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.