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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)

CONTINUING CONNECTED TRANSACTIONS

The Directors announce that on 21 January 2006, Sang Fei entered into the Maintenance Services Agreement with Philips China. Pursuant to the Maintenance Services Agreement, Sang Fei will provide mobile handsets maintenance services to Philips China.

As the expected aggregate amount of consideration to be received by Sang Fei under the Maintenance Services Agreement on an annual basis will exceed the 2.5% threshold under Rule 14A.34 of the Listing Rules, the Continuing Connected Transactions constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules.

CEC, the controlling shareholder of the Company holding 74.98% interest in the Company, has approved the Continuing Connected Transactions by way of written approval. Since the conditions under Rule 14A.43 of the Listing Rules are met, the Company has made an application to The Stock Exchange of Hong Kong Limited for a waiver from the requirement to convene a special general meeting for the approval of the Continuing Connected Transactions by the independent shareholders of the Company.

A circular containing details relating to the Continuing Connected Transactions, a letter from an independent board committee of the board of directors and a letter from an independent financial adviser will be despatched to the shareholders of the Company as soon as practicable.

The directors (the “**Directors**”) of China Electronics Corporation Holdings Company Limited (the “**Company**”) announce that on 21 January 2006, the Company’s principal operating subsidiary, Shenzhen Sang Fei Consumer Communications Company Limited (“**Sang Fei**”), entered into a Maintenance Services Agreement (the “**Maintenance Services Agreement**”) with Philips (China) Investment Company Limited (“**Philips China**”). Philips China is a member of the Philips Group (being Koninklijke Philips Electronics N.V. and its affiliated companies).

MAINTENANCE SERVICES AGREEMENT

Date: 21 January 2006

Parties: (i) Sang Fei; and
(ii) Philips China

Major terms

1. Provision of mobile handsets maintenance services

Pursuant to the Maintenance Services Agreement, Sang Fei will provide mobile handsets maintenance services to Philips China.

2. Term of the agreement

Pursuant to the Maintenance Services Agreement, Sang Fei will provide mobile handsets maintenance services to Philips China for a term of one year commencing from 1 January 2006. During the term of the Maintenance Services Agreement, either party may give three months' written notice to terminate the agreement. Upon the expiry of the term of the Maintenance Services Agreement, the agreement may be extended for one year unless either party objects.

3. Pricing terms

Sang Fei will charge the mobile handsets maintenance fees at the pre-agreed price per unit. Such pre-agreed price will comprise material costs, labour costs, other related costs (including but not limited to transportation costs and logistics costs) and Sang Fei's service charge. The pre-agreed price is determined after arm's length negotiations between the parties with reference to the estimated costs to be incurred by Sang Fei for the provision of the maintenance services plus a service charge which is determined in accordance with market rates.

PROPOSED CAP

Under the purchasing agreement dated 13 July 2005 entered into between Philips Consumer Electronics International B.V. and Sang Fei (the "**Purchasing Agreement**"), Sang Fei will, among other things, design, develop, manufacture and supply mobile handsets, MP3 players and other portable electronics products to the Philips Group. Sang Fei will also provide maintenance services for mobile handsets for the Philips Group within 15 days (inclusive) after the sale of the mobile handsets supplied by Sang Fei under the Purchasing Agreement. Based on Sang Fei's discussions with the Philips Group on its estimated purchase volume from Sang Fei for *Philips* branded mobile handsets on a non-committed basis, the Directors expect from that for the financial year ending 31 December 2006, the aggregate sales value of *Philips* branded mobile handsets under the Purchasing Agreement will not exceed RMB6,235 million. Details of the Purchasing Agreement are set out in the circular dated 11 August 2005 of the Company.

The Maintenance Services Agreement extends the maintenance services to be provided by Sang Fei beyond 15 days after the sale of the mobile handsets to cover the whole warranty period of the mobile handsets.

The Directors expect that for the financial year ending 31 December 2006 the aggregate amount of consideration to be received by Sang Fei from Philips China for the provision of mobile handsets maintenance services under the Maintenance Services Agreement will not exceed RMB60 million (equivalent to approximately HK\$57.7 million). The annual cap for the consideration to be received by Sang Fei from Philips China for the provision of mobile handsets maintenance services is therefore set at RMB60 million for the financial year ending 31 December 2006.

In arriving at the above estimation of the annual aggregate amount of consideration to be received by Sang Fei from Philips China for the provision of mobile handsets maintenance services, the Directors have made reference to Philips Group's total sales of mobile handsets during the past 12 months, Philips Group's budgeted purchase volume from Sang Fei for *Philips* branded mobile handsets and the anticipated demand for maintenance services on the basis of such historical sales volume and budgeted purchase volume, and the proportion of mobile handsets which have been repaired out of the total number of mobile handsets which have been sold.

In connection with the provision of the maintenance services, Sang Fei will obtain from Philips China their on-hand spare parts and mobile handsets for exchange with or replacement for mobile handsets repaired by Sang Fei ("**Service Materials**") at a consideration of approximately RMB15 million. The prices of Service Materials to be purchased by Sang Fei from Philips China will be determined after arm's length negotiations between the parties with reference to market rates. Such consideration will be covered by the annual cap of RMB1,875 million (equivalent to approximately HK\$1,803 million) for the purchase of raw materials by Sang Fei from the Philips Group for the year ending 31 December 2006, which annual cap has been approved by shareholders of the Company (the "**Approved Annual Cap**"). Details of the Approved Annual Cap are set out in the circular dated 11 August 2005 of the Company.

