9,950,000</u>  |
| Total   | <u>20,950,000</u>   |

The options were all granted on 25 October 2005 under the Share Option Scheme. The options represent personal interest held by the grantees as beneficial owners. Grantees of such options are entitled to exercise the options at a price of HK\$1.488 per share in the following periods:

- (i) in respect of 40% of the options granted, from 1 November 2005 to 31 October 2008;
- (ii) in respect of a further 30% of the options granted, from 1 November 2006 to 31 October 2009; and
- (iii) in respect of the remaining 30% of the options granted, from 1 November 2007 to 31 October 2010.

No options granted under the Share Option Scheme were exercised, lapsed or cancelled during the six months ended 30 June 2008.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the six months ended 30 June 2008 was the Company, its holding company or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors of the Company or their respective associates (as defined under the Listing Rules) to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of their relevant interests in the issued capital of the Company.

| Name of shareholder  | Number of shares held | Percentage of shareholding |
|--|-----------------------|----------------------------|
| China Electronics Corporation (BVI) Holdings Company Limited ("CEC BVI") | 812,500,000           | 74.98%                     |
| China Huada  | 393,680,000           | 36.33%                     |
| CEC (Notes 1 and 2)  | 1,206,180,000         | 111.32%                    |
| SDIC High-Tech Investment Co., Ltd. (Note 2)                             | 393,680,000           | 36.33%                     |
| The State Development and Investment Corporation (Note 2)                | 393,680,000           | 36.33%                     |
| Devon Fortune Limited ("Devon Fortune")                                  | 71,129,358            | 6.56%                      |
| Chan Chak Shing ("Mr. Chan")   | 75,254,358 (Note 3)   | 6.95%                      |
| Wang Qisheng   | 55,733,840 (Note 4)   | 5.14%                      |

### Notes:

- (1) CEC holds 100% interest in CEC (BVI) and is deemed to be interested in the shares held by CEC (BVI).
- (2) On 20 June 2008, the Company entered into an acquisition agreement with China Huada in relation to the acquisition of 64.75% equity interest in Huada Electronics for a consideration of HK\$984.2 million which shall be satisfied by the Company allotting and issuing 393,680,000 Consideration Shares at an issue price of HK\$2.50 per Consideration Share.

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 (to be allotted and issued upon completion of the acquisition) which China Huada is interested in.

- (3) These 75,254,358 shares represent the aggregate of: (i) the family interest of Mr. Chan of 4,125,000 shares and (ii) the corporate interest of 71,129,358 shares held by Devon Fortune. As Mr. Chan holds 100% interest in Devon Fortune, Mr. Chan is deemed to be interested in the shares held by Devon Fortune.

- (4) On 20 June 2008, the Company entered into an acquisition agreement with, among others, Ms. Wang Qinsheng, pursuant to which the Company agreed to purchase from Ms. Wang Qinsheng a 9.1668% equity interest in Huada Electronics for a consideration of HK\$139,334,600 which shall be satisfied by the Company allotting and issuing 55,733,840 Consideration Shares at an issue price of HK\$2.50 per Consideration Share.

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

Save as disclosed above, as at 30 June 2008, no person or corporation had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the six months ended 30 June 2008, the Company has not redeemed any of its shares. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the directors of the Company, the Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2008.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry with the directors of the Company, all the directors confirmed that they had complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2008.

## **AUDIT COMMITTEE**

The audit committee of the Company comprises Messrs. Chan Kay Cheung, Wong Po Yan and Yin Yongli, being all independent non-executive directors of the Company. The Company's audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters. The audit committee has reviewed the unaudited interim results for the six months ended 30 June 2008 and has recommended their adoption by the Board.

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET**

AS AT 30 JUNE 2008

|  | Note | <b>30 June<br/>2008<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2007<br>(Audited)<br>HK\$'000 |
|--|------|--|--|
| <b>ASSETS</b>  |      |  |  |
| <b>Non-current assets</b>  |      |  |  |
| Property, plant and equipment  | 5    | <b>52,289</b>  | 41,047                                       |
| Intangible assets  | 5    | <b>14,799</b>  | 16,144                                       |
| Deferred income tax assets   |      | <b>69,971</b>  | 46,691                                       |
| <b>Total non-current assets</b>  |      | <b>137,059</b>                                       | 103,882                                      |
| <b>Current assets</b>  |      |  |  |
| Inventories  | 6    | <b>510,139</b>                                       | 444,189                                      |
| Trade and other receivables  | 7    | <b>996,458</b>                                       | 877,150                                      |
| Cash and cash equivalents  | 8    | <b>426,258</b>                                       | 391,741                                      |
| <b>Total current assets</b>  |      | <b>1,932,855</b>                                     | 1,713,080                                    |
| <b>Total assets</b>  |      | <b>2,069,914</b>                                     | 1,816,962                                    |
| <b>EQUITY</b>  |      |  |  |
| <b>Capital and reserves attributable to the Company's equity holders</b> |      |  |  |
| Issued equity  | 9    | <b>370,074</b>                                       | 370,074                                      |
| Other reserves   | 10   | <b>85,786</b>  | 71,807                                       |
| (Accumulated loss)/retained earnings                                     |      | <b>(30,716)</b>                                      | 29,889                                       |
|  |      | <b>425,144</b>                                       | 471,770                                      |
| <b>Minority interests</b>  |      | <b>103,346</b>                                       | 129,066                                      |
| <b>Total equity</b>  |      | <b>528,490</b>                                       | 600,836                                      |
| <b>LIABILITIES</b>   |      |  |  |
| <b>Current liabilities</b>   |      |  |  |
| Trade and other payables   | 11   | <b>805,117</b>                                       | 741,030                                      |
| Current income tax liabilities   |      | <b>-</b>   | 3,725  |
| Short term bank loans  | 12   | <b>664,212</b>                                       | 394,111                                      |
| Provision for warranty   | 13   | <b>72,095</b>  | 77,260                                       |
| <b>Total liabilities</b>   |      | <b>1,541,424</b>                                     | 1,216,126                                    |
| <b>Total equity and liabilities</b>                                      |      | <b>2,069,914</b>                                     | 1,816,962                                    |
| <b>Net current assets</b>  |      | <b>391,431</b>                                       | 496,954                                      |
| <b>Total assets less current liabilities</b>                             |      | <b>528,490</b>                                       | 600,836                                      |

The notes on pages 15 to 34 form an integral part of this condensed interim financial information.

