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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)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

The Directors announce that on 21 December 2006, Sang Fei entered into the Supplemental Business Services Agreement and the Supplemental Processing Agreement with CEC to, among other things, extend the term of the Business Services Agreement and the Processing Agreement to 31 December 2009.

CEC is the Company's ultimate controlling Shareholder, holding 74.98% interest in the Company and is therefore a connected person of the Company. Accordingly, the transactions contemplated under the Supplemental Business Services Agreement and the Supplemental Processing Agreement are continuing connected transactions of the Company.

As the expected consideration payable by the Group under the Supplemental Business Services Agreement and the expected consideration payable by the Group under the Supplemental Processing Agreement on an annual basis will exceed the 2.5% threshold under Rule 14A.34 of the Listing Rules, the transactions contemplated under the Supplemental Business Services Agreement and the Supplemental Processing Agreement and each of the proposed annual caps are subject to the approval of the Independent Shareholders.

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

Reference is made to the joint announcement of the Company and CEC dated 20 December 2003 and the circular of the Company dated 21 June 2004 where the Company announced that, among other things, the Business Services Agreement was entered into between Sang Fei and CEC and the Processing Agreement was entered into between Sang Fei and Baili.

BACKGROUND

On 17 June 2004, Sang Fei entered into the Business Services Agreement with CEC to set out the framework for the ongoing business relationship between the CEC Group on the one hand and Sang Fei on the other.

Sang Fei is the principal operating subsidiary of the Company engaging in the manufacturing and sales of mobile handsets and other portable electronics products in the PRC. The equity interest of Sang Fei is currently held as to 65% by the Company, as to 25% by members of the Philips Group and as to 10% by Shenzhen SED Industry Co., Ltd (a company listed on the Shenzhen Stock Exchange).

Pursuant to the Business Services Agreement, Sang Fei supplies products (including mobile handsets), raw materials and samples to the CEC Group and the CEC Group supplies raw materials and provides various support services, including canteen services and renovation services, to Sang Fei.

In August 2003, Sang Fei entered into the Processing Agreement with Baili, pursuant to which Sang Fei secured the dedicated processing services of a complete SMA production line for mobile handsets and other electronics products from Baili (together with operational management rights). In order to meet the growth in production requirements, Sang Fei subsequently secured the dedicated processing services of an additional SMA production line in the second half of 2004.

The Business Services Agreement and the Processing Agreement were approved by the independent shareholders of the Company at the special general meeting of the Company held on 14 July 2004.

Reference is made to the joint announcement of the Company and CEC dated 20 December 2003 and the circular of the Company dated 21 June 2004 for the background and details of the Business Services Agreement and the Processing Agreement.

Sang Fei and CEC intends to continue the continuing connected transactions under the Business Services Agreement and the Processing Agreement. Therefore, Sang Fei and CEC entered into the Supplemental Business Services Agreement and the Supplemental Processing Agreement on 21 December 2006 to renew the Business Services Agreement and the Processing Agreement for a further term of three years expiring on 31 December 2009.

SUPPLEMENTAL BUSINESS SERVICES AGREEMENT

The Business Services Agreement covers (i) the sales of products, raw materials and samples by Sang Fei to the CEC Group; (ii) the purchase of raw materials by Sang Fei from the CEC Group; (iii) the provision of product design services by the CEC Group to Sang Fei; (iv) the provision of after sales and maintenance services by the CEC Group to Sang Fei; (v) the provision of canteen services by the CEC Group to Sang Fei; and (vi) the provision of renovation services by the CEC Group to Sang Fei.

Details of the continuing connected transactions contemplated under the Supplemental Business Services Agreement are as follows:

(i) Sales of products, samples and raw materials to the CEC Group

Pursuant to the Supplemental Business Services Agreement, Sang Fei will manufacture and supply mobile handsets and semi-finished products to the CEC Group. One of the existing distributors of Sang Fei's mobile handsets is a member of the CEC Group. The CEC Group may also purchase semi-finished products and sample mobile handsets for their in-house design testing purpose and as replacement mobile handsets to be provided to their customers.

Pursuant to the Supplemental Business Services Agreement, the CEC Group will also source the required raw materials and electronics parts from Sang Fei for the purpose of providing after sales and maintenance services to Sang Fei.

