China Electronics
Corporation Holdings Company Limited
中國電子集團控股有限公司

(Stock Code: 0085)

2006
INTERIM REPORT

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-executive Directors
Chen Zhaoxiong *(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 908, 9th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of China (HK) Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

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

Abacus Share Registrars Limited
26/F, 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

INVESTOR RELATIONS

Telephone	:	(852) 2598 9088
Facsimile	:	(852) 2598 9018
Email	:	corp@cecholdings.com.hk

STOCK CODE

0085

The board of directors (the "Board") of China Electronics Corporation Holdings Company Limited (the "Company") is pleased to present the unaudited results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2006. The interim financial report is unaudited, but has been reviewed by PricewaterhouseCoopers in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants.

BUSINESS REVIEW

For the six months ended 30 June 2006, the Group recorded a consolidated sales of HK$1,895.7 million (2005: HK$2,129.8 million) and profit attributable to equity holders of HK$24.4 million (2005: HK$20.8 million) respectively. Basic earnings per share for the period was HK2.25 cents (2005: HK1.92 cents). The Board resolved not to pay any interim dividend for the period (2005: Nil).

During the period under review, the Group sold an aggregate of 4.1 million units of mobile phones and portable media players, representing an increase of 15% over the same period in 2005. Sales of own branded and other Original Design Manufacturer ("ODM") products continued to perform well. During the six months ended 30 June 2006, sales of ODM products grew by over 47% to 1.6 million units, which were largely attributable to the new ODM product line. The new product line was introduced since the renewal of the cooperation agreement with the Philips Group (being Koninklijke Philips Electronics N.V. and its affiliated companies) in July 2005 whereby a total of 1 million units were supplied during the period. Offset partially by the drop in the sales of Original Equipment Manufacturer ("OEM") products, the total sales of *Philips* branded products achieved a 20% increase to 2.7 million units. Faced with keen market competition which led to a reduction in the average selling price of the products, the overall sales revenue for the six months ended 30 June 2006 had reduced by 11% to HK$1,895.7 million. Despite the reduction in sales revenue, the Group succeeded in minimising the impact by its well-implemented global materials sourcing channels and inventory control policies. In addition, the provision of ODM product solution and product maintenance services since the second half of 2005 brought encouraging improvement over the overall revenue margin of the Group. During the period under review, the Group recorded gross profit of HK$130.7 million, representing an increase of 13% over the same period last year.

Profit for the period improved by 19% to HK$40.5 million. The growth was in line with the growth in sales margin. The profit attributable to equity holders of the Company increased by 17% to HK$24.4million, representing a basic earnings per share of HK2.25 cents.

PROSPECTS

The Group entered into a maintenance service agreement with the Philips Group in January 2006 whereby the Group will provide mobile phone maintenance service to the Philips Group. In March 2006, the Group further entered into a material supply agreement with one of its major suppliers for the supply of material parts. These agreements not only extend the scope of cooperation, but also broaden and strengthen the Group's relationship with its business partners. Through maximising the synergies inherited in the production chain, the Group can further capitalise the rapid growth of the global communication product market and ultimately maximise the profitability as a whole.

Moving forward, the Group will continue to explore new business opportunities with its business partners with an aim to further strengthen its core business. The Group will expedite business growth by devoting its resources to extend its business solution profile serving the complete product chain as well as to further diversify its product and customer profile. In addition, the Group will actively pursue new investment opportunities, in particular the business opportunities in the development of cable television service and digital media broadcasting in China. The management will work proactively with China Electronics Corporation ("CEC"), the controlling shareholder of the Company, in this area so as to materialise quantum growth in shareholder's return.

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$256.4 million as at 30 June 2006 (31.12.2005: HK$306.4 million), which were primarily denominated in Hong Kong dollars, Renminbi and United States dollars.

As at 30 June 2006, the Group had unsecured short term bank borrowings of HK$187.5 million (31.12.2005: HK$230.8 million), which were all denominated in Renminbi and were borrowed at contracted fixed interest rate. The Group's available bank facilities were approximately RMB600 million. As at 30 June 2006, the Group did not have any pledged assets or guarantee.

The Group's export sales are predominantly invoiced in 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, where appropriate, to leverage the risk of foreign exchange fluctuation arising from its operation.

