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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: 00085)

ANNOUNCEMENT

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

DISPOSAL OF SANG FEI (BVI) COMPANY LIMITED

THE DISPOSAL

The Board announces that on 9 November 2009 after trading hours, the Company entered into the Share Transfer Agreement with the Purchaser and Shenzhen SED in respect of the Disposal. Pursuant to the Share Transfer Agreement, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Share, being the entire issued share capital of Sang Fei (BVI), at a consideration of HK\$10,000,000.

The consideration of the Disposal consists of payment of an initial consideration of HK\$5,000,000 and a deferred consideration of HK\$5,000,000. The initial consideration of HK\$5,000,000 will be satisfied by the Purchaser in cash upon completion of the Disposal. The deferred consideration is interest free and shall be satisfied by the Purchaser in cash within six months from the date of completion of the Disposal. The Purchaser may, from time to time, prepay all or part of the outstanding deferred consideration, at any time after completion of the Disposal until the expiry of six months from the date of completion of the Disposal.

Sang Fei (BVI) is a company incorporated under the laws of the British Virgin Islands. Sang Fei (BVI) is an investment holding company which has not, since its incorporation, carried on any business other than the acquisition and the holding of 65% equity interest in Sang Fei.

Sang Fei is a Sino-foreign equity joint venture company established under the laws of the PRC. Sang Fei and Huada Electronics are the principal operating subsidiaries of the Company. Sang Fei is primarily engaged in the manufacturing and sales of mobile handsets and other portable electronic products, while Huada Electronics is primarily engaged in the design, research and development and sales of integrated circuits.

Following completion of the Disposal, the Company will cease to hold any interest in Sang Fei (BVI) and its subsidiaries, and Sang Fei (BVI) and its subsidiaries will cease to be subsidiaries of the Company. Huada Electronics, which is a wholly-owned subsidiary of the Company, will be the principal operating subsidiary of the Company and the principal activities of the Group will be the design, research and development and sales of integrated circuits.

Furthermore, following completion of the Disposal, the current continuing connected transactions between Sang Fei and its subsidiaries on the one hand and CEC, the ultimate controlling shareholder of the Company, and its associates on the other, will cease to be continuing connected transactions of the Company.

The Purchaser is a wholly-owned subsidiary of Shenzhen SED. Shenzhen SED is a substantial shareholder of Sang Fei holding 25% of its equity interest and is a subsidiary of CEC, the ultimate controlling shareholder of the Company indirectly holding approximately 48.03% of the issued share capital of the Company through its wholly-owned subsidiary CEC (BVI) and approximately 23.27% of the issued share capital of the Company through China Huada, a company which is owned as to 50% by CEC. Both the Purchaser and Shenzhen SED are connected persons of the Company.

The Disposal constitutes a connected transaction of the Company and since the applicable percentage ratios under Rule 14.07 of the Listing Rules exceed 75%, the Disposal is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Disposal also constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules.

SGM

The SGM will be convened to consider and, if thought fit, to approve the Disposal. The vote of the Independent Shareholders at SGM on the ordinary resolution approving the Disposal shall be taken by poll. CEC and its associates are required to abstain from voting on the ordinary resolution.

DESPATCH OF CIRCULAR

A circular containing, among other things, further details of the Disposal, the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal, the recommendation from the Independent Board Committee and the financial information of the Group together with the notice of the SGM will be despatched to the shareholders of the Company as soon as practicable.

THE DISPOSAL

The Board announces that on 9 November 2009 after trading hours, the Company entered into the Share Transfer Agreement with the Purchaser and Shenzhen SED in respect of the Disposal.

The Share Transfer Agreement

Date

9 November 2009

Parties

- (1) Vendor: China Electronics Corporation Holdings Company Limited
- (2) Purchaser: P-Marshall Hong Kong Limited
- (3) Guarantor: Shenzhen SED Electronics Group Co., Ltd.

The Purchaser, a company incorporated under the laws of Hong Kong, is a wholly-owned subsidiary of Shenzhen SED. Shenzhen SED is a substantial shareholder of Sang Fei holding 25% of its equity interest and is a subsidiary of CEC, the ultimate controlling shareholder of the Company indirectly holding approximately 48.03% of the issued share capital of the Company through its wholly-owned subsidiary CEC (BVI) and approximately 23.27% of the issued share capital of the Company through China Huada, a company which is owned as to 50% by CEC.