The products, samples and raw materials to be supplied to the CEC Group will be priced in accordance with their models and specifications. The prices will be determined after arm's length negotiations between the parties with reference to market rates. The prices offered to the CEC Group will be no less favourable than those offered to other third party customers of Sang Fei. Such pricing terms are the same as those currently adopted by the parties.

(ii) Purchase of raw materials from the CEC Group

Pursuant to the Supplemental Business Services Agreement, Sang Fei may purchase from members of the CEC Group raw materials, including but not limited to mobile handsets batteries, integrated chips and electronics parts, which are used to manufacture mobile handsets on a non-committed basis. The Supplemental Business Services Agreement does not impose any obligation on the part of Sang Fei to purchase raw materials exclusively from the CEC Group. Sang Fei may source raw materials from any other parties.

The price of raw materials to be supplied by the CEC Group to Sang Fei is determined after arm's length negotiations between the parties with reference to market rates. The prices offered to Sang Fei will be no less favourable than those offered by other third party suppliers to Sang Fei. Such pricing terms are the same as those currently adopted by the parties.

(iii) After sales and maintenance services

The typical warranty period of Sang Fei's mobile handsets is 12 months. Sang Fei may engage members of the CEC Group to provide after sales and maintenance services in order to discharge its product warranty obligations.

The CEC Group will charge the maintenance services fees at a pre-agreed per unit price. Such pre-agreed price is determined after arm's length negotiations between the parties with reference to market rates. The prices offered to Sang Fei will be no less favourable than those offered by other third party service providers to Sang Fei. Such pricing terms are the same as those currently adopted by the parties.

(iv) Canteen services

Pursuant to the Supplemental Business Services Agreement, Sang Fei retains Baili 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 service fees for such services. The service fees chargeable by Baili for the canteen services is determined after arm's length negotiations between the parties with reference to market rates. The prices offered to Sang Fei will be no less favourable than those offered by other third party service providers to Sang Fei. Such pricing terms are the same as those currently adopted by the parties.

The annual cap for this continuing connected transaction for the financial year ending 31 December 2006 has been revised from RMB10,000,000 to RMB18,000,000. For details, please refer to the announcement of the Company dated 6 January 2006.

(v) Renovation services

In order to cope with the growing business needs, Sang Fei may need to expand and improve its production facilities and as such, additional factory premises may be required and existing factory premises may have to be renovated in order to provide an efficient production

environment. Pursuant to the Supplemental Business Services Agreement, Sang Fei may engage members of the CEC Group to provide renovation services for its factory premises. The CEC Group will charge the renovation service fees with reference to market rates. The prices offered to Sang Fei will be no less favourable than those offered by other third party service providers to Sang Fei. Such pricing terms are the same as those currently adopted by the parties.

Sang Fei will engage its in-house research and development team and other third party service providers for the provision of product design services. Therefore, Sang Fei does not plan to engage the CEC Group for the provision of product design services under the Supplemental Business Services Agreement.

SUPPLEMENTAL PROCESSING AGREEMENT

In August 2003, Sang Fei entered into the Processing Agreement with Baili, pursuant to which Sang Fei secured the dedicated processing services of a complete SMA production line for mobile handsets and other electronics products from Baili (together with operational management rights) for an annual processing fee of not less than RMB5,110,000. In order to meet the growth in production requirements, Sang Fei subsequently secured the dedicated processing services of an additional SMA production line. SMA is a production process for the circuit board of electronics products.

Pursuant to the Supplemental Processing Agreement, Sang Fei will continue to secure the dedicated processing services of the SMA production lines for mobile handsets and other electronics products which it currently secures from members of the CEC Group. The processing fees shall be determined according to a pre-agreed unit price which is determined with reference to market rates. The annual aggregate processing fees will therefore depend on the volume related subject to a minimum of RMB9,423,000 for securing the dedicated processing services of the existing two complete SMA production lines. The prices offered to Sang Fei will be no less favourable than those offered by other third party service providers to Sang Fei. Such pricing terms are the same as those currently adopted by the parties.