**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2008

|   |      | Unaudited<br>Six months ended 30 June |             |
|---|------|---------------------------------------|-------------|
|   |      | 2008                                  | 2007        |
|   |      | HK\$'000                              | HK\$'000    |
|   | Note |                                       |             |
| Sales   | 4    | <b>1,037,337</b>                      | 1,313,382   |
| Cost of goods sold  | 15   | <b>(881,570)</b>                      | (1,145,520) |
| <b>Gross profit</b>   |      | <b>155,767</b>                        | 167,862     |
| Other gain – net  | 14   | <b>84</b>                             | 7,000       |
| Selling and marketing costs   | 15   | <b>(123,740)</b>                      | (46,771)    |
| Administrative expenses   | 15   | <b>(133,196)</b>                      | (108,637)   |
| <b>Operating (loss)/profit</b>  |      | <b>(101,085)</b>                      | 19,454      |
| Finance income  |      | <b>4,299</b>                          | 5,633       |
| Finance costs   |      | <b>(16,506)</b>                       | (2,013)     |
| Finance (costs)/income – net  | 16   | <b>(12,207)</b>                       | 3,620       |
| <b>(Loss)/profit before income tax</b>  |      | <b>(113,292)</b>                      | 23,074      |
| Income tax credit   | 17   | <b>19,761</b>                         | 4,180       |
| <b>(Loss)/profit for the period</b>   |      | <b>(93,531)</b>                       | 27,254      |
| <b>Attributable to:</b>   |      |                                       |             |
| – Equity holders of the Company   |      | <b>(60,605)</b>                       | 16,988      |
| – Minority interests  |      | <b>(32,926)</b>                       | 10,266      |
|   |      | <b>(93,531)</b>                       | 27,254      |
| <b>(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the six months ended 30 June</b><br>(expressed in HK cents per share) |      |                                       |             |
| – Basic   | 18   | <b>(5.59)</b>                         | 1.57        |
| – Diluted   | 18   | <b>(5.59)</b>                         | 1.57        |
| <b>Dividends</b>  | 19   | <b>N/A</b>                            | N/A         |

The notes on pages 15 to 34 form an integral part of this condensed interim financial information.

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED 30 JUNE 2008

|      |   | Unaudited                                     |               |                 |                |                |                |
|------|---|---|---------------|-----------------|----------------|----------------|----------------|
|      |   | Attributable to equity holders of the Company |               |                 |                |                |                |
|      |   | (Accumulated<br>loss)/                        |               |                 |                |                |                |
|      |   | Issued  | Other         | retained        |                |                | Total          |
|      |   | equity  | reserves      | earnings        | Total          | Minority       | equity         |
| Note |   | HK\$'000                                      | HK\$'000      | HK\$'000        | HK\$'000       | HK\$'000       | HK\$'000       |
|      | <b>Balance at 1 January 2007</b>                    | 370,074                                       | 55,137        | 39,152          | 464,363        | 138,775        | 603,138        |
| 19   | Dividends relating to 2006                          | –   | –             | (17,337)        | (17,337)       | –              | (17,337)       |
|      | Dividends paid by a subsidiary                      | –   | –             | –               | –              | (21,747)       | (21,747)       |
| 10   | Share option granted                                | –   | 868           | –               | 868            | –              | 868            |
|      | Currency translation differences                    | –   | (1,212)       | –               | (1,212)        | (652)          | (1,864)        |
|      | Profit for the period                               | –   | –             | 16,988          | 16,988         | 10,266         | 27,254         |
|      | <b>Balance at 30 June 2007</b>                      | <u>370,074</u>                                | <u>54,793</u> | <u>38,803</u>   | <u>463,670</u> | <u>126,642</u> | <u>590,312</u> |
|      | <b>Balance at 1 January 2008</b>                    | 370,074                                       | 71,807        | 29,889          | 471,770        | 129,066        | 600,836        |
|      | Equity paid by a subsidiary's<br>minority interests | –   | –             | –               | –              | 59             | 59             |
|      | Currency translation differences                    | –   | 13,979        | –               | 13,979         | 7,147          | 21,126         |
|      | Loss for the period                                 | –   | –             | (60,605)        | (60,605)       | (32,926)       | (93,531)       |
|      | <b>Balance at 30 June 2008</b>                      | <u>370,074</u>                                | <u>85,786</u> | <u>(30,716)</u> | <u>425,144</u> | <u>103,346</u> | <u>528,490</u> |

The notes on pages 15 to 34 form an integral part of this condensed interim financial information.

**CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2008

|   | Unaudited<br>Six months ended 30 June |                         |
|---|---------------------------------------|-------------------------|
|   | 2008<br><i>HK\$'000</i>               | 2007<br><i>HK\$'000</i> |
| Net cash used in operating activities                       | <b>(214,760)</b>                      | (104,849)               |
| Net cash used in investing activities                       | <b>(20,883)</b>                       | (2,595)                 |
| Net cash generated from financing activities                | <b>270,160</b>                        | 80,263                  |
| <b>Net increase/(decrease) in cash and cash equivalents</b> | <b>34,517</b>                         | (27,181)                |
| Cash and cash equivalents at 1 January                      | <b>391,741</b>                        | 419,809                 |
| <b>Cash and cash equivalents at 30 June</b>                 | <b>426,258</b>                        | 392,628                 |
| <b>Analysis of balances of cash and cash equivalents:</b>   |                                       |                         |
| Cash at bank and in hand                                    | <b>426,258</b>                        | 392,628                 |

The notes on pages 15 to 34 form an integral part of this condensed interim financial information.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2008

### 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 principal activities of the Company and its subsidiaries (collectively the "Group") comprise the manufacturing and sales of mobile handsets and other portable electronics products.