As at 30 June 2006, the Group had net current assets of HK$462.5 million (31.12.2005: HK$470.7 million). The overall gearing ratio, which is calculated as the total liabilities over total assets of the Group, was 63% (31.12.2005: 71%).

As at 30 June 2006, the Group had contracted but not provided for capital commitments of HK$1.5 million (31.12.2005: HK$3.2 million) for the acquisition of fixed assets and intangible assets. The Group did not have any material contingent liabilities outstanding as at 30 June 2006.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2006, the Group had approximately 3,000 employees, the majority of whom were based in China.

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.

CONTINUING CONNECTED TRANSACTIONS

On 21 January 2006, the Group's principal operating subsidiary, Shenzhen Sang Fei Consumer Communications Company Limited ("Sang Fei") entered into a maintenance service agreement with Philips (China) Investment Company Limited ("Philips China"), whereby Sang Fei will provide mobile phone maintenance service to Philips China. The term of the agreement is for one year commencing from 1 January 2006. Upon expiry of the one-year term, the agreement may be extended for one year unless either party objects. The maintenance service fee is determined after arm's length negotiation between the parties with reference to the estimated costs incurred by Sang Fei for the provision of maintenance service plus a service charge which is determined in accordance with market rate. The annual cap for the aggregate consideration to be received by Sang Fei from Philips China in relation to the provision of maintenance service is RMB60 million for the year ending 31 December 2006.

As the Philips Group owns 25% interest in Sang Fei, the transactions contemplated under the agreement constitute continuing connected transactions of the Company. The Directors are of the opinion that it is in the best interest of the Company and the shareholders of the Company as a whole for Sang Fei to enter into the agreement. CEC, as the controlling shareholder of the Company, has approved the agreement, the continuing connected transactions contemplated thereunder and the related annual cap by way of written approval.

On 3 March 2006, Sang Fei entered into a plastic supply agreement with Shenzhen Sang Da Baili Electronics Co. Ltd. ("Baili"), whereby Sang Fei will purchase from Baili the plastic parts used for the manufacture of mobile phones. The agreement is for a term of 3 years commencing from 1 April 2006. The price of the plastic parts supplied by Balli to Sang Fei under the agreement is determined after arm's length negotiation with reference to market rate. The pricing terms are no less favourable than those offered to Sang Fei by other third party suppliers. The Company estimated that the aggregate amount of consideration to be paid by Sang Fei to Baili for the purchase of plastic parts for the nine months ending 31 December 2006, for the two financial years ending 31 December 2007 and 2008 and for the three months ending 31 March 2009 will be RMB43.5 million, RMB104.5 million, RMB120 million and RMB30 million respectively.

As Baili is an indirect non wholly-owned subsidiary of CEC, the transactions contemplated under the agreement constitute continuing connected transactions of the Company. The transactions were approved by the independent shareholders in the special general meeting held on 21 April 2006.

On 3 July 2006, Sang Fei entered into a tenancy agreement ("Tenancy Agreement") with Great Wall Technology Company Limited ("Great Wall Technology") and China Great Wall Computer (Shenzhen) Co., Ltd. ("Shenzhen Great Wall"). Pursuant to the Tenancy Agreement, Great Wall Technology and Shenzhen Great Wall agreed to lease to Sang Fei the factory premises situated at 4th Floor, Factory Building No.1, Great Wall Technology Building, No. 3 Kefa Road, Technology and Industrial Park, Nanshan District, Shenzhen, the People's Republic of China for a term of three years commencing from 11 August 2006 and expiring on 10 August 2009 (both days inclusive), at a monthly rental of RMB204,296.75 and management fee of RMB32,103.77. In addition, Shenzhen Great Wall will charge Sang Fei for the electricity and water used by Sang Fei's factory premises on an actual consumption basis at cost.

The State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China announced the restructuring proposal of China Great Wall Computer Group Company ("China Great Wall") and CEC whereby China Great Wall has become a wholly-owned subsidiary of CEC. The restructuring has been approved on 18 August 2006. As a result of the restructuring, Great Wall Technology and Shenzhen Great Wall, being the subsidiaries of China Great Wall, has become associates (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) of CEC and the transaction contemplated under the Tenancy Agreement constitutes continuing connected transaction of the Company under the Listing Rules. The annual cap as set for the aggregate rentals and management fees payable by Sang Fei under the Tenancy Agreement were RMB1.2 million for the five months ending 31 December 2006, RMB2.9 million for each of the two financial years ending 31 December 2007 and 2008 and RMB1.8 million for the eight months ending 31 August 2009, respectively. Details of the transaction were included in the announcement of the Company dated 15 September 2006.