In addition, Sang Fei may secure the dedicated processing services of additional SMA production lines from the CEC Group. Any such decision will be made with reference to the business requirements of Sang Fei and the terms and quality of services which are offered by the CEC Group. The Supplemental Processing Agreement does not impose any obligation on the part of Sang Fei to secure processing services exclusively from the CEC Group. Sang Fei may secure processing services from any other party.

HISTORICAL FIGURES AND EXISTING ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTIONS

In respect of each category of continuing connected transactions contemplated under the Business Services Agreement and the Processing Agreement, the historical figures for each of the two financial years ended 31 December 2004 and 2005 and the nine months ended 30 September 2006, and the existing annual caps are set out below:

Type of transaction	Existing annual caps for 2006 <i>(Note 1)</i> <i>(RMB'000)</i>	Unaudited figures for the nine months ended 30 September 2006 <i>(RMB'000)</i>	Historical figures for	
			2004 <i>(RMB'000)</i>	2005 <i>(RMB'000)</i>
Sale of products, samples and raw materials				
– Annual charges received by the Group	950,000	3,500	44,919	4,900 <i>(Note 2)</i>
Purchase of raw materials				
– Annual charges paid by the Group	17,000	2,000	8,213	8,483
After sales and maintenance services				
– Annual service charges paid by the Group	41,000	1,900	1,199	1,522
Canteen services				
– Annual service charges paid by the Group <i>(Note 3)</i>	18,000	8,400	6,588	11,498
Products design services				
– Annual service charges paid by the Group	19,000	0	0	0
Renovation services				
– Annual service charges paid by the Group	15,000	1,600	5,166	2,508
Processing arrangements				
– Annual service charges paid by the Group	15,330	8,200	6,491	9,153

Notes:

- The existing annual caps for the transactions contemplated under the Business Services Agreement and the Processing Agreement (other than the existing annual cap for canteen services which was revised in 2006) were determined based on the factors disclosed in the Company's circular dated 21 June 2004. The factors taken into account by the Company when revising the annual cap for canteen services were set out in the Company's announcement dated 6 January 2006.

All existing annual caps were determined based on Sang Fei's best estimate and the circumstances then existing at the time when such annual caps were determined. As Sang Fei's business develops, the business model of Sang Fei and the cooperation model between Sang Fei and the CEC Group have been

adjusted in order to better suit Sang Fei's business needs and to increase Sang Fei's competitiveness in the market. As such, the actual figures of the transactions may be different from the existing annual caps of such transactions.

2. Sang Fei has been supplying mobile handsets, raw materials and samples to the CEC Group under the Business Services Agreement. Before 2005, the CEC Group is the principal distributor of Sang Fei manufactured mobile handsets. In 2005, Sang Fei set up its own distribution channels and has started distributing products through its own distribution channels. As a result of this new business arrangement, the historical figures for this continuing connected transactions dropped substantially from 2004 to 2005.
3. The annual cap for the amount payable by the Group for the canteen services provided by the CEC Group was revised from RMB10,000,000 to RMB18,000,000 in 2006. Please refer to the announcement of the Company dated 6 January 2006 for details.

PROPOSED ANNUAL CAPS

It is expected that for the three financial years ending 31 December 2007, 2008 and 2009, the amount of consideration receivable by Sang Fei from the CEC Group for the sales of products, raw materials and samples, the amount of consideration payable by Sang Fei to the CEC Group for the purchase of raw materials and the amount of consideration payable by Sang Fei to the CEC Group for the after sales and maintenance services will not exceed the amounts set out in the following table. Accordingly, those amounts have been set as the proposed annuals caps for the relevant continuing connected transactions.

Type of transaction	2007 (RMB'000)	2008 (RMB'000)	2009 (RMB'000)
Sales of products, raw materials and samples			
– Annual charges receivable by the Group	9,600	11,520	13,820
Purchase of raw materials			
– Annual charges payable by the Group	20,400	24,480	29,380
After sales and maintenance services			
– Annual charges payable by the Group	3,600	4,320	5,180

Sales of products, raw materials and samples

In arriving at the above annual caps for the sales of products, raw materials and samples, the Company has made reference to the historical sales volume of products, raw materials and samples to the CEC Group and the anticipated demand for Sang Fei manufactured mobile handsets. Since mid 2006, Sang Fei has engaged the CEC Group to provide after sales and maintenance services for an extended range of products. For the purpose of providing such after sales and maintenance services, the CEC Group needs to source the required raw materials and electronics parts from Sang Fei. For the nine months ended 30 September 2006, the sales volume to the CEC Group amounted to RMB3,500,000. Such sales volume was largely attributable to the sales of raw materials and electronics parts to the CEC Group in the third quarter of 2006 (after Sang Fei has engaged the CEC Group to provide after sales and maintenance services for an extended range of products). The CEC Group has placed orders involving a comparable amount in the fourth quarter of 2006.