The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The condensed consolidated interim financial information has been approved for issue by the Board of Directors on 26 September 2008.

### 2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

### 3 Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in the 2007 annual report of the Company.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008:

- HK(IFRIC) – Int 11, 'HKFRS 2 – Group and treasury share transactions'. This standard does not have any impact on the Group's financial statements.
- HK(IFRIC) – Int 12, 'Service concession arrangements'. This standard is not currently relevant for the Group.
- HK(IFRIC) – Int 14, 'HKAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction'. This standard is not relevant for the Group.

### 3 Accounting policies *(continued)*

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- HKFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, 'Segment reporting', and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.
- HKAS 23 (revised), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (revised) from 1 January 2009 but is not expected to have material impact on the Group's consolidated financial statements.
- HKFRS 2 (amendment) 'Share-based payment vesting conditions and cancellations', effective for annual periods beginning on or after 1 January 2009. The amendment clarifies the definition of 'vesting conditions' and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All 'non-vesting conditions' and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 Amendment from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.
- HKFRS 3 (revised), 'Business combinations' and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates' and HKAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group. The Group does not have any joint ventures.
- HKAS 1 (revised), 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. The directors of the Group are assessing the impact and believe that the impact on the Group's consolidated financial statements is not significant.
- HKAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to HKAS 1, 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group as the Group, does not have any puttable instruments.
- HK(IFRIC) – Int 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008. HK(IFRIC) – Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

#### 4. Segment information

##### (a) Primary reporting format – business segment (Unaudited)

The Group is principally engaged in manufacturing and sales of portable electronics products.

|                                 | <i>"Philips" mobile products</i> |          | Own branded and other mobile handsets |          | Multi-media player |          | Total            |           |
|---------------------------------|----------------------------------|----------|---------------------------------------|----------|--------------------|----------|------------------|-----------|
|                                 | Six months ended                 |          | Six months ended                      |          | Six months ended   |          | Six months ended |           |
|                                 | 30 June                          |          | 30 June                               |          | 30 June            |          | 30 June          |           |
|                                 | 2008                             | 2007     | 2008                                  | 2007     | 2008               | 2007     | 2008             | 2007      |
|                                 | HK\$'000                         | HK\$'000 | HK\$'000                              | HK\$'000 | HK\$'000           | HK\$'000 | HK\$'000         | HK\$'000  |
| Turnover                        | 502,250                          | 808,032  | 256,731                               | 240,066  | 278,356            | 265,284  | 1,037,337        | 1,313,382 |
| Segment results                 | (41,852)                         | 54,579   | (4,717)                               | 9,939    | 21,970             | 23,111   | (24,599)         | 87,629    |
| Other gains – net               |                                  |          |                                       |          |                    |          | 84               | 7,000     |
| Unallocated costs               |                                  |          |                                       |          |                    |          | (76,570)         | (75,175)  |
| Operating (loss)/profit         |                                  |          |                                       |          |                    |          | (101,085)        | 19,454    |
| Finance (costs)/income – net    |                                  |          |                                       |          |                    |          | (12,207)         | 3,620     |
| (Loss)/profit before income tax |                                  |          |                                       |          |                    |          | (113,292)        | 23,074    |
| Income tax credit               |                                  |          |                                       |          |                    |          | 19,761           | 4,180     |
| (Loss)/profit for the period    |                                  |          |                                       |          |                    |          | (93,531)         | 27,254    |

Unallocated costs consist primarily of selling and marketing costs and administrative expenses, which contribute to all business segments.

#### 4 Segment information (continued)

##### (b) Secondary reporting format – geographical segment (Unaudited)

The Group's three business segments operate in the following geographical areas which are allocated based on the places in which customers are located.

|   | Six months ended 30 June |                  |
|---|--------------------------|------------------|
|   | 2008<br>HK\$'000         | 2007<br>HK\$'000 |
| <b>Sales</b>                                  |                          |                  |
| Mainland China                                | 356,916                  | 547,378          |
| Hong Kong                                     | 471,842                  | 435,849          |
| Europe  | 126,958                  | 141,326          |
| Asia (excluding Mainland China and Hong Kong) | 38,126                   | 188,829          |
| North America                                 | 43,455                   | –                |
| Others  | 40                       | –                |
|   | <b>1,037,337</b>         | <b>1,313,382</b> |

#### 5 Capital expenditures

|  | Intangible<br>assets<br>(Unaudited)<br>HK\$'000 | Property,<br>plant and<br>equipment<br>(Unaudited)<br>HK\$'000 | Total<br>(Unaudited)<br>HK\$'000 |
|--|---|--|----------------------------------|
| Opening net book amount as at 1 January 2007 | 16,251  | 61,685   | 77,936                           |
| Additions                                    | 1,269   | 7,230  | 8,499                            |
| Disposals                                    | –   | (60)   | (60)                             |
| Depreciation/amortisation charge             | (2,611)   | (22,318)   | (24,929)                         |
|  | 14,909  | 46,537   | 61,446                           |
| Closing net book amount as at 30 June 2007   |   |  |                                  |
| Opening net book amount as at 1 January 2008 | 16,144  | 41,047   | 57,191                           |
| Exchange differences                         | 916   | 2,055  | 2,971                            |
| Additions                                    | 831   | 24,590   | 25,421                           |
| Disposals                                    | –   | (239)  | (239)                            |
| Depreciation/amortisation charge             | (3,092)   | (15,164)   | (18,256)                         |
|  | 14,799  | 52,289   | 67,088                           |
| Closing net book amount as at 30 June 2008   |   |  |                                  |

## 6 Inventories

|                  | As at  |  |
|------------------|--|--|
|                  | <b>30 June<br/>2008<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2007<br>(Audited)<br>HK\$'000 |
| Raw materials    | <b>246,294</b>                                       | 257,504                                      |
| Work in progress | <b>68,253</b>  | 46,950                                       |
| Finished goods   | <b>195,592</b>                                       | 139,735                                      |
|                  | <b>510,139</b>                                       | 444,189                                      |

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK\$725,589,000 (30 June 2007: HK\$1,076,777,000).