The Purchaser is a trading company and Shenzhen SED is principally engaged in the import and export of electronic components and consumer electronic products and real property development. CEC, a state-owned enterprise established under the laws of the PRC in 1989 with the approval of the State Council of the PRC, is a nationwide electronics and information technology conglomerate directly administered by the PRC government. CEC focuses on the communications, consumer electronics, semi-conductor and software sectors in the PRC.

Pursuant to the Share Transfer Agreement, Shenzhen SED has unconditionally and irrevocably undertaken to the Company to procure the due and punctual performance by the Purchaser of its obligations under the Share Transfer Agreement and to indemnify and keep effectively indemnified the Company against all liabilities, losses, damages, costs and expenses which the Company may suffer or incur as a result of any default or delay on the part of the Purchaser in the performance of such obligations.

Assets to be disposed

Pursuant to the Share Transfer Agreement, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Share, being the entire issued share capital of Sang Fei (BVI).

Consideration

The consideration payable by the Purchaser to the Company under the Share Transfer Agreement is HK\$10,000,000. Such consideration consists of payment of an initial consideration of HK\$5,000,000 and a deferred consideration of HK\$5,000,000. The initial consideration of HK\$5,000,000 will be satisfied by the Purchaser in cash upon completion of the Disposal. The deferred consideration is interest free and shall be satisfied by the Purchaser in cash within six months from the date of completion of the Disposal. The Purchaser may, from time to time, prepay all or part of the outstanding deferred consideration, at any time after completion of the Disposal until the expiry of six months from the date of completion of the Disposal.

The consideration for the Disposal was determined and agreed between the parties after arm's length negotiations and taking into account the prevailing operating environment of the mobile handsets market, the sales volume of mobile handsets of Sang Fei Group for the two years ended 31 December 2007 and 2008 and the six months ended 30 June 2009, the net liabilities position of Sang Fei Group as of 30 June 2009 of HK\$33,259,000, the loss before taxation of Sang Fei Group for the two years ended 31 December 2007 and 2008 and the six months ended 30 June 2009 of HK\$18,927,000, HK\$324,068,000 and HK\$91,320,000, respectively, and the agreement between the Company and the Purchaser under the Share Transfer Agreement that any profits, losses or liabilities of Sang Fei (BVI) and its subsidiaries generated or incurred after 30 June 2009 shall be enjoyed or borne by the Purchaser.

Condition precedent

Completion of the Disposal is conditional upon the passing of an ordinary resolution by the Independent Shareholders at the SGM approving the Disposal.

The above condition precedent could not be waived by any party to the Share Transfer Agreement. If the above condition precedent has not been fulfilled on or before 30 June 2010 or such other date as the parties may agree, the Share Transfer Agreement will lapse and thereafter neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

Completion

Completion of the Disposal shall take place on the third Business Day after the above condition precedent has been fulfilled, or on such other date as the parties to the Share Transfer Agreement may agree.

Upon completion of the Disposal, the Company will cease to hold any interest in Sang Fei (BVI) and its subsidiaries, and Sang Fei (BVI) and its subsidiaries will cease to be subsidiaries of the Company. Any rights and obligations attached to the Sale Share shall be transferred from the Company to the Purchaser upon completion of the Disposal, while any profits, losses or liabilities of Sang Fei (BVI) and its subsidiaries generated or incurred after 30 June 2009 shall be enjoyed or borne by the Purchaser.

Furthermore, following completion of the Disposal, the current continuing connected transactions between Sang Fei and its subsidiaries on the one hand and CEC, the ultimate controlling shareholder of the Company, and its associates on the other, will cease to be continuing connected transactions of the Company.

Following completion of the Disposal, Huada Electronics, which is a wholly-owned subsidiary of the Company, will be the principal operating subsidiary of the Company and the principal activities of the Group will be the design, research and development and sales of integrated circuits.

Information on Sang Fei Group

Sang Fei (BVI) is a company incorporated under the laws of the British Virgin Islands. Sang Fei (BVI) is an investment holding company which has not, since its incorporation, carried on any business other than the acquisition and the holding of 65% equity interest in Sang Fei.

