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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 3 March 2006, Sang Fei entered into the Plastic Supply Agreement with Baili. Pursuant to the Plastic Supply Agreement, Sang Fei will purchase from Baili the plastic parts used for the manufacture of mobile handsets.

Baili is an indirect non wholly-owned subsidiary of CEC, the ultimate controlling Shareholder holding 74.98% interest in the Company. Accordingly, Baili is a connected person to the Company and the transactions contemplated under the Plastic Supply Agreement are continuing connected transactions of the Company.

As the expected aggregate amount of consideration to be paid by Sang Fei under the Plastic Supply 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 and will be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and the independent shareholders' approval requirements under Rule 14A.48 of the Listing Rules.

The SGM will be convened for the purpose of approving the Continuing Connected Transactions and the proposed caps. In accordance with the Listing Rules, CEC and its associates will abstain from voting on the relevant ordinary resolution at the SGM. The vote of the Independent Shareholders on such resolution will be taken by poll.

A circular containing details relating to the Continuing Connected Transactions, a letter from the Independent Board Committee, a letter from Altus and the notice of the SGM will be despatched to the Shareholders as soon as practicable.

PLASTIC SUPPLY AGREEMENT

Date : 3 March 2006

Parties : (i) Sang Fei; and
(ii) Baili

Major terms

1. *Purchase of plastic parts*

Pursuant to the Plastic Supply Agreement, Sang Fei will purchase from Baili the plastic parts used for the manufacture of mobile handsets. The Plastic Supply Agreement does not create any obligation on the part of Sang Fei to purchase plastic parts exclusively from Baili. Sang Fei may source plastic parts from any other parties.

2. *Term of the agreement*

Subject to the approval of the Continuing Connected Transactions and the proposed caps by the Independent Shareholders at the SGM, the Plastic Supply Agreement will be for a term of three years commencing from 1 April 2006.

3. *Pricing terms*

The prices of the plastic parts to be supplied by Baili to Sang Fei under the Plastic Supply Agreement will be determined after arm's length negotiations between the parties with reference to market rates. The pricing terms will be no less favourable than those offered to Sang Fei by other third party suppliers.

PROPOSED CAP

Subject to the approval by the Independent Shareholders, the Plastic Supply Agreement will be for a term of three years commencing from 1 April 2006 and will expire on 31 March 2009. The Directors expect that for the nine months ending 31 December 2006, the two financial years ending 31 December 2007 and 2008 and the three months ending 31 March 2009, the aggregate amount of consideration to be paid by Sang Fei to Baili for the purchase of plastic parts under the Plastic Supply Agreement will not exceed RMB43.5 million (equivalent to approximately HK\$41.8 million), RMB104.5 million (equivalent to approximately HK\$100.5 million), RMB120 million (equivalent to approximately HK\$115.4 million) and RMB30 million (equivalent to approximately HK\$28.8 million), respectively. The caps for the Continuing Connected Transactions are therefore set at the amounts set out in the following table:

	For the nine months ending 31 December 2006	For the financial year ending 31 December 2007	For the financial year ending 31 December 2008	For the three months ending 31 March 2009
		(RMB million)		
Cap for the Continuing Connected Transactions	43.5	104.5	120	30

In arriving at the above estimation of the aggregate amount of consideration to be paid by Sang Fei to Baili for the purchase of plastic parts, the Directors have taken into account the anticipated consumption volume of plastic parts on the basis of the estimated sales volume of mobile handsets during the term of the Plastic Supply Agreement and the average cost of the plastic parts by reference to the market prices. The Directors have made reference to Sang Fei's historical sales volume of mobile handsets when determining the anticipated consumption volume during the term of the Plastic Supply Agreement. For the year ended 31 December 2004 and for the six months ended 30 June 2005, Sang Fei sold an aggregate of 8.4 million and 3.6 million units of mobile

handsets respectively. In general, the sales of mobile handsets follows a cyclical pattern. Sales takes place in the second half of a year will be more than that in the first half of a year. The Directors anticipate that Sang Fei's sales volume of mobile handsets will maintain a sustained and steady growth. Sang Fei will purchase plastic parts from Baili on a pilot run basis during 2006. Thereafter, Sang Fei plans to increase the proportion of plastic parts to be supplied by Baili so as to maximize the cost efficiency brought about by the Plastic Supply Agreement. As such, the caps for the Continuing Connected Transactions show an upward trend.

The terms of the Plastic Supply Agreement have been determined on an arm's length basis and the transactions contemplated thereunder will be conducted in the ordinary course of business of the Group and on normal commercial terms. In view of the analysis stated above, the Directors are of the view that the terms of the Plastic Supply Agreement and the proposed caps for the aggregate amount of consideration to be paid by Sang Fei to Baili under the Plastic Supply Agreement for the nine months ending 31 December 2006, the two financial years ending 31 December 2007 and 2008 and the three months ending 31 March 2009, are fair and reasonable. Based on the information currently available and subject to the opinion of Altus, the independent non-executive Directors concur with the view of the Directors.