Written down of inventories to net realisable value of HK\$5,299,000 (30 June 2007: HK\$ 931,000) has been included in cost of sales during the period.

## 7 Trade and other receivables

|                                 | As at  |  |
|---------------------------------|--|--|
|                                 | <b>30 June<br/>2008<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2007<br>(Audited)<br>HK\$'000 |
| Trade receivables (Note (a))    | <b>821,407</b>                                       | 755,474                                      |
| Less: provisions for impairment | <b>(283)</b>   | (266)  |
| Trade receivables – net         | <b>821,124</b>                                       | 755,208                                      |
| Notes receivable                | <b>36,885</b>  | 15,081                                       |
| Prepayments and deposits        | <b>80,962</b>  | 64,526                                       |
| Value-added tax refundable      | <b>30,734</b>  | 14,129                                       |
| Other receivables               | <b>26,753</b>  | 28,206                                       |
|                                 | <b>996,458</b>                                       | 877,150                                      |

The directors are of the opinion that the carrying amounts of trade and other receivables approximate their fair values. All trade and other receivables are due within 1 year and non interest-bearing.

**7 Trade and other receivables** *(continued)*

- (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 60 days. The ageing analysis of the Group's trade receivables was as follows:

|                                | <b>As at</b>   |  |
|--------------------------------|--|--|
|                                | <b>30 June<br/>2008<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2007<br>(Audited)<br>HK\$'000 |
| Current to 30 days             | <b>387,892</b>                                       | 734,238                                      |
| 31-60 days                     | <b>47,294</b>  | 12,151                                       |
| Over 60 days and within 1 year | <b>383,697</b>                                       | 8,324  |
| Over 1 year                    | <b>2,524</b>   | 761  |
|                                | <b>821,407</b>                                       | 755,474                                      |

Including in the balance were trade and other receivables from related parties of HK\$80,874,000 (31 December 2007: HK\$61,305,000) (Note 22(d)).

**8 Cash and cash equivalents**

|                          | <b>As at</b>   |  |
|--------------------------|--|--|
|                          | <b>30 June<br/>2008<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2007<br>(Audited)<br>HK\$'000 |
| Cash at bank and in hand | <b>195,429</b>                                       | 163,841                                      |
| Short-term bank deposits | <b>230,829</b>                                       | 227,900                                      |
|                          | <b>426,258</b>                                       | 391,741                                      |

The effective interest rate on short-term bank deposits was 2.77% per annum (31 December 2007: 1.68% per annum). The maturity days of these deposits ranged from 7 to 90 days (31 December 2007: 2 to 18 days).

## 9 Issued equity

|                                  | <b>Number of<br/>shares issued<br/>by the Company</b><br><i>(Note (a))</i> | <b>Issued equity</b><br><i>(Note (b))</i><br>HK\$'000 |
|----------------------------------|--|---|
| As at 1 January and 30 June 2008 | 1,083,560,000  | 370,074   |
| As at 1 January and 30 June 2007 | 1,083,560,000  | 370,074   |

(a) The number of share reflect the Company's ordinary share of HK\$0.01 each issued and fully paid.

(b) On 10 December 2003, China Electronics Corporation ("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 Shenzhen Sang Fei Consumer Communications Company Limited ("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.

## 10 Other reserves

|                                  | <b>Capital<br/>reserves</b><br>(Unaudited)<br><i>(Note (a))</i><br>HK\$'000 | <b>Surplus<br/>reserves</b><br>(Unaudited)<br><i>(Note (b))</i><br>HK\$'000 | <b>Share<br/>option</b><br>(Unaudited)<br><i>(Note (c))</i><br>HK\$'000 | <b>Translation<br/>reserve</b><br>(Unaudited)<br>HK\$'000 | <b>Total</b><br>(Unaudited)<br>HK\$'000 |
|----------------------------------|---|---|---|---|---|
| At 1 January 2007                | (1,806)   | 33,325  | 10,226  | 13,392  | 55,137                                  |
| Share option granted             | –   | –   | 868   | –   | 868                                     |
| Currency translation differences | –   | –   | –   | (1,212)   | (1,212)                                 |
| At 30 June 2007                  | (1,806)   | 33,325  | 11,094  | 12,180  | 54,793                                  |
| At 1 January 2008                | (1,806)   | 33,325  | 11,963  | 28,325  | 71,807                                  |
| Currency translation differences | –   | –   | –   | 13,979  | 13,979                                  |
| At 30 June 2008                  | (1,806)   | 33,325  | 11,963  | 42,304  | 85,786                                  |

**10 Other reserves (continued)****(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**

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. 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 six months ended 30 June 2008.

Expenses arising from the share option scheme are recognised in administrative expenses and are amortised over the vesting period of the options granted which ended at 30 November 2007. No expenses was recognised during the six months ended 30 June 2008 (30 June 2007: HK\$868,000).

**11 Trade and other payables**

|                           | As at  |  |
|---------------------------|--|--|
|                           | <b>30 June<br/>2008<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2007<br>(Audited)<br>HK\$'000 |
| Trade payables (Note (a)) | <b>481,335</b>                                       | 381,597                                      |
| Accrued expenses          | <b>162,255</b>                                       | 192,149                                      |
| Advance from customers    | <b>69,863</b>  | 65,197                                       |
| Other payables            | <b>91,664</b>  | 102,087                                      |
|                           | <b>805,117</b>                                       | 741,030                                      |

The directors are of the opinion that the carrying amounts of trade and other payables approximate their fair values. All trade and other payables are non interest-bearing.