Sang Fei is a Sino-foreign equity joint venture company established under the laws of the PRC. Sang Fei is primarily engaged in the manufacturing and sales of mobile handsets and other portable electronic products, and was the sole principal operating subsidiary of the Company before the completion of the Huada Acquisition on 9 September 2009. The registered capital of Sang Fei is US\$33 million, which was contributed as to 65% by Sang Fei (BVI), as to 25% by Shenzhen SED, and as to 10% by Shenzhen SED Industry Co., Ltd. Shenzhen SED Industry Co., Ltd. is a company established in the PRC with its issued shares listed on the Shenzhen Stock Exchange. Shenzhen SED Industry Co., Ltd. is owned as to approximately 42.23% by Shenzhen SED as at the date of this announcement.

Members of the Sang Fei Group are currently being accounted for as subsidiaries of the Company. The table below sets out the loss before taxation and profit/(loss) after taxation of the Sang Fei Group based on its financial information prepared in accordance with the HKFRS for the two years ended 31 December 2007 and 2008 and the six months ended 30 June 2009:

	Year ended 31 December 2007	Year ended 31 December 2008	Six months ended 30 June 2009 (Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation	(18,927)	(324,068)	(91,320)
Profit/(loss) after taxation	12,713	(324,068)	(91,320)

Sang Fei Group has a net liabilities position of HK\$33,259,000 as at 30 June 2009 based on its financial information prepared in accordance with HKFRS for the six months ended 30 June 2009.

In March 2009, CEC agreed to provide financial assistance of RMB500,000,000 to Sang Fei. Such financial assistance includes CEC providing guarantee of RMB400,000,000 for Sang Fei to obtain short-term bank loans and the granting of financing facilities of up to RMB100,000,000 by CEC. Such financial assistance is granted for the benefit of Sang Fei on normal commercial terms without any security provided by the Group. As at 30 June 2009, Sang Fei has obtained borrowings of RMB38,532,000 from CEC and utilised the guarantee from CEC to obtain banking facilities of RMB330,000,000.

Reasons for and benefits of the Disposal

The Company is an investment holding company. Currently, Sang Fei and Huada Electronics are the principal operating subsidiaries of the Company. Sang Fei is primarily engaged in the manufacturing and sales of mobile handsets and other portable electronic products, while Huada Electronics is primarily engaged in the design, research and development and sales of integrated circuits.

Over the past few years, competition in the mobile handsets market becomes more and more intensified and evolution in products and technologies becomes more rapid and products cycle is getting shorter. These factors, together with the deteriorating consumer demand resulted from the global financial crisis, have increased the costs and lowered the profit margin of the mobile handsets market. The operating environment of the mobile handsets market becomes tough and difficult and the operating model of Sang Fei is no longer suitable for the changing industry landscape. In order to improve its operating performance, Sang Fei has undergone a series of business restructuring to redefine and streamline its operations, restructure its distribution channels and regain its market share. However, the impact of these negative factors on Sang Fei persisted and the operating environment of the mobile handsets industry remains uncertain. Despite the

business reform carried out by Sang Fei, Sang Fei Group has turned from a profitable operation in the year ended 31 December 2006, during which year Sang Fei Group has recorded a profit before taxation of HK\$76,312,000, to a loss making operation in the two consecutive years ended 31 December 2007 and 2008. For the year ended 31 December 2007, Sang Fei Group recorded a loss before taxation in the sum of HK\$18,927,000. For the year ended 31 December 2008, the loss position of Sang Fei Group further deteriorated and its loss before taxation has increased to HK\$324,068,000. For the six months ended 30 June 2009, Sang Fei Group recorded a loss before taxation in the sum of HK\$91,320,000. As at 30 June 2009, Sang Fei Group has a net liabilities position of HK\$33,259,000. Since Sang Fei Group has been incurring serious losses since the year ended 31 December 2007 and was in a net liabilities position, in order for Sang Fei Group to continue its operations, Sang Fei has obtained financial assistance of RMB500,000,000 from CEC in March 2009.

The business performance of Sang Fei Group continued to be affected by the impact of all these negative factors after 30 June 2009 and the revenue of Sang Fei Group for the three months ended 30 September 2009 recorded a decrease compared to the same period of last year. Sang Fei Group was operating at a loss for the nine months ended 30 September 2009. The prevailing operating environment of the mobile handsets industry remains tough and difficult and the Company expects the negative impact of the operating environment would persist.