REASONS FOR ENTERING INTO THE PLASTIC SUPPLY 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 PRC. The Group's objective is to become a leading consumer electronics and communications products and service provider in the PRC.

In order to enhance the competitiveness of its products, Sang Fei places stringent quality control on selection of production materials. The Directors consider that sophisticated and exquisite mobile handsets are, and will continue to be, the future market trend. In addition to the use of technologically advanced accessories and components, the use of high quality and delicate plastic parts also plays an important part in producing sophisticated and exquisite mobile handsets. Baili has been principally engaged in the manufacturing of electronics and electrical devices and accessories for over six years and possesses the necessary expertise and technology know-how in producing high quality and delicate plastic parts for electronics and electrical devices and accessories. In addition, Baili is located in the same industrial complex as the premises of Sang Fei. This close vicinity enables Sang Fei to enjoy logistics benefits and convenience in the management and supervision of the manufacturing process of the plastic materials.

Under the Plastic Supply Agreement, Sang Fei will purchase plastic parts from Baili in bulk. As a result, the average fixed cost per individual plastic part will be reduced, thereby reducing the cost of each individual plastic part payable by Sang Fei. The Plastic Supply Agreement provides Sang Fei with the advantage of economies of scale which further enhances the competitiveness of its products. As such, it will be cost efficient for Sang Fei to engage Baili for producing the plastic parts used for the manufacturing of mobile handsets.

Before entering into the Plastic Supply Agreement, Sang Fei sourced the plastic parts used for the manufacture of mobile handsets from Baili in a smaller scale and also from some other third party suppliers. For the financial year ended 31 December 2004 and for the six months ended 30 June 2005, Sang Fei purchased from Baili raw materials amounted to RMB8.1 million and RMB5.5 million, respectively.

Given that Baili can supply high quality plastic parts at market rates and that Sang Fei can enjoy logistics benefits by sourcing plastic parts from Baili, Sang Fei entered into Plastic Supply Agreement to expand the purchase volume from Baili.

The Plastic Supply Agreement will enable Sang Fei to obtain high quality and delicate plastic parts in a cost efficient manner and at market rates, which the Directors consider to be important to sustain the competitiveness of the Group's products. In view of the above, the Directors consider that it will be in the interests of the Company and the Shareholders to enter into the Plastic Supply Agreement.

LISTING RULES IMPLICATIONS

Baili is an indirect non-wholly subsidiary of CEC and is principally engaged in the manufacture of electronics and electrical devices and accessories in the PRC. CEC is the ultimate controlling Shareholder holding 74.98% interest in the Company. Accordingly, Baili is a connected person to the Company and the transactions contemplated under the Plastic Supply Agreement are continuing connected transactions of the Company.

As the expected aggregate amount of consideration to be paid by Sang Fei under the Plastic Supply 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 and will be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and the independent shareholders' approval requirements under Rule 14A.48 of the Listing Rules.

An independent Board Committee comprising Messrs. Chan Kay Cheung, Wong Po Yan and Yin Yongli, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the Continuing Connected Transactions and the proposed caps. Altus has been retained as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in this regard.

SGM

The SGM will be convened to consider and, if thought fit, to approve the Continuing Connected Transactions and the proposed caps. In accordance with the Listing Rules, CEC and its associates will abstain from voting on the relevant ordinary resolution at the SGM. The vote of the Independent Shareholders on such resolution will be taken by poll.

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.

A circular containing details relating to the Continuing Connected Transactions, a letter from the Independent Board Committee, a letter from Altus and the notice of the SGM will be despatched to the Shareholders as soon as practicable.

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.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meaning:

“Altus”	Altus Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the approval of the Continuing Connected Transactions and the proposed caps
“associates”	has the meaning ascribed to this term under the Listing Rules
“Baili”	深圳市桑達百利電器有限公司 (Shenzhen Sang Da Baili Electronics Co. Ltd.), an indirect non wholly-owned subsidiary of CEC and the supplier under the Plastic Supply Agreement
“CEC”	中國電子信息產業集團公司 (China Electronics Corporation), a state-owned enterprise established under the laws of the PRC, the ultimate controlling Shareholder
“Company”	China Electronics Corporation Holdings Company Limited
“connected person”	has the meaning ascribed to this term under the Listing Rules
“Continuing Connected Transactions”	the transactions contemplated under the Plastic Supply Agreement
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of the Board, consisting of Messrs. Chan Kay Cheung, Wong Po Yan and Yin Yongli, independent non-executive Directors, formed to advise the Independent Shareholders in respect of the approval of the Continuing Connected Transactions and the proposed caps
“Independent Shareholders”	Shareholders other than CEC and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Plastic Supply Agreement”	the Plastic Supply Agreement dated 3 March 2006 entered into between Sang Fei and Baili
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC

“Sang Fei”	深圳桑菲消費通信有限公司(Shenzhen Sang Fei Consumer Communications Company Limited), a sino-foreign equity joint venture company established in the PRC and owned as to 65% by the Company
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, to approve the Continuing Connected Transactions and the proposed caps
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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, 9 March 2006

* *For identification purpose only*

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