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 2006, 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.

SHARE OPTION SCHEME

During the six months ended 30 June 2006, 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 2006, 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:

Name	**Options outstanding as at 1/1/2006**	**Options lapsed**	**Options outstanding as at 30/6/2006**
Directors			
Yang Xiaotang*	4,000,000	(4,000,000)	–
Tong Baoan	3,800,000	–	3,800,000
Fan Qingwu	3,600,000	–	3,600,000
Hua Longxing	3,600,000	–	3,600,000
Sub-total	15,000,000	(4,000,000)	11,000,000
Aggregate of employees and other participants	13,450,000	–	13,450,000
Total	28,450,000	(4,000,000)	24,450,000

* *Mr. Yang Xiaotong resigned as non-executive director and chairman of the Company in April 2006. The option granted to Mr. Yang has lapsed in accordance with the terms of the Share Option Scheme as a result of his resignation.*

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.

Save as disclosed above, no options granted under the Share Option Scheme were exercised, lapsed or cancelled during the six months ended 30 June 2006.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the six months ended 30 June 2006 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 the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, 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 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%
CEC *(note 1)*	812,500,000	74.98%
Devon Fortune Limited	91,421,608	8.43%
Mr. Chan Chak Shing	95,546,608 *(note 2)*	8.81%

Notes:

(1) CEC holds 100% interest in CEC BVI and is deemed to be interested in the shares held by CEC BVI. The directors of the Company regard CEC as being the ultimate holding company of the Group.

(2) This number of shares represents the aggregate of (i) the family interest of Mr. Chan Chak Shing of 4,125,000 shares and (ii) the corporate interest of 91,421,608 shares held by Devon Fortune Limited. As Mr. Chan Chak Shing holds 100% interest in Devon Fortune Limited, the shares held by Devon Fortune Limited are deemed to be the interests of Mr. Chan Chak Shing.

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

Save as disclosed above, as at 30 June 2006, 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 2006, 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

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 period from 1 January 2006 to 30 June 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers 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 (the "Code"). Having made specific enquiry with the directors of the Company, all the directors confirmed that they had compiled with the required standards as set out in the Code throughout the period.

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 audit committee has reviewed the unaudited interim report for the period, and discussed with management the accounting principles and practices and internal controls of the Group.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2006

(All amounts expressed in HK dollar thousands unless otherwise stated)

	Note	**30 June 2006 (Unaudited)**	31 December 2005 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*5*	**75,515**	79,051
Intangible assets	*5*	**14,032**	14,113
Deferred income tax assets		**6,685**	4,514
Total non-current assets		**96,232**	97,678
Current assets			
Inventories	*6*	**380,274**	447,034
Trade and other receivables	*7*	**770,827**	1,084,944
Cash and cash equivalents		**256,381**	306,381
Total current assets		**1,407,482**	1,838,359
Total assets		**1,503,714**	1,936,037
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Issued equity	*8*	**370,074**	370,074
Other reserves	*9*	**37,078**	35,062
Retained earnings			
– Proposed dividend		**–**	21,671
– Others		**27,630**	3,209
		434,782	430,016
Minority interests		**123,944**	138,379
Total equity		**558,726**	568,395
LIABILITIES			
Current liabilities			
Trade and other payables	*10*	**744,350**	1,129,194
Current income tax liabilities		**2,767**	5,573
Short term bank loans	*11*	**187,500**	230,769
Provision for warranty	*12*	**10,371**	2,106
Total liabilities		**944,988**	1,367,642
Total equity and liabilities		**1,503,714**	1,936,037
Net current assets		**462,494**	470,717
Total assets less current liabilities		**558,726**	568,395

The notes on pages 12 to 24 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

(All amounts expressed in HK dollar thousands unless otherwise stated)