The global information technology industry tends to focus on the advancement and development of their core technologies and businesses. It has always been the Group's strategy to advance its core technology from a low level to a medium to high level, so as to enable its core business to enter the upstream industry value chain which has a better profit margin. The Group has readjusted its business structure, and will continue to explore new business opportunities in the upstream industry value chain, and at the same time withdraw from businesses in the downstream industry value chain in good time, so as to improve the Group's profitability and competitiveness in the industry.

The Directors consider that the Disposal is advantageous for the Group to focus on the integrated circuits sector which is a high-tech area and to shift to the upstream industry value chain with a better profit margin and at the same time, withdraw from the loss making operation in the mobile handsets market. Based on the aforesaid, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the independent financial adviser) consider that the Share Transfer Agreement is fair and reasonable and on normal commercial terms and that the entering into of the Share Transfer Agreement is in the interest of the Company and its shareholders as a whole.

Information on Huada Electronics

On 20 June 2008, the Company entered into agreements with the then shareholders of Huada Electronics for the acquisition of the entire equity interests of Huada Electronics. Huada Electronics is primarily engaged in the design, research and development and sales of integrated circuits. Completion of the Huada Acquisition took place on 9 September 2009 and Huada Electronics has become a wholly-owned subsidiary of the Company. Following completion of the Disposal, Huada Electronics will be the principal operating subsidiary of the Company and the principal activities of the Group will be the design, research and development and sales of integrated circuits.

Prior to the Huada Acquisition, Huada Electronics was controlled by China Huada, which in turn is owned as to 50% by each of CEC and The State Development and Investment Corporation (“SDIC”). Both CEC and SDIC are state-owned enterprises and controlled by State-owned Assets Supervision and Administration Commission of the State Council. Accordingly, the Company applies the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants, in accounting for the Huada Acquisition. Financial statements of Huada Electronics will be included in the consolidated financial statements of the Company for the year ending 31 December 2009, and for any comparative periods disclosed as if the acquisition had occurred at the previous balance sheet dates presented.

The table below sets out the profit before and after taxation of Huada Electronics based on its financial information prepared in accordance with the HKFRS for the two years ended 31 December 2007 and 2008 and for the six months ended 30 June 2009:

	Year ended 31 December 2007	Year ended 31 December 2008 (Unaudited)	Six months ended 30 June 2009 (Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	132,063	130,962	52,252
Profit after taxation	127,307	113,965	44,207

Huada Electronics has a net asset value of HK\$163,796,000 as at 30 June 2009 based on its financial information prepared in accordance with HKFRS.

Financial effects of the Disposal on the Group

Following completion of the Disposal, the Company will cease to have any interest in Sang Fei (BVI) and its subsidiaries, and Sang Fei (BVI) and its subsidiaries will cease to be subsidiaries of the Company. Therefore, the financial results and the assets and liabilities of Sang Fei (BVI) and its subsidiaries will no longer be consolidated into the consolidated financial statements of the Company.

The Company expects that the Group will realise an estimated gain (after taking into account the expenses directly related to the Disposal) of approximately HK\$73 million on the Disposal. The estimated gain on the Disposal is calculated with reference to the consideration of the Disposal, the net liabilities and the currency translation reserve attributable to Sang Fei (BVI) and its subsidiaries as of 30 June 2009. The actual gain on the Disposal, which will be calculated based on the net assets/liabilities of Sang Fei (BVI) and its subsidiaries as of the date of completion of the Disposal, may be different and is subject to determination.

Use of proceeds

The amount of the proceeds of the Disposal is intended to be used for the Company’s general working capital and to fund possible future acquisition opportunities of the Company. The Company may acquire further businesses that are complementary to the business of the Group after the Disposal. Such acquisition opportunities may be offered by independent third parties or by CEC, the Company’s ultimate controlling shareholder. As at the date of this announcement, no specific acquisition opportunities have been identified nor is there any agreement or arrangement reached in relation to such acquisition.

Listing Rules Implications

The Purchaser is a wholly-owned subsidiary of Shenzhen SED. Shenzhen SED is a substantial shareholder of Sang Fei holding 25% of its equity interest and is a subsidiary of CEC, the ultimate controlling shareholder of the Company indirectly holding approximately 48.03% of the issued share capital of the Company through its wholly-owned subsidiary CEC (BVI) and approximately 23.27% of the issued share capital of the Company through China Huada, a company which is owned as to 50% by CEC. Both the Purchaser and Shenzhen SED are connected persons of the Company.