**11 Trade and other payables** *(continued)*

(a) The ageing analysis of trade payables was as follows:

|                    | As at                                      |  |
|--------------------|--|--|
|                    | 30 June<br>2008<br>(Unaudited)<br>HK\$'000 | 31 December<br>2007<br>(Audited)<br>HK\$'000 |
| Current to 30 days | 467,836                                    | 367,655                                      |
| 31-60 days         | 2,502                                      | 474  |
| Over 60 days       | 10,997                                     | 13,468                                       |
|                    | <u>481,335</u>                             | <u>381,597</u>                               |

Included in the balance were trade and other payables due to related parties amounted to HK\$29,356,000 (31 December 2007: HK\$17,834,000) (*Note 22(d)*).

**12 Short term bank loans**

|                       | As at                                      |  |
|-----------------------|--|--|
|                       | 30 June<br>2008<br>(Unaudited)<br>HK\$'000 | 31 December<br>2007<br>(Audited)<br>HK\$'000 |
| Short term bank loans | 664,212                                    | 394,111                                      |

The bank loans as at 30 June 2008 were unsecured, repayable within one year and bear interest at the average borrowing rate of 6.59% per annum (31 December 2007: 6.19% per annum).

The carrying amounts of the short term bank loans approximate their fair value, which are denominated in the following currencies:

|           | As at                                      |  |
|-----------|--|--|
|           | 30 June<br>2008<br>(Unaudited)<br>HK\$'000 | 31 December<br>2007<br>(Audited)<br>HK\$'000 |
| Renminbi  | 664,212                                    | 354,839                                      |
| US dollar | -  | 39,272                                       |
|           | <u>664,212</u>                             | <u>394,111</u>                               |

The Group had undrawn borrowing facilities of approximately HK\$226,911,000 as at 30 June 2008 (31 December 2007: HK\$466,104,000). The facilities are at floating rate and expiring within one year which are subject to review at various dates within 12 months.

**13 Provision for warranty**

|   | Unaudited<br>Six months ended 30 June |                  |
|---|---------------------------------------|------------------|
|   | 2008<br>HK\$'000                      | 2007<br>HK\$'000 |
| At 1 January                                      | 77,260                                | 12,634           |
| Additional provisions charged to income statement | 20,015                                | 17,791           |
| Less: utilised during the period                  | (25,180)                              | (13,907)         |
|   | <hr/>                                 | <hr/>            |
| At 30 June  | <b>72,095</b>                         | 16,518           |

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 30 June 2008, the Group had provided for expected warranty claims on own mobile products and certain ODM products based on past experience of the level of repairs and returns.

**14 Other gain, net**

|                                  | Unaudited<br>Six months ended 30 June |                  |
|----------------------------------|---------------------------------------|------------------|
|                                  | 2008<br>HK\$'000                      | 2007<br>HK\$'000 |
| Written-off of payables (Note a) | -                                     | 5,835            |
| Sales of samples and materials   | -                                     | 954              |
| Others                           | 84                                    | 211              |
|                                  | <hr/>                                 | <hr/>            |
|                                  | <b>84</b>                             | 7,000            |

- (a) These represented long-aged trading payables which the Directors are of the opinion that the obligation for future settlement is remote and therefore write off them in 2007.

**15 Expenses by nature**

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

|   | Unaudited<br>Six months ended 30 June |                 |
|---|---------------------------------------|-----------------|
|   | 2008                                  | 2007            |
|   | <i>HK\$'000</i>                       | <i>HK\$'000</i> |
| Employee benefits expenses                                    | 107,213                               | 74,802          |
| Changes in inventories of finished goods and work in progress | (72,126)                              | (108,633)       |
| Raw material and consumables used                             | 797,715                               | 1,185,410       |
| Depreciation of property, plant and equipment (Note 5)        | 15,164                                | 22,318          |
| Amortisation of intangible assets (Note 5)                    | 3,092                                 | 2,611           |
| Written down of inventories to net realisable value (Note 6)  | 5,299                                 | 931             |
| Provision for warranty (Note 13)                              | 20,015                                | 17,791          |
| Operating lease expenses of buildings and equipment           | 16,038                                | 11,809          |
| Research and development costs                                | 43,322                                | 19,721          |
| Directors' remuneration                                       | 1,138                                 | 714             |
| Auditor's remuneration  | 600                                   | 611             |
|   | <u>600</u>                            | <u>611</u>      |

**16 Finance (costs)/income – net**

|                                 | Unaudited<br>Six months ended 30 June |                 |
|---------------------------------|---------------------------------------|-----------------|
|                                 | 2008                                  | 2007            |
|                                 | <i>HK\$'000</i>                       | <i>HK\$'000</i> |
| Interest income                 | 4,299                                 | 5,633           |
| Interest expenses on bank loans | (16,506)                              | (2,013)         |
|                                 | <u>(12,207)</u>                       | <u>3,620</u>    |

**17 Income tax credit**

|   | Unaudited<br>Six months ended 30 June |                 |
|---|---------------------------------------|-----------------|
|   | 2008                                  | 2007            |
|   | <i>HK\$'000</i>                       | <i>HK\$'000</i> |
| Current taxation – PRC enterprise income tax (Note b) | –                                     | (1,886)         |
| Deferred income tax (Note c)                          | 19,761                                | 6,066           |
|   | <u>19,761</u>                         | <u>4,180</u>    |

- (a) No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the six months ended 30 June 2008 (30 June 2007: Nil).

**17 Income tax credit** *(continued)*

- (b) The principal subsidiary, Sang Fei, is a foreign investment production enterprise established in Shenzhen Special Economic Zone in the PRC, the prevailing enterprise income tax rate was 15% before 31 December 2007.

Sang Fei was certified as a high-tech enterprise from 2002 and as approved by the tax authorities in 2004, Sang Fei was entitled to 50% tax reduction from enterprise income tax for three years starting from 2005. Consequently, enterprise income tax had been provided at the rate of 7.5% for the six months ended 30 June 2007. Such tax reduction ended at 31 December 2007.