	Note	Unaudited Six months ended 30 June **2006**	2005
Sales	*4*	**1,895,669**	2,129,790
Cost of goods sold	*14*	**(1,764,989)**	(2,013,686)
Gross profit		**130,680**	116,104
Other gain, net	*13*	**5,843**	5,224
Selling and marketing costs	*14*	**(26,779)**	(22,672)
Administrative expenses	*14*	**(62,491)**	(55,772)
Operating profit		**47,253**	42,884
Finance costs	*15*	**(4,288)**	(5,720)
Profit before income tax		**42,965**	37,164
Income tax expense	*16*	**(2,509)**	(3,141)
Profit for the period		**40,456**	34,023
Attributable to:			
– Equity holders of the Company		**24,421**	20,751
– Minority interests		**16,035**	13,272
		40,456	34,023
Earnings per share for profit attributable to the equity holders of the Company during the six months ended 30 June			
– Basic	*17*	**HK cents 2.25**	HK cents 1.92
– Diluted		**N/A**	N/A
Dividends	*18*	**N/A**	N/A

The notes on pages 12 to 24 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2006

(All amounts expressed in HK dollar thousands unless otherwise stated)

		Unaudited					
		Attributable to equity holders of the Company					
	Note	Issued equity	Other reserves	(Accumulated losses)/ retained earnings	Total	Minority interests	Total Equity
Balance at 1 January 2005		373,750	19,204	(23,713)	369,241	124,884	494,125
Utilisation of issued equity against accumulated losses	*8*	(3,676)	–	3,676	–	–	–
Dividends paid by a subsidiary		–	–	–	–	(23,282)	(23,282)
Profit for the period		–	–	20,751	20,751	13,272	34,023
Balance at 30 June 2005		370,074	19,204	714	389,992	114,874	504,866
Balance at 1 January 2006		**370,074**	**35,062**	**24,880**	**430,016**	**138,379**	**568,395**
Dividends relating to 2005 paid in 2006	*18*	**–**	**–**	**(21,671)**	**(21,671)**	**–**	**(21,671)**
Dividends paid by a subsidiary		**–**	**–**	**–**	**–**	**(30,470)**	**(30,470)**
Share option granted	*9*	**–**	**2,625**	**–**	**2,625**	**–**	**2,625**
Currency translation differences		**–**	**(609)**	**–**	**(609)**	**–**	**(609)**
Profit for the period		**–**	**–**	**24,421**	**24,421**	**16,035**	**40,456**
Balance at 30 June 2006		**370,074**	**37,078**	**27,630**	**434,782**	**123,944**	**558,726**

The notes on pages 12 to 24 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

(All amounts expressed in HK dollar thousands unless otherwise stated)

	Unaudited Six months ended 30 June	
	2006	2005
Net cash generated from operating activities	**64,152**	224,334
Net cash used in investing activities	**(18,133)**	(7,698)
Net cash used in financing activities	**(96,019)**	(227,883)
Net decrease in cash and cash equivalents	**(50,000)**	(11,247)
Cash and cash equivalents at 1 January	**306,381**	217,433
Cash and cash equivalents at 30 June	**256,381**	206,186
Analysis of balances of cash and cash equivalents:		
Cash at bank and in hand	**256,381**	206,186

The notes on pages 12 to 24 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2006

(all amounts expressed in HK dollar thousands unless otherwise stated)

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 listing on The Stock Exchange of Hong Kong Limited.

The principal activities of the Company and its subsidiaries (collectively the "Group") comprise the manufacturing and sale of 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 was approved for issue by the board of directors on 22 September 2006.

2 Basis of preparation

This condensed consolidated interim financial information for the period ended 30 June 2006 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Report" issued by the Hong Kong Institute of Certified Public Accountants.

The condensed interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

3 Accounting policies

The accounting policies adopted in this interim report are consistent with those of the annual financial statements for the year ended 31 December 2005 as described in the 2005 annual report of the Company.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006. Management do not expect such amendments and interpretation to be relevant for the Group:

- Amendment to HKAS 19, 'Actuarial gains and losses, group plans and disclosures'
- Amendment to HKAS 39, Amendment to 'The fair value option'
- Amendment to HKAS 21, Amendment 'Net investment in a foreign operation'
- Amendment to HKAS 39, Amendment 'Cash flow hedge accounting of forecast intragroup transactions'
- Amendment to HKAS 39 and HKFRS 4, Amendment 'Financial guarantee contracts'
- HKFRS 6, 'Exploration for and evaluation of mineral resources'
- HKFRS-Int 4, 'Determining whether an arrangement contains a lease'
- HKFRS-Int 5, 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds'
- HK(IFRIC)-Int 6, 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment'

3 Accounting policies *(continued)*

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

– HK(IFRIC)-Int 7, 'Applying the Restatement Approach under HKFRS 29', effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Group;

– HK(IFRIC)-Int 8, 'Scope of HKFRS 2', effective for annual periods beginning on or after 1 May 2006. HKFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. HKAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007. Management is currently assessing the impact of HK(IFRIC)-Int 8, HKFRS 7 and HKAS 1 on the Group's operations;

– HK(IFRIC)-Int 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. Management do not expect the interpretation to be relevant for the Group.