As the global consumer electronics and communications products market is expected to maintain its growth momentum in the coming years, Sang Fei's total sales volume to its customers is expected to increase. This increase in total sales volume will in turn lead to a growth in the demand for after sales and maintenance services. Therefore, it is expected that the volume of raw materials to be supplied to the CEC Group will grow steadily during the term of the Supplemental Business Services Agreement.

Furthermore, the Company considers that technologically advanced and sophisticated mobile handsets will continue to be the future market trend. As the manufacturing of technologically advanced mobile handsets would involve the use of advanced accessories and components, the costs of raw materials are also expected to increase during the term of the Supplemental Business Services Agreement.

In determining the expected sales volume of raw materials to the CEC Group, the Company has taken into account the expected sales volume of Sang Fei's products and the historical repair rate of such products, the historical consumption rate of raw materials for providing after sales and maintenance services and the expected increase in the costs of raw materials. The typical warranty period of Sang Fei's mobile handsets is 12 months. Therefore, in determining the expected volume of raw materials to be supplied to the CEC Group for the year ending 31 December 2007, the Company has also taken into account the sales volume of the range of products which Sang Fei has engaged the CEC Group to provide after sales and maintenance services over the last 12 months. Based on the above factors, the Company expects that the transaction volume of the sales of products, raw materials and samples to the CEC Group will continue to show an upward trend.

After sales and maintenance services

For the nine months ended 30 September 2006, the consideration payable by the Group for the after sales and maintenance services provided by the CEC Group amounted to RMB1,900,000. Since mid 2006, Sang Fei has engaged the CEC Group to provide after sales and maintenance services for an extended range of products. Compared to the historical figures of RMB1,199,000 and RMB1,522,000 for 2004 and 2005 respectively, the volume of this continuing connected transaction has increased substantially in 2006. The increase in volume is mainly due to the extension of the services provided by the CEC Group. It is expected that the total consideration payable by the Group will, as a result of this new business arrangement, continue to increase.

The demand for after sales and maintenance services will depend on the sales of Sang Fei manufactured products. As the global consumer electronics and communications products market is expected to maintain its growth momentum in the coming years, it is also expected that the volume of products to be supplied by Sang Fei to its customers will grow steadily. Accordingly, the demand for after sales and maintenance services by the Group is also expected to grow.

In determining the proposed annual caps for the three years ending 31 December 2007, 2008 and 2009, the Company has taken into account the factors stated above and the historical growth rate of these services. Since the typical warranty period of Sang Fei's mobile handsets is 12 months, the Company has also taken into account the sales volume of the range of products which Sang Fei has engaged the CEC Group to provide after sales and maintenance services over the last 12 months when determining the proposed annual cap for 2007.

Purchase of raw materials

During the term of the Business Services Agreement until the third quarter of 2006, the Company sourced the raw materials used for the manufacture of mobile handsets and other electronics products from the CEC Group in a smaller scale. CEC is a nationwide electronics and information technology conglomerate focusing on communications/consumer electronics, semi-conductor and software sectors in the PRC. In order to leverage on the advantage of economies of scale enjoyed by the CEC Group, Sang Fei has started sourcing raw materials from the CEC Group in a larger scale since the fourth quarter of 2006.

For the year ended 31 December 2005, the Group's total expenses on raw materials and consumables used was approximately RMB4,407,000,000 and the Group's total purchase volume of raw materials from the CEC Group was approximately RMB8,483,000.

As Sang Fei has started sourcing more raw materials from the CEC Group since the fourth quarter of 2006 (such raw materials were originally supplied by other suppliers), it is expected that the purchase volume from the CEC Group will increase substantially in the fourth quarter of 2006. Thereafter, the proportion of raw materials to be supplied by the CEC Group will increase as a result of this new business arrangement.