On 16 March 2007, the Corporate Income Tax Law of the PRC (the "new CIT Law") was approved and became effective 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.

No provision for PRC enterprise income tax has been made as the Group has no assessable tax profit for the six months ended 30 June 2008.

- (c) Deferred taxation was recognised for impairment provision of inventory, accelerated depreciation of property, plant and equipment, taxable losses and other timing differences.

**18 Loss/earnings per share****(a) Basic loss/earnings per share**

The calculation of the basic loss/earnings per share is based on the Group's loss attributable to equity holders of the Company for the six months ended 30 June 2008 of HK\$60,605,000 (30 June 2007: Profit of HK\$16,988,000) and 1,083,560,000 (30 June 2007: 1,083,560,000) ordinary shares in issue during the six months ended 30 June 2008.

**(b) Diluted loss/earnings per share**

As the impact of exercise of share options was anti-dilutive as at 30 June 2008 and 2007, the diluted loss/earnings per share is equal to the basic loss/earnings per share.

**19 Dividends**

2006 final dividend of HK\$0.016 per ordinary share totalling HK\$17,337,000 was declared in March 2007 and paid in June 2007.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008 (30 June 2007: Nil).

## 20 Commitments

### (a) Capital commitments

As at 30 June 2008, the Group's capital commitments which were contracted but not provided for were as follows:

|   | As at                                      |  |
|---|--|--|
|   | 30 June<br>2008<br>(Unaudited)<br>HK\$'000 | 31 December<br>2007<br>(Audited)<br>HK\$'000 |
| Purchase of property, plant and equipment and computer software | 19,677                                     | 2,502  |

### (b) Operating lease commitments

As at 30 June 2008, the Group had future aggregate minimum lease payments under non cancellable operating leases of buildings and office equipment as follows:

|                             | As at                                      |  |
|-----------------------------|--|--|
|                             | 30 June<br>2008<br>(Unaudited)<br>HK\$'000 | 31 December<br>2007<br>(Audited)<br>HK\$'000 |
| Not later than one year     | 32,604                                     | 30,612                                       |
| In the second to fifth year | 19,770                                     | 21,901                                       |
|                             | 52,374                                     | 52,513                                       |

## 21 Contingent liabilities

The Group did not have any material contingent liabilities outstanding as at 30 June 2008 (31 December 2007: Nil).

## 22 Related party transactions and balances

Parties are considered to be related if one company has the ability, directly or indirectly, to control the other company or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

During the six months ended 30 June 2008 and 30 June 2007, the Group entered into transactions with companies under common control of China Electronics Corporation, the ultimate holding company. These companies are denoted by \* below.

During the six months ended 30 June 2007, 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 minority shareholder with significant influence on operation of the principal subsidiary, Sang Fei before 31 March 2007. These companies are denoted by # below. In March 2007, KPE disposed of its equity interests, through its subsidiary in Sang Fei to Shenzhen SED Electronics Group Co., Ltd., a subsidiary of China Electronics Corporation and ceased its significant influence on Sang Fei. From then onward, KPE and the companies under its common control are not the Group's related parties. Consequently, the Group's transactions with them since 1 April 2007 and the balances with them as at 30 June 2008 and 31 December 2007 are not disclosed as related party transactions and balances.

**22 Related party transactions and balances** *(continued)***(a) Sales of goods, samples and materials**

|   |   | Unaudited<br>Six months ended 30 June |                 |
|---|---|---------------------------------------|-----------------|
|   |   | 2008                                  | 2007            |
|   |   | <i>HK\$'000</i>                       | <i>HK\$'000</i> |
| <b>Sales of products</b>  |   |                                       |                 |
| Shenzhen SED Coalition Electronics Co., Ltd.<br>("SED Coalition") (i) | * | 55,178                                | 143,285         |
| China Electronic Appliance Corporation                                | * | 53,714                                | -               |
| Shenzhen SED Electronics Sales Corporation                            | * | 4,582                                 | -               |
| Shenzhen Sang Da Baili Electronics Co., Ltd.                          | * | 667                                   | -               |
| Philips (China) Investment Co., Ltd                                   | # | -                                     | 207,345         |
| Philips Electronics Singapore Pte. Ltd.                               | # | -                                     | 171,609         |
| Philips Electronics Hong Kong Ltd.                                    | # | -                                     | 67,253          |
| Philips Consumer Electronics B.V.                                     | # | -                                     | 156             |
|   |   | <hr/>                                 | <hr/>           |
|   |   | <b>114,141</b>                        | <b>589,648</b>  |
|   |   | <hr/>                                 | <hr/>           |
| <b>Sales of samples and materials</b>                                 |   |                                       |                 |
| Shenzhen SED Wireless Communication<br>Technology Co., Ltd.           | * | 45                                    | -               |
| Shenzhen SED Electronics Sales Corporation                            | * | 44                                    | -               |
| Shanghai SED ARC Co., Ltd.  | * | 42                                    | -               |
| Philips Consumer Electronics B.V.                                     | # | -                                     | 336             |
| Philips (China) Investment Co., Ltd.                                  | # | -                                     | 311             |
| Philips Electronics Singapore Pte Ltd.                                | # | -                                     | 660             |
| Philips Electronics Hong Kong Ltd.                                    | # | -                                     | 81              |
|   |   | <hr/>                                 | <hr/>           |
|   |   | <b>131</b>                            | <b>1,388</b>    |
|   |   | <hr/>                                 | <hr/>           |
| <b>Sales of maintenance services</b>                                  |   |                                       |                 |
| Philips (China) Investment Co., Ltd                                   | # | -                                     | 3,158           |
|   |   | <hr/>                                 | <hr/>           |

Members of KPE and its affiliated companies (the "Philips Group") and members of CEC and its group companies (the "CEC Group") are the major customers of the Group.

