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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Electronics Corporation Holdings Company Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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

*Independent Financial Adviser to
the Independent Board Committee and
the Independent Shareholders of the Company*

ALTUS CAPITAL LIMITED

A notice convening a special general meeting of the Company to be held at 2:30 p.m. on Friday, 14 September 2007 at Falcon Room II, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong is set out on pages 40 to 41 of this circular. Whether or not you are able to attend the special general meeting, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish.

A letter from the independent board committee of the Company containing its recommendation to the independent shareholders of the Company is set out on pages 17 to 18 of this circular. A letter from Altus Capital Limited, the independent financial adviser, containing its advice to the independent board committee and the independent shareholders of the Company is set out on pages 19 to 33 of this circular.

* For identification purpose only

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Altus”	Altus Capital Limited, a licensed corporation to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Xenium Licence Agreement, the Comprehensive Services Agreements and the revision of the annual caps for certain continuing connected transactions contemplated under the Business Services Agreement
“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Business Services Agreement”	the Business Services Agreement dated 17 June 2004 and entered into between CEC and Sang Fei as supplemented by the Supplemental Business Services Agreement dated 21 December 2006 and entered into between the same parties
“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
“Comprehensive Services Agreements”	together, the HK Services Agreement and the Singapore Services Agreement
“connected person”	has the meaning ascribed to this term under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries

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“HK Services Agreement”	the Comprehensive Services Agreement dated 8 August 2007 and entered into between Sang Fei and P-Marshall HK
“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 Xenium Licence Agreement, the Comprehensive Services Agreements and the revision of the annual caps for certain continuing connected transactions contemplated under the Business Services Agreement
“Independent Shareholders”	Shareholders other than CEC and its associates
“Latest Practicable Date”	27 August 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Options”	option(s) which have been granted under the Company’s share option scheme approved and adopted by the Shareholders on 20 June 2002
“Philips Group”	Koninklijke Philips Electronics N.V., a company listed on the New York Stock Exchange and the Amsterdam Stock Exchange, together with its affiliated companies and subsidiaries
“P-Marshall HK”	P-Marshall Hong Kong Limited, a wholly-owned subsidiary of Sang Da Electronics
“P-Marshall Singapore”	P-Marshall Singapore Pte Limited, a wholly-owned subsidiary of Sang Da Electronics
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“Sang Da Electronics”	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
“Sang Da Group”	Sang Da Electronics and its subsidiaries
“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 and as to 25% by Sang Da Electronics
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company convened to be held on 14 September 2007 to consider and, if thought fit, to approve the Xenium Licence Agreement, the Comprehensive Services Agreements and the related annual caps as well as the revision of the annual caps for certain continuing connected transactions contemplated under the Business Services Agreement, notice of which is set out on pages 40 to 41 of this circular
“Shareholder(s)”	shareholder(s) of the Company
“Singapore Services Agreement”	the Comprehensive Services Agreement dated 8 August 2007 and entered into between Sang Fei and P-Marshall Singapore
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Xenium Licence Agreement”	the Xenium Licence Agreement dated 8 August 2007 and entered into between Sang Fei and Sang Da Electronics in relation to the licence of the “ <i>Xenium</i> ” mark

LETTER FROM THE BOARD



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)

Non-executive Directors:

Chen Zhaoxiong (Chairman)

Tong Baoan (Vice Chairman)

Executive Directors:

Fan Qingwu (Managing Director)

Hua Longxing

Independent Non-executive Directors:

Chan Kay Cheung

Wong Po Yan

Yin Yongli

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Principal place of business
in Hong Kong:*

Room 3503, 35th Floor

China Resources Building

26 Harbour Road

Wanchai

Hong Kong

29 August 2007

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

On 8 August 2007, the Board announced that the Company's principal operating subsidiary, Sang Fei, has on the same date entered into the Xenium Licence Agreement with Sang Da Electronics and the Comprehensive Services Agreements with P-Marshall Singapore and P-Marshall HK.

The Board also announced that as a result of anticipated increase in the volume of transactions between Sang Fei and the CEC Group following the completion of the disposal of the mobile handsets business by the Philips Group to CEC, the Company has applied to the Stock Exchange for the revision of the annual caps for certain continuing connected transactions between Sang Fei and the CEC Group pursuant to the Business Services Agreement.

* For identification purpose only

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Sang Da Electronics is a subsidiary of CEC and a substantial shareholder of Sang Fei holding 25% of its equity interest. Each of P-Marshall HK and P-Marshall Singapore is a wholly-owned subsidiary of Sang Da Electronics. CEC is the Company's ultimate controlling Shareholder, holding 74.98% interest in the Company. Therefore, all of Sang Da Electronics, P-Marshall HK, P-Marshall Singapore and CEC are connected persons of the Company. Accordingly, the transactions contemplated under the Xenium Licence Agreement, the Comprehensive Services Agreements and the Business Services Agreement are continuing connected transactions of the Company.

As the expected aggregate consideration payable by the Group under the Xenium Licence Agreement and the Comprehensive Services Agreements on an annual basis and the proposed revised annual caps for the various continuing connected transactions under the Business Services Agreement on an annual basis will exceed the 2.5% threshold under Rule 14A.34 of the Listing Rules, the transactions contemplated under the Xenium Licence Agreement and the Comprehensive Services Agreements and the related proposed annual caps as well as the revision of the annual caps for the various continuing connected transactions under the Business Services Agreement are subject to the approval of the Independent Shareholders.

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the Xenium Licence Agreement, the Comprehensive Services Agreements and the revision of the annual caps of the various continuing connected transactions contemplated under the Business Services Agreement. In this respect, Altus has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders.

The purpose of this circular is to provide you with further information relating to the Xenium Licence Agreement, the Comprehensive Services Agreements and the various continuing connected transactions contemplated under the Business Services Agreement, the letter from Altus containing its advice to the Independent Board Committee and the Independent Shareholders, the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders and the notice of the SGM.

XENIUM LICENCE AGREEMENT

Date : 8 August 2007

Parties : Sang Da Electronics
Sang Fei

Pursuant to the Xenium Licence Agreement, Sang Da Electronics agreed to procure the licensing of the "*Xenium*" mark to Sang Fei for the exclusive use by Sang Fei in its design, manufacture, promotion, sales and marketing of mobile handsets. In addition, Sang Da Electronics agreed to provide, and procure the provision of, sales channels services to Sang Fei. Subject to the approval by the Independent Shareholders at the SGM, the Xenium Licence Agreement shall be for a term of three years commencing from the date of the SGM. The SGM will be held on 14 September 2007.

LETTER FROM THE BOARD

The royalty for the licensing of the “*Xenium*” mark shall be calculated based on a fixed rate for every unit of mobile handset bearing the “*Xenium*” mark sold. The maximum royalty payable shall be RMB13.5 million for the period commencing from the effective date of the Xenium Licence Agreement until 31 December 2007, RMB16 million for 2008, RMB17.5 million for 2009 and RMB4.2 million for the period commencing from 1 January 2010 until the expiry of the Xenium Licence Agreement. Such amounts have been set as the proposed annual caps for the transactions contemplated under the Xenium Licence Agreement. As a complementary service to the licensing of the “*Xenium*” mark, the sales channels service will be provided by the Sang Da Group to Sang Fei free of charge.

The consideration was determined and agreed between the parties after arm’s length negotiations with reference to market rates. In determining the