

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



CHINA ELECTRONICS CORPORATION HOLDINGS COMPANY LIMITED

中國電子集團控股有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 0085)

VALUE OF CONTINUING CONNECTED TRANSACTION BETWEEN SANG FEI AND BAILI EXCEEDED THE APPROVED 2005 CAP AND REVISION OF THE APPROVED 2006 CAP

The aggregate amount of service fees paid by Sang Fei to Baili in relation to the provision of canteen services by Baili to Sang Fei has exceeded the annual cap for the year ended 31 December 2005 approved by the shareholders of the Company. The Company proposes to increase the annual caps for the year ended 31 December 2005 and the year ending 31 December 2006 to RMB14 million and RMB18 million, respectively.

The Company makes this announcement pursuant to the requirements under Rule 14A.34 of the Listing Rules.

Reference is made to the circular issued by China Electronics Corporation Holdings Company Limited (the “**Company**”) dated 21 June 2004 (the “**Circular**”).

As disclosed in the Circular, the Company’s principal operating subsidiary, Shenzhen Sang Fei Consumer Communications Company Limited (“**Sang Fei**”), has on 17 June 2004 entered into the Business Services Agreement (the “**Business Services Agreement**”) with China Electronics Corporation (“**CEC**”), the controlling shareholder of the Company holding 74.98% interest in the Company. Pursuant to the Business Services Agreement, Sang Fei retains Shenzhen Sang Da Baili Electronics Co. Ltd. (“**Baili**”), an indirect non wholly-owned subsidiary of CEC, to provide canteen facilities and meals to Sang Fei’s staff. In return, Sang Fei will pay Baili an agreed service fee, which is determined by reference to the actual consumption and an agreed fixed premium for such services.

The directors (the “**Directors**”) of the Company announce that the aggregate amount of service fees paid by Sang Fei to Baili in relation to the provision of canteen services by Baili to Sang Fei has exceeded the maximum annual aggregate amount of RMB8 million for the year ended 31 December 2005 (the “**Approved 2005 Cap**”), which was approved by the shareholders of the Company at the Company’s special general meeting held on 14 July 2004 (the “**SGM**”).

The approved annual cap for the provision of canteen services by Baili to Sang Fei for the year ended 31 December 2004 was RMB7 million and the audited actual amount incurred was RMB6.8 million. As described in the Circular, the determination of the Approved 2005 Cap was based on the historical consumption rate and meal allowance granted by Sang Fei to its staff and the estimated headcount for the year ended 31 December 2005. The estimate was Sang Fei’s best estimate at the time the Circular was issued based on the information then available. However, during 2005, Sang Fei has experienced an increase in headcount. The average headcount of Sang Fei has increased by 48% to 3,055 in 2005. The

increase in headcount, together with the increase in the average consumption of canteen services by Sang Fei's staff, have led to a higher than expected increase in the service fees paid by Sang Fei to Baili for its canteen services during 2005. For the 11-month period ended 30 November 2005, the unaudited total amount incurred for canteen services was RMB10.5 million. Such increase is due to the growth in headcount of Sang Fei and the increase in the consumption level of the canteen services.

Revision of the Approved 2005 Cap and the Approved 2006 Cap

Since the aggregate amount of service fees paid by Sang Fei to Baili in relation to the provision of canteen services by Baili to Sang Fei has exceeded the Approved 2005 Cap, the Company therefore proposes to increase the annual cap for the service fees to be paid by Sang Fei to Baili for the year ended 31 December 2005 to RMB14 million (the **"Revised 2005 Cap"**).

In view of the expected growth in headcount in Sang Fei in the year ending 31 December 2006 and the estimated amount of service fees payable by Sang Fei to Baili for canteen services for the year ended 31 December 2005, the Directors expect that for the financial year ending 31 December 2006 the aggregate consideration to be paid by Sang Fei to Baili for canteen services will be more than the annual cap of RMB10 million for the year ending 31 December 2006 (the **"Approved 2006 Cap"**), which was approved by the shareholders of the Company at the SGM, but will not exceed RMB18 million. Therefore, the Company also proposes to increase the annual cap for the service fees to be paid by Sang Fei to Baili for the canteen services for the year ending 31 December 2006 to RMB18 million (the **"Revised 2006 Cap"**).

In determining the Revised 2006 Cap, the Company has made reference to the unaudited total amount payable by Sang Fei to Baili for the provision of canteen services for the 11-month period ended 30 November 2005, and the expected growth in headcount in Sang Fei in 2006 on the basis of the average growth of headcount during 2005.

Reasons for the continuing connected transaction

Baili operates canteen facilities for its staff. As the production facilities of Sang Fei are located in close proximity to Baili's canteen, Sang Fei has made use of such facilities to provide meals to its staff. In view that establishing new canteen facilities will require substantial capital expenditure and will not result in cost saving and that the provision of canteen services by Baili to Sang Fei has been, and will continue to be, carried out on normal commercial terms, the Directors consider that it is in the interests of the Company and its shareholders as a whole to retain Baili to provide canteen services.

The Directors (including the independent non-executive Directors) are of the view that the revision of the Approved 2005 Cap and the Approved 2006 Cap is fair and reasonable and in the interests of the Company and its shareholders as a whole. The continuing connected transactions contemplated under the Business Services Agreement have been, and will continue to be, carried out on normal commercial terms.

Listing Rules Implications

As Baili is an indirect non wholly-owned subsidiary of CEC, the provision of canteen services by Baili to Sang Fei constitutes continuing connected transaction of the Company. As none of the Revised 2005 Cap and the Revised 2006 Cap exceeds the 2.5% threshold under 14A.34 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the **"Listing Rules"**), the revision of the Approved 2005 Cap and the Approved 2006 Cap is only subject to the reporting and announcement requirements and is exempt from the independent shareholders' approval requirements, under Chapter 14A of the Listing Rules.

The management of the Company will review the amounts of continuing connected transactions of the Company on a monthly basis to ensure that the relevant annual caps are duly observed. The Company will ensure that the requirements under Chapter 14A of the Listing Rules are complied with in a timely manner.

General Information

The Company is an investment holding company. Its principal operating subsidiary, Sang Fei, is principally engaged in the manufacturing and sales of mobile handsets and other portable electronics products in the People's Republic of China ("PRC").

CEC is a state-owned enterprise established under the laws of the PRC. Established in 1989 with the approval of the State Council of the PRC, CEC is a nationwide electronics and information technology conglomerate directly administrated by the central government of the PRC. CEC actively focuses on communications and consumer electronics, semi-conductor and software sectors in the PRC. As at the date of this announcement, CEC, as the controlling shareholder of the Company, is interested in 74.98% interest in the Company. Baili is a subsidiary of Shenzhen SED Industry Co., Ltd., whose A shares are listed on the Shenzhen Stock Exchange and is indirectly owned as to approximately 55.34% by CEC.

As at the date of this announcement, the Company has (i) two non-executive Directors, namely Mr. Yang Xiaotang (Chairman) and Mr. Tong Baoan (Vice Chairman), (ii) two executive Directors namely Mr. Fan Qingwu (Managing Director) and Mr. Hua Longxing and (iii) three independent non-executive Directors, namely Mr. Chan Kay Cheung, Mr. Wong Po Yan and Mr. Yin Yongli.

By Order of the Board
China Electronics Corporation Holdings Company Limited
Yang Xiaotang
Chairman

Hong Kong, 6 January 2006

* *For identification purpose only*

"Please also refer to the published version of this announcement in The Standard"