- (i) SED Coalition is a distributor of Philips Group. From 1 April 2007, the Group sold "Philips" mobile handset products directly to SED Coalition under instructions of Philips Group.

## 22 Related party transactions and balances (continued)

## (b) Other transactions

|  |        | Unaudited<br>Six months ended 30 June |                  |
|--|--------|---------------------------------------|------------------|
|  |        | 2008<br>HK\$'000                      | 2007<br>HK\$'000 |
| <b>Purchases of goods</b>                    | (i)    |                                       |                  |
| Shenzhen Sang Da Baili Electronics Co., Ltd. | *      | 24,106                                | 22,811           |
| SED (Hong Kong) Company Limited              | *      | 8,026                                 | 23,958           |
| Shenzhen SED Electronics Sales Corporation   | *      | 685                                   | -                |
| Philips Electronics Hong Kong Ltd.           | #      | -                                     | 288              |
| Philips (China) Investment Co., Ltd.         | #      | -                                     | 559              |
|  |        | <u>32,817</u>                         | <u>47,616</u>    |
| <b>Processing services</b>                   | (ii)   |                                       |                  |
| Shenzhen Sang Da Baili Electronics Co., Ltd. | *      | 2,833                                 | 2,555            |
| Shenzhen SED Industry Co., Ltd.              | *      | 1,674                                 | 2,156            |
|  |        | <u>4,507</u>                          | <u>4,711</u>     |
| <b>Fitment and decoration services</b>       | (iii)  |                                       |                  |
| Shenzhen SED Fitment & Decoration Co., Ltd.  | *      | 37                                    | 45               |
| <b>Canteen services</b>                      | (iv)   |                                       |                  |
| Shenzhen Sang Da Baili Electronics Co., Ltd. | *      | 6,592                                 | 4,676            |
| <b>Repair and maintenance services</b>       | (v)    |                                       |                  |
| Shenzhen SED ARC Co., Ltd.                   | *      | 3,856                                 | 4,629            |
| Shanghai SED ARC Co., Ltd.                   | *      | 1,951                                 | 1,079            |
|  |        | <u>5,807</u>                          | <u>5,708</u>     |
| <b>Rental</b>                                | (vi)   |                                       |                  |
| Shenzhen SED Industry Co., Ltd.              | *      | 5,471                                 | 3,848            |
| China Great Wall Computer Shenzhen Co. Ltd   | *      | -                                     | 609              |
| Great Wall Technology Company Limited        | *      | -                                     | 809              |
|  |        | <u>5,471</u>                          | <u>5,266</u>     |
| <b>Licence fee</b>                           | (vii)  |                                       |                  |
| Shenzhen SED Electronics Group Co., Ltd      | *      | 2,955                                 | -                |
| <b>Comprehensive services</b>                | (viii) |                                       |                  |
| P-Marshall Hong Kong Limited                 | *      | 7,773                                 | -                |
| P-Marshall Singapore Pte Limited             | *      | 7,580                                 | -                |
|  |        | <u>15,353</u>                         | <u>-</u>         |

## 22 Related party transactions and balances *(continued)*

### (b) Other transactions *(continued)*

- (i) Members of the Philips Group are the suppliers of raw materials. Purchases of raw materials from the Philips Group were carried out in the ordinary course of business and on commercial terms and conditions.

The Group from time to time purchases raw materials from members of the CEC Group. Purchases of goods from the CEC Group were carried out in the ordinary course of business and on commercial terms and conditions.

- (ii) The Group secured dedicated processing services of surface mount assembly production lines from members of the CEC Group. The processing services were carried out on commercial terms and conditions.
- (iii) The Group engaged members of the CEC Group to undertake renovation works in connection with the expansion of the Group's production premises. The fitment and decoration services were carried out in the ordinary course of business and were on commercial terms and conditions.
- (iv) Shenzhen Sang Da Baili Electronics Co., Ltd. provides canteen services to the production staff of the Group. The fee of the canteen services were calculated by reference to actual consumption and an agreed fixed premium and were carried out on commercial terms and conditions.
- (v) The Group engaged Shenzhen SED ARC Co., Ltd. and Shanghai SED ARC Co., Ltd. for after sales product repair services in respect of its products. The repair and maintenance services were carried out on commercial terms and conditions.
- (vi) The production facilities and some of the staff quarters of the Group were located within an industrial complex owned by members of the CEC Group. The rentals were based on lease agreements entered into by the relevant parties and the Group and were calculated on commercial terms and conditions.
- (vii) Members of the CEC Group license the "Xenium" trademark to the Group for use. The licensing were based on the license agreement and were carried out on normal commercial terms and conditions with reference to market rates.
- (viii) The Group engaged members of the CEC Group to provide various business support services in relation to sales of products. The business support services were based on the comprehensive services agreements and were carried out on normal commercial terms and conditions with reference to market rates.

### (c) Key management compensation

|   | Unaudited<br>Six months ended 30 June |                  |
|---|---------------------------------------|------------------|
|   | 2008<br>HK\$'000                      | 2007<br>HK\$'000 |
| Salaries and other short-term benefits    | 1,421                                 | 1,230            |
| Employer's contribution to pension scheme | 25                                    | 63               |
| Share-based compensations                 | -                                     | 503              |
|   | 1,446                                 | 1,796            |