4 Segment information

(a) Primary reporting format – business segment

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

	Philips branded Original Equipment Manufacturer ("OEM") products Six months ended 30 June		Own branded and other Original Design Manufacturer ("ODM") products Six months ended 30 June		OEM of other products and other operations Six months ended 30 June		Total Six months ended 30 June	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Sales	**1,135,349**	1,546,890	**741,477**	569,398	**18,843**	13,502	**1,895,669**	2,129,790
Segment results	**50,494**	84,018	**79,785**	31,806	**401**	280	**130,680**	116,104
Unallocated revenues							**5,843**	5,224
Unallocated costs							**(89,270)**	(78,444)
Operating profit							**47,253**	42,884
Finance costs							**(4,288)**	(5,720)
Profit before income tax							**42,965**	37,164
Income tax expense							**(2,509)**	(3,141)
Profit for the period							**40,456**	34,023

4 Segment information *(continued)*

(b) Secondary reporting format – geographical segment

	Six months ended 30 June	
	2006	2005
Sales		
Mainland China	**997,458**	1,116,938
Europe	**7,414**	343,552
Asia excluding mainland China and Hong Kong	**427,630**	257,179
Hong Kong	**463,167**	412,121
	1,895,669	2,129,790

Sales are allocated based on the places in which customers are located.

5 Capital expenditures

	Intangible assets	Property, plant and equipment	Total
Opening net book amount as at 1 January 2005	3,498	119,402	**122,900**
Additions	4,368	5,260	**9,628**
Disposals	–	(69)	**(69)**
Depreciation/amortisation charge	(734)	(28,588)	**(29,322)**
Closing net book amount as at 30 June 2005	7,132	96,005	**103,137**
Opening net book amount as at 1 January 2006	14,113	79,051	**93,164**
Additions	1,854	19,121	**20,975**
Disposals	–	(25)	**(25)**
Depreciation/amortisation charge	(1,935)	(22,632)	**(24,567)**
Closing net book amount as at 30 June 2006	14,032	75,515	**89,547**

6 Inventories

	As at 30 June 2006	As at 31 December 2005
Raw materials	**247,253**	284,703
Work in progress	**83,849**	100,139
Finished goods	**49,172**	62,192
	380,274	447,034

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK$1,764,989,000 (30 June 2005: HK$2,013,686,000).

Written down of inventories to net realisable value of HK$2,404,000 (30 June 2005: HK$4,903,000) has been expensed in administrative expenses during the period.

7 Trade and other receivables

	As at 30 June 2006	As at 31 December 2005
Trade receivables *(note (a))*	**712,330**	1,010,140
Notes receivable	**–**	1,981
Other receivables due from related parties *(note 21(d))*	**26,286**	26,583
Prepayments and deposits	**14,975**	11,868
Value-added tax refundable	**6,943**	21,000
Other receivables	**10,293**	13,372
	770,827	1,084,944

(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. At 30 June 2006 and 31 December 2005, the ageing analysis of the Group's trade receivables was as follows:

	As at 30 June 2006	As at 31 December 2005
Current to 30 days	**620,996**	968,786
31– 60 days	**33,057**	23,480
Over 60 days	**58,277**	17,874
	712,330	1,010,140

Included in the balance were trade receivables due from related parties of HK$695,619,000 (31 December 2005: HK$920,551,000) *(note 21(d))*. About 80% (31 December 2005: 91%) of the trade receivables from related parties as at 30 June 2006 was covered by bank issued guarantee documents.