The terms of the Maintenance Services Agreement have been determined on an arm's length basis and the provision of mobile handsets maintenance services pursuant to the Maintenance Services Agreement (the "**Continuing Connected Transactions**") will be conducted in the ordinary course of business of the Group (being the Company and its subsidiaries) and on normal commercial terms. Since Sang Fei has been manufacturing mobile handsets for the Philips Group under the Purchasing Agreement, Sang Fei possesses the expertise and competence to provide the maintenance service. In view that Sang Fei can obtain a profit margin by providing such services, the Directors are of the view that the Continuing Connected Transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole. In view of the analysis stated above, the Directors are of the view that the proposed cap for the annual aggregate amount of consideration to be received by Sang Fei from Philips China under the Maintenance Services Agreement for the financial year ending 31 December 2006 is fair and reasonable. Based on the information currently available and subject to the opinion of the independent financial adviser, the independent non-executive Directors concur with the view of the Directors.

REASONS FOR ENTERING INTO THE MAINTENANCE SERVICES AGREEMENT

Since completion of the acquisition of a 65% equity interest in Sang Fei in September 2004, the Group has been principally engaging in the manufacture and sales of mobile handsets in the People's Republic of China (the "**PRC**"). The Group's objective is to become a leading consumer electronics and communications products and service provider in the PRC.

Given its nine years' experience in the manufacturing of mobile handsets, Sang Fei has already established a well-developed production and technical capability, which enables it to explore business opportunities in other mobile handsets related business. With the existing production capacity and technical capability, the Directors consider that Sang Fei should further leverage its competitive advantages in mobile handsets related business by further expanding its mobile handsets maintenance services business.

The Maintenance Services Agreement will extend Sang Fei's existing cooperation with the Philips Group, and will provide Sang Fei and indirectly, the Company, with an additional source of revenue and enable the Group to further capitalise on the rapid growth of the global communications products market and to maximise the utilisation of the Group's existing production capacity. The Directors consider that it is in the interests of the Company and the shareholders of the Company to enter into the Maintenance Services Agreement which will enable Sang Fei to generate a relatively steady new stream of revenue from the maintenance of mobile handsets for Philips China.

LISTING RULES IMPLICATIONS, WRITTEN SHAREHOLDER'S APPROVAL AND DESPATCH OF SHAREHOLDERS' CIRCULAR

Sang Fei is the principal operating subsidiary of the Company. The Philips Group owns 25% interest in Sang Fei. Philips China is a member of the Philips Group. Accordingly, Philips China is a connected person to the Company and the transactions contemplated under the Maintenance Services Agreement are continuing connected transactions of the Company. As the expected aggregate amount of consideration to be received by Sang Fei under the Maintenance Services Agreement on an annual basis will exceed the 2.5% threshold under Rule 14A.34 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), the Continuing Connected Transactions constitutes non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules and will normally be subject to the requirements of reporting, announcement and approval by the independent shareholders of the Company at a special general meeting as set out in Chapter 14A of the Listing Rules. In relation to the purchase of Service Materials, the consideration to be paid by Sang Fei to Philips China will be covered by the Approved Annual Cap.

However, as the Continuing Connected Transactions are between Sang Fei and Philips China only and Philips China is only a connected person to the Company by virtue of the Philips Group being a substantial shareholder of Sang Fei (to the best knowledge of the Directors, the Philips Group has no shareholding in the Company), no shareholder of the Company is required to abstain from voting at any general meeting convened by the Company for the purpose of approving the Continuing Connected Transactions. CEC, the controlling shareholder of the Company holding 74.98% interest in the Company, has approved the Continuing Connected Transactions by way of written approval. Since the conditions under Rule 14A.43 of the Listing Rules are met, the Company has made an application to The Stock Exchange of Hong Kong Limited for a waiver from the requirement to convene a special general meeting for the approval of the Continuing Connected Transactions by the independent shareholders of the Company.

A circular containing details relating to the Continuing Connected Transactions, a letter from an independent board committee of the board of directors and a letter from an independent financial adviser will be despatched to the shareholders of the Company as soon as practicable.

General Information

The Company is an investment holding company. Its principal operating subsidiary, Sang Fei, is primarily engaged in the manufacturing and sales of mobile handsets and other portable electronics products in the PRC. The Philips Group is one of the world's largest electronics companies and considers itself to be one of the global leaders in colour television sets, lighting, electric shavers, medical diagnostic and patient monitoring and one-chip TV products.

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.

For the purpose of this announcement, unless otherwise specified, conversions of Renminbi into Hong Kong dollars are based on the exchange rate of RMB1.04 to HK\$1.00. The translations are not representations that the Renminbi and Hong Kong dollar amounts could actually be converted at such rate, if at all.

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

Hong Kong, 25 January 2006

* *For identification purpose only*

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