## 22 Related party transactions and balances (continued)

## (d) Period-end balance arising from sales and other transactions

|   |  | As at  |        |
|---|--|--|--------|
|   | 30 June<br>2008<br>(Unaudited)<br>HK\$'000 | 31 December<br>2007<br>(Audited)<br>HK\$'000 |        |
| <b>Trade receivables due from related parties</b>                             |  |  |        |
| Shenzhen SED Coalition Electronics Co., Ltd.                                  | *  | 14,706                                       | 5,503  |
| China Electronic Appliance Corporation  | *  | 9,564  | 24,483 |
| Shenzhen SED Electronics Sales Corporation                                    | *  | 256  | 737    |
| Shenzhen Sang Da Baili Electronics Co., Ltd.                                  | *  | 157  | 695    |
|   |  | <hr/>  | <hr/>  |
|   | <b>24,683</b>                              | <b>31,418</b>                                |        |
| <b>Other receivables due from related parties</b>                             |  |  |        |
| Shenzhen SED Electronics Sales Corporation                                    | *  | 355  | 16     |
| Shenzhen Sang Da Baili Electronics Co., Ltd.                                  | *  | 346  | 244    |
| Shenzhen SED International Electronic Device Co., Ltd.                        | *  | 195  | 141    |
| Shenzhen SED Coalition Electronics Co., Ltd.                                  | *  | 25   | 23     |
| Shenzhen SED Electronics Group Co., Ltd.                                      | *  | -  | 6,667  |
|   |  | <hr/>  | <hr/>  |
|   | <b>921</b>                                 | <b>7,091</b>                                 |        |
| <b>Prepayments</b>  |  |  |        |
| Shenzhen Sang Da Baili Electronics Co., Ltd.                                  | *  | 37,879                                       | 15,411 |
| P-Marshall Singapore Pte. Limited   | *  | 8,696  | -      |
| SED (Hong Kong) Company Limited   | *  | 4,537  | 7,385  |
| P-Marshall Hong Kong Limited  | *  | 4,158  | -      |
|   |  | <hr/>  | <hr/>  |
|   | <b>55,270</b>                              | <b>22,796</b>                                |        |
| <b>Trade and other receivables due from related parties in total (Note 7)</b> |  |  |        |
|   | <b>80,874</b>                              | <b>61,305</b>                                |        |

**22 Related party transactions and balances** (continued)**(d) Period-end balance arising from sales and other transactions** (continued)

|   |                    | <b>As at</b>  |             |
|---|--------------------|---------------|-------------|
|   | <b>30 June</b>     |               | 31 December |
|   | <b>2008</b>        |               | 2007        |
|   | <b>(Unaudited)</b> |               | (Audited)   |
|   | <b>HK\$'000</b>    |               | HK\$'000    |
| <b>Trade payables due from related parties</b>                            |                    |               |             |
| SED (Hong Kong) Company Limited   | *                  | <b>243</b>    | 2,283       |
| Shenzhen Sang Da Baili Electronics Co., Ltd.                              | *                  | <b>12</b>     | 11          |
| Shenzhen SED Electronics Sales Corporation                                | *                  | <b>-</b>      | 150         |
|   |                    | <b>255</b>    | 2,444       |
| <b>Other payables due to related parties</b>                              |                    |               |             |
| P-Marshall Singapore Pte. Limited   | *                  | <b>2,671</b>  | -           |
| Shenzhen Sang Da Baili Electronics Co., Ltd.                              | *                  | <b>511</b>    | 461         |
| Shenzhen SED Industry Co., Ltd.   | *                  | <b>491</b>    | -           |
| Shenzhen SED ARC Co., Ltd.  | *                  | <b>-</b>      | 864         |
| Shanghai SED ARC Co., Ltd.  | *                  | <b>3</b>      | 7           |
|   |                    | <b>3,676</b>  | 1,332       |
| <b>Advance from customers</b>   |                    |               |             |
| China Electronic Appliance Corporation                                    | *                  | <b>17,137</b> | 10,753      |
| Shenzhen SED Coalition Electronics Co., Ltd.                              | *                  | <b>6,393</b>  | 784         |
| Shenzhen SED Electronics Sales Corporation                                | *                  | <b>1,505</b>  | 2,158       |
| Shenzhen SED Wireless Communication Technology Co., Ltd.                  | *                  | <b>164</b>    | -           |
| Shenzhen SED Electronics Group Company Ltd.                               | *                  | <b>138</b>    | 261         |
| Shanghai SED ARC Co., Ltd.  | *                  | <b>79</b>     | 102         |
| Shenzhen SED ARC Co., Ltd.  | *                  | <b>6</b>      | -           |
| Shenzhen Sang Da Baili Electronics Co., Ltd.                              | *                  | <b>3</b>      | -           |
|   |                    | <b>25,425</b> | 14,058      |
| <b>Trade and other payables due to related parties in total</b> (Note 11) |                    | <b>29,356</b> | 17,834      |

## 22 Related party transactions and balances *(continued)*

### (e) 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 Company ("Other State-owned Enterprises").

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

|  | <b>Unaudited</b>                |          |
|--|---------------------------------|----------|
|  | <b>Six months ended 30 June</b> |          |
|  | <b>2008</b>                     | 2007     |
|  | <b>HK\$'000</b>                 | HK\$'000 |
| Sales of products and materials        | <b>212,677</b>                  | 123,547  |
| Purchase of materials                  | <b>11,286</b>                   | 23,454   |
| Interest income from state-owned banks | <b>2,246</b>                    | 5,633    |
| Interest expenses to state-owned banks | <b>16,506</b>                   | 2,013    |

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

|  | <b>As at</b>       |             |
|--|--------------------|-------------|
|  | <b>30 June</b>     | 31 December |
|  | <b>2008</b>        | 2007        |
|  | <b>(Unaudited)</b> | (Audited)   |
|  | <b>HK\$'000</b>    | HK\$'000    |
| Trade receivables                      | <b>12,689</b>      | 13,383      |
| Trade payables                         | <b>6,141</b>       | 170         |
| Bank deposits in state-owned banks     | <b>307,876</b>     | 311,477     |
| Bank borrowings from state-owned banks | <b>664,212</b>     | 394,111     |

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

**23. Events 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 at the price of HK\$2.50 for settlement of the consideration for the acquisition. After completion, Huada Electronics will be converted into a wholly foreign-owned enterprise and will become a wholly-owned subsidiary of the Company and the financial statements of Huada Electronics will be consolidated into those of the Group.

The acquisition of Huada Electronics has been approved by the independent shareholders of the Company on 21 July 2008. Up to the date of this report, the acquisition has not yet been completed.