8 Issued equity

	Number of shares	Issued equity
As at 1 January 2005	8,668,480,000	373,750
Capital reorganisation *(note (a))*	(7,584,920,000)	–
Utilisation of issued equity against accumulated losses *(note (b))*	–	(3,676)
As at 30 June 2005	1,083,560,000	370,074
As at 1 January and 30 June 2006	1,083,560,000	370,074

(a) Pursuant to the resolutions passed at a special general meeting on 17 May 2005, the nominal value of the shares of the Company was reduced from HK$0.01 each to HK$0.00125 each, and immediately after the reduction, every eight then issued shares with nominal value of HK$0.00125 each were consolidated into one new share of HK$0.01 each. After the capital reorganisation, the issued share capital of the Company comprises 1,083,560,000 shares HK$0.01 each. An amount of HK$75,849,000 standing to the credit of the share capital account of the Company was cancelled and credited to the contributed surplus account.

(b) On 18 March 2005, the board of directors of the Company resolved to apply the entire contributed surplus of HK$154,440,000 to set off an equivalent amount of the accumulated losses. Upon completion of the capital reorganisation, an equivalent amount in the contributed surplus account was then applied to set off against the entire remaining accumulated losses of the Company.

9 Other reserves

	Capital reserve *(note (a))*	Surplus reserves *(note (b))*	Share option *(note (c))*	Translation reserve	Total
At 1 January and 30 June 2005	(1,806)	21,010	–	–	19,204
At 1 January 2006	(1,806)	25,992	6,572	4,304	35,062
Share option granted	–	–	2,625	–	2,625
Currency translation differences	–	–	–	(609)	(609)
At 30 June 2006	(1,806)	25,992	9,197	3,695	37,078

(a) Capital reserve

Capital reserve represents the exchange differences arising from paid-in capital paid by foreign currencies in the principal subsidiary, Shenzhen Sang Fei Consumer Communications Company Limited ("Sang Fei").

9 Other reserves *(continued)*

(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.

(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% will become exercisable from 1 November 2006 to 31 October 2009 and the remaining 30% will become exercisable from 1 November 2007 to 31 October 2010. No option was exercised during the period.

Expense arising from the share option scheme recognised in administrative expenses during the period amounted to HK$2,625,000.

10 Trade and other payables

	As at	
	30 June 2006	31 December 2005
Trade payables *(note (a))*	**559,382**	966,990
Other payables due to related parties *(note 21(d))*	**8,816**	10,774
Accrued expenses	**35,068**	30,583
Advance from customers	**31,730**	24,880
Other payables	**109,354**	95,967
	744,350	1,129,194

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

	As at	
	30 June 2006	31 December 2005
Current to 30 days	**526,900**	943,177
31– 60 days	**7,111**	2,561
Over 60 days	**25,371**	21,252
	559,382	966,990

Included in the balance were trade payables due to related parties amounted to HK$39,982,000 (31 December 2005: HK$56,034,000) *(note 21(d))*.

11 Short term bank loans

	As at 30 June 2006	As at 31 December 2005
Short term bank loans	**187,500**	230,769

The bank loans were unsecured, repayable within one year and bore interest at the average borrowing rate of 4.715% (31 December 2005: 4.674%) per annum.

The carrying amounts of bank loans were denominated in Renminbi and approximated their fair values.

12 Provision for warranty

	Six months ended 30 June 2006	Six months ended 30 June 2005
At 1 January	**2,106**	2,214
Additional provisions charged to income statement	**14,344**	7,180
Less: utilised during the period	**(6,079)**	(4,635)
At 30 June	**10,371**	4,759

The Group gives 15-month warranties on products distributed by Sang Fei for end users in the PRC market and undertakes to repair and replace items that fail to operate satisfactorily. Provision has been recognised for expected warranty claims based on past experience of the level of repairs and returns.

13 Other gain, net

	Six months ended 30 June 2006	Six months ended 30 June 2005
Sales of samples and materials	**2,314**	3,155
Interest income	**2,842**	2,052
Others	**687**	17
	5,843	5,224

14 Expenses by nature

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

	Six months ended 30 June	
	2006	2005
Employee benefits expenses	**74,127**	60,598
Changes in inventories of finished goods and work in progress	**29,310**	(17,827)
Raw material and consumables used	**1,625,396**	1,908,953
Depreciation of property, plant and equipment *(note 5)*	**22,632**	28,588
Amortisation of intangible assets *(note 5)*	**1,935**	734
Written down of inventories to net realisable value *(note 6)*	**2,404**	4,903
Provision for warranty *(note 12)*	**14,344**	7,180
Operating leases of buildings	**8,108**	8,285
Research and development costs	**3,355**	6,831
Directors' remuneration	**995**	750

15 Finance costs

	Six months ended 30 June	
	2006	2005
Interest on bank loans	**4,288**	5,720

16 Income tax expense

	Six months ended 30 June	
	2006	2005
Current taxation – PRC enterprise income tax	**4,680**	3,141
Deferred income tax	**(2,171)**	–
	2,509	3,141

(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 2006 (30 June 2005: Nil).