The Disposal constitutes a connected transaction of the Company and since the applicable percentage ratios under Rule 14.07 of the Listing Rules exceed 75%, the Disposal is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Disposal also constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules.

SGM

The SGM will be convened to consider and, if thought fit, to approve the Disposal. The vote of the Independent Shareholders at SGM on the ordinary resolution approving the Disposal shall be taken by poll. CEC and its associates are required to abstain from voting on the ordinary resolution.

DESPATCH OF CIRCULAR

A circular containing, among other things, further details of the Disposal, the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal, the recommendation from the Independent Board Committee and the financial information of the Group together with 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 have the following meanings:

“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (excluding Saturdays) on which banks in Hong Kong and the PRC are generally open for the transaction of normal banking business
“CEC”	中國電子信息產業集團有限公司 (China Electronics Corporation Limited), a state-owned enterprise established under the laws of the PRC, the Company's ultimate controlling shareholder
“CEC (BVI)”	China Electronics Corporation (BVI) Holdings Company Limited, a wholly-owned subsidiary of CEC and a controlling shareholder of the Company

“China Huada”	中國華大集成電路設計集團有限公司 (China Huada Integrated Circuit Design (Group) Co., Ltd.), a company established under the laws of the PRC which is owned as to 50% by CEC
“Company”	China Electronics Corporation Holdings Company Limited
“connected person”	has the meaning ascribed to this term under the Listing Rules
“Directors”	the directors of the Company
“Disposal”	the disposal of the entire issued share capital of Sang Fei (BVI) by the Company to the Purchaser pursuant to the Share Transfer Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huada Acquisition”	the acquisition of the entire equity interest in Huada Electronics by the Company, which was completed on 9 September 2009, as announced by the Company in an announcement of the same date
“Huada Electronics”	北京中電華大電子設計有限責任公司 (CEC Huada Electronic Design Co., Ltd.), a company established under the laws of the PRC
“Independent Board Committee”	the committee of Directors consisting of Mr. Chan Kay Cheung, Mr. Wong Po Yan and Mr. Yin Yongli, being all the independent non-executive Directors, formed to advise the Independent Shareholders in respect of the terms of the Disposal
“Independent Shareholders”	shareholders of the Company other than CEC and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan
“Purchaser”	P-Marshall Hong Kong Limited, a wholly-owned subsidiary of Shenzhen SED
“RMB”	Renminbi, the lawful currency of the PRC

“Sale Share”	one share of US\$1.00, being the entire issued share capital of Sang Fei (BVI), to be transferred by the Company to the Purchaser pursuant to the Share Transfer Agreement
“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 under the laws of the PRC which is owned as to 65% by Sang Fei (BVI)
“Sang Fei (BVI)”	Sang Fei (BVI) Company Limited, a limited company incorporated under the laws of the British Virgin Islands which owns 65% equity interest in Sang Fei
“Sang Fei Group”	Sang Fei and its subsidiaries
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, to approve the Disposal
“Share Transfer Agreement”	the share transfer agreement dated 9 November 2009 entered into between the Company, the Purchaser and Shenzhen SED in relation to the Disposal
“Shenzhen SED”	深圳桑達電子集團有限公司 (Shenzhen SED Electronics Group Co., Ltd.), a subsidiary of CEC and a substantial shareholder of Sang Fei
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

For ease of reference only, the names of PRC established companies and entities have been included in this announcement in both Chinese and English and the English names of these companies and entities are either English translations of their respective official Chinese names or English tradenames used by them. In the event of any inconsistency between the English names and their respective Chinese names, the Chinese names shall prevail.

By order of the Board of
China Electronics Corporation Holdings Company Limited
Fan Qingwu
Managing Director

Hong Kong, 9 November 2009

As at the date of this announcement, the Board comprises two Non-executive Directors, namely Xiong Qunli (Chairman) and Tong Baoan (Vice Chairman), two Executive Directors, namely Fan Qingwu (Managing Director) and Hua Longxing, and three Independent Non-executive Directors, namely Chan Kay Cheung, Wong Po Yan and Yin Yongli.

* For identification purpose only