The Company consider that technologically advanced and sophisticated mobile handsets will continue to be the future market trend. As the manufacturing of technologically advanced mobile handsets would involve the use of advanced accessories and components, the costs of raw materials are expected to increase during the term of the Supplemental Business Services Agreement.

In arriving at the above annual caps for the three years ending 31 December 2007, 2008 and 2009 in respect of the total consideration payable by the Group to the CEC Group for the purchase of raw materials, the Company has taken into account the historical transaction volume, the additional raw materials that Sang Fei would source from the CEC Group as a result of the new business arrangement, the growth in the sales volume of Sang Fei's products and the expected increase in the costs of raw materials.

Canteen services

In view that the production volume of Sang Fei will grow steadily in the coming years, Sang Fei plans to expand its production and office premises during 2007 and 2009 in order to meet production needs. As a result of the expansion, Sang Fei will increase its headcount. Since the increase in headcount will be due to Sang Fei's expansion of production and office premises, it is expected that the growth in headcount will be more significant than the growth in 2006. Based on the historical consumption level of the canteen services per person, the expected growth in headcount in Sang Fei and the expected growth in the costs of the services with reference to the prevailing inflation rate, the amount payable by the Group for the canteen services provided by Baili is not expected to exceed RMB20,000,000 for the financial year ending 31 December 2007 and RMB25,000,000 for the two financial years ending 31 December 2008 and 2009. Accordingly, these amounts have been set as the proposed annual caps for this continuing connected transaction.

Renovation services

In view of the expected growth in Sang Fei's business, Sang Fei plans to expand and improve its production facilities during 2007 and 2009 in order to provide an efficient production environment which meets the increasing production needs. In addition, Sang Fei also plans to expand its office premises in order to cope with its business growth. It is expected that the amount payable by the Group to the CEC Group for the renovation services provided by members of the CEC Group will not exceed RMB10,000,000 for each of the three financial years ending 31 December 2007, 2008 and 2009. Accordingly, this amount has been set as the proposed annual cap for this continuing connected transaction.

Sang Fei did not undergo any major renovation and expansion project during 2004 and 2005 and the nine months ended 30 September 2006. The historical figures for such period mainly relate to the regular property maintenance work performed by the CEC Group. Since Sang Fei plans to undergo a major expansion and renovation project during 2007 and 2009, it is expected that the amount payable by Sang Fei will be substantially more than such historical figures. In determining the proposed annual caps for this continuing connected transaction, the Company has taken into account the historical costs of renovation services, the planned expansion of production and office premises and the planned renovation of the existing production premises.

Processing arrangements

Sang Fei currently secures the dedicated processing services of two complete SMA production lines from the CEC Group (together with operational management rights). As it is expected that Sang Fei's sales of products will maintain a steady growth in the coming years, in order to enhance its production capacity, the volume of processing services demanded by Sang Fei is expected to increase and Sang Fei may also need to secure the dedicated processing services of additional SMA production lines from members of the CEC Group as and when Sang Fei's business requires.

For the nine months ended 30 September 2006, the amount paid by Sang Fei to the CEC Group for the processing services amounted to RMB8,200,000. In general, the sales of mobile handsets follows a cyclical pattern. The production volume in the fourth quarter is usually more than the rest of a year. Therefore, the monthly processing fees payable by Sang Fei during the fourth quarter will be more than the average monthly processing fees.

In order to sustain its business growth, Sang Fei will have to secure additional processing services from its service providers so as to maintain an efficient production process. The amount of processing fees paid by Sang Fei to the CEC Group was increased by approximately 41% from 2004 to 2005. It is expected that the processing fees payable by Sang Fei to the CEC Group will continue to follow an upward trend. It is expected that the processing fees payable by Sang Fei to the CEC Group under the Supplemental Processing Agreement for the three years ending 31 December 2007, 2008 and 2009 will not exceed RMB20,000,000, RMB25,000,000 and RMB30,000,000, respectively. Accordingly, these amounts have been set as the proposed annual caps for this continuing connected transaction. In arriving at such proposed annual caps, the Company has taken into account the additional processing fees as a result of the growth in the volume of processing services demanded by Sang Fei and the securing of additional production lines from the CEC Group.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

Sang Fei is primarily engaged in the manufacturing and sales of mobile handsets and other portable electronics products in the PRC. The CEC Group is one of the distributors of Sang Fei manufactured mobile handsets. Besides, the CEC Group has been supplying raw materials and providing other support services to Sang Fei under the Business Services Agreement. The transactions contemplated under the Supplemental Business Services Agreement and the Supplemental Processing Agreement are vital and integral to the business operations of Sang Fei.