(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 is 15%. As approved by the tax authorities in 1998, Sang Fei is entitled to exemption from income taxes for two years followed by a 50% tax reduction for three years, commencing from the year ended 31 December 2000, the first cumulative profit-making year net of losses carried forward.

Sang Fei was certified as a high-tech enterprise from 2002 and as approved by the tax authorities in 2004, Sang Fei is entitled to 50% tax reduction from income taxes for further three years starting from 2005. Consequently, enterprise income taxes have been provided at the rate of 7.5% for the six months ended 30 June 2006 (30 June 2005: 7.5%).

17 Earnings per share

The calculation of the basic earnings per share is based on the Group's profit attributable to equity holders of the Company for the six months ended 30 June 2006 of HK$24,421,000 (30 June 2005: HK$20,751,000) and 1,083,560,000 (30 June 2005: 1,083,560,000 ordinary shares deemed to have been in issue on 1 January 2005) ordinary shares in issue during the six months ended 30 June 2006.

The exercise of the share option granted under the share option schedule of the Company would have an anti-dilutive effect on the earnings per share for the period and therefore, no diluted earnings per share has been presented.

18 Dividends

A 2005 final dividend of HK$0.02 (2004 final: Nil) per ordinary share totaling HK$21,671,000 was paid in June 2006.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (30 June 2005: Nil).

19 Commitments

(a) Capital commitments

The Group had no material capital commitments which were authorised but not contracted and provided for as of 30 June 2006.

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

	As at	
	30 June 2006	31 December 2005
Purchase of property, plant and equipment and computer software	**1,502**	3,163

(b) Operating lease commitments

As at 30 June 2006 the Group had future aggregate minimum lease payments under non-cancellable operating leases of buildings as follows:

	As at	
	30 June 2006	31 December 2005
Not later than one year	**20,537**	25,635
In the second to fifth year	**21,903**	27,808
	42,440	53,443

20 Contingent liability

The Group did not have any material contingent liabilities outstanding as at 30 June 2006 (31 December 2005: Nil).

21 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 period, the Group entered into transactions with companies under common control of:

– China Electronics Corporation, the ultimate holding company. These companies are denoted by * below;

– 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. These companies are denoted by # below.

(a) Sales of goods, samples and materials and maintenance services

	Six months ended 30 June	
	2006	2005
Sales of products:		
Philips (China) Investment Co., Ltd#	**935,559**	41,867
Philips Electronics Singapore Pte. Ltd.#	**419,176**	245,754
Philips Electronics Hong Kong Ltd.#	**178,715**	137,938
Philips France S.A.S.#	**1,651**	339,265
Philips Electronics (Shanghai) Co., Ltd#	**–**	789,171
Philips Electronics Trading Service (Shanghai) Co., Ltd.#	**–**	5,052
CEC Wireless R&D Ltd.*	**–**	332
Sales of samples and materials:		
Philips Consumer Electronics B.V.#	**5,003**	1,840
Philips (China) Investment Co., Ltd#	**2,586**	3,362
Philips Electronics Singapore Pte Ltd#	**615**	1,896
Philips Electronics Hong Kong Ltd.	**283**	–
Philips France S.A.S#	**23**	4,930
Philips Electronics (Shanghai) Co., Ltd#	**–**	8,236
CEC Wireless R&D Ltd.*	**–**	485
Shenzhen SED Industry Co., Ltd.*	**–**	281
Sales of maintenance services:		
Philips (China) Investment Co., Ltd.#	**13,188**	–