The Board considers that the Continuing Connected Transactions reflect normal commercial terms. The Continuing Connected Transactions, which have been entered into, and will continue to be carried out, in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole. The terms of the Continuing Connected Transactions and the proposed annual caps 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.

LISTING RULES IMPLICATIONS

Since CEC is the Company's ultimate controlling Shareholder holding 74.98% interest in the Company and therefore a connected person of the Company, the transactions contemplated under the Supplemental Business Services Agreement and the Supplemental Processing Agreement constitute continuing connected transactions of the Company.

As the expected consideration payable by the Group under the Supplemental Business Services Agreement and the expected consideration payable by the Group under the Supplemental Processing Agreement on an annual basis will exceed the 2.5% threshold under Rule 14A.34 of the Listing Rules, the transactions contemplated under the Supplemental Business Services Agreement and the Supplemental Processing Agreement and each of the proposed annual caps are subject to the approval of the Independent Shareholders.

Under Rule 14A.35(2) of the Listing Rules, in respect of a continuing connected transaction which is not fully exempted, an annual cap must be set and disclosed. The annual caps for the Continuing Connected Transactions for each of the three financial years ending 31 December 2007, 2008 and 2009 are set out below:

Type of transaction	Proposed Annual Caps for		
	2007 (RMB'000)	2008 (RMB'000)	2009 (RMB'000)
Sale of products, samples and raw materials			
– Annual charges receivable by the Group	9,600	11,520	13,820
Purchase of raw materials			
– Annual charges payable by the Group	20,400	24,480	29,380
After sales and maintenance services			
– Annual service charges payable by the Group	3,600	4,320	5,180
Canteen services			
– Annual service charges payable by the Group	20,000	25,000	25,000
Renovation services			
– Annual service charges payable by the Group	10,000	10,000	10,000
Processing arrangements			
– Annual service charges payable by the Group	20,000	25,000	30,000

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 annual 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 annual caps. In accordance with the Listing Rules, CEC and its associates will abstain from voting on the relevant ordinary resolutions at the SGM. The vote of the Independent Shareholders on such resolutions 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.

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 administered by the PRC government. CEC actively focuses on communications/consumer electronics, semi-conductor and software sectors in the PRC.

Baili is an indirect non-wholly subsidiary of CEC and is principally engaged in the manufacture of electronics and electrical devices and accessories.

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 of the Company as soon as practicable.

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 Continuing Connected Transactions
“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
“Board”	the board of Directors
“Business Services Agreement”	the Business Services Agreement dated 17 June 2004 entered into between CEC and Sang Fei, and should the context require, as supplemented by the Supplemental Business Services 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 Company’s ultimate controlling Shareholder
“CEC Group”	CEC and its subsidiaries (other than the Group)
“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 Supplemental Business Services Agreement and the Supplemental Processing Agreement
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“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, being all the independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Continuing Connected Transactions

“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
“Philips Group”	Koninklijke Philips Electronics N.V. and its affiliated companies and subsidiaries
“PRC”	the People’s Republic of China
“Processing Agreement”	the processing agreement entered into between Sang Fei and Baili in August 2003, and should the context require, as supplemented by the Supplemental Processing Agreement
“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 annual caps
“Shareholder(s)”	shareholder(s) of the Company
“SMA”	surface mount assembly
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Business Services Agreement”	the supplemental business services agreement dated 21 December 2006 entered into between Sang Fei and CEC
“Supplemental Processing Agreement”	the supplemental processing agreement dated 21 December 2006 entered into between Sang Fei and CEC

By Order of the Board
China Electronics Corporation Holdings Company Limited
Chen Zhaoxiong
Chairman

Hong Kong, 21 December 2006

As at the date of this announcement, the Company has (i) two non-executive Directors, namely Mr. Chen Zhaoxiong (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 identification purpose only*

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