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

21 Related party transactions and balances *(continued)*

(b) Other transactions

	Note	Six months ended 30 June **2006**	2005
Purchases of goods:	*(i)*		
Philips Electronics Hong Kong Ltd.#		**93,787**	194,306
Shenzhen Sang Da Baili Electronics Co., Ltd.*		**5,563**	5,494
Philips France S.A.S.#		**2,526**	535
Shenzhen SED Fitment & Decoration Co., Ltd.*		**1,544**	–
Shanghai SED ARC Co., Ltd.*		**699**	–
Philips Electronics Trading Services (Shanghai) Co., Ltd.#		**620**	–
Langfang CEC Dacheng Electronics Co,. Ltd.*		**608**	–
Philips Electronics Beijing Co., Ltd.#		**285**	388
CEC Wireless R&D Ltd.*		**–**	3,014
Assembleon Hong Kong Ltd.#		**–**	4,133
Processing services:	*(ii)*		
Shenzhen Sang Da Baili Electronics Co., Ltd.*		**2,538**	2,659
Shenzhen SED Industry Co., Ltd.*		**2,077**	2,031
Fitment and decoration services:	*(iii)*		
Shenzhen SED Fitment & Decoration Co., Ltd.*		**767**	1,648
Canteen services:	*(iv)*		
Shenzhen Sang Da Baili Electronics Co., Ltd.*		**6,247**	3,467
Repair and maintenance services:	*(v)*		
Shanghai SED ARC Co., Ltd.*		**353**	–
Shenzhen SED ARC Co., Ltd.*		**50**	–
Rental:	*(vi)*		
Shenzhen SED Industry Co., Ltd.*		**4,277**	3,968

(i) Members of the Philips Group are the major 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 SMA 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.

21 Related party transactions and balances *(continued)*

(b) Other transactions *(continued)*

(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 own-branded 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.

(c) Key management compensation

	Six months ended 30 June	
	2006	2005
Salaries and other short-term benefits	**1,355**	1,348
Employer's contribution to pension scheme	**49**	56
Share-based compensations	**2,036**	–
	3,440	1,404

21 Related party transactions and balances *(continued)*

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

	As at **30 June 2006**	As at 31 December 2005
Trade receivables due from related parties:		
Philips (China) Investment Co., Ltd#	**422,017**	495,947
Philips Electronics Singapore Pte. Ltd.#	**221,238**	212,073
Philips Electronics Hong Kong Ltd.#	**52,364**	112,833
Philips France S.A.S.#	**–**	95,770
Philips Electronics Trading Service (Shanghai) Co., Ltd.#	**–**	3,928
	695,619	920,551
Other receivables due from related parties:		
Philips (China) Investment Co., Ltd.#	**3,779**	4,974
Philips Electronics Singapore Pte. Ltd.#	**585**	53
Philips Electronics Hong Kong Ltd.#	**974**	10,661
Philips Consumer Electronics B.V.#	**6,403**	–
Philips Electronics (Shanghai) Co., Ltd.#	**5,553**	5,553
Philips France S.A.S.#	**4,969**	4,969
Shenzhen Sang Da Baili Electronics Co., Ltd.*	**3,654**	–
Shenzhen SED Coalition Electronics Co., Ltd.*	**–**	4
PCC Hong Kong Ltd.#	**369**	369
	26,286	26,583
Trade payables due to related parties:		
Philips Electronics Hong Kong Ltd.#	**22,443**	39,010
Philips France S.A.S.#	**9,106**	1,523
Philips (China) Investment Co., Ltd.#	**6,273**	12,325
Philips Electronics Singapore Pte. Ltd.#	**276**	778
Shenzhen SED Fitment and Decoration Co., Ltd.*	**86**	–
Shenzhen SED Coalition Electronics Co., Ltd.*	**816**	1,138
Shenzhen Sang Da Baili Electronics Co., Ltd.*	**425**	–
Langfang CEC Dacheng Electronic Co., Ltd.*	**363**	652
Philips Electronics (Beijing) Co., Ltd.#	**172**	608
Philips Electronics Trading Services (Shanghai) Co., Ltd.#	**22**	–
	39,982	56,034
Other payables due to related parties:		
Philips Electronics Hong Kong Ltd.#	**4,681**	6,208
Philips Electronics Singapore Pte. Ltd.#	**2,303**	2,303
Shenzhen SED Fitment and Decoration Co., Ltd.*	**767**	29
Shenzhen Sang Da Baili Electronics Co., Ltd.*	**366**	1,942
Philips Electronics Trading Services (Shanghai) Co., Ltd.#	**699**	292
	8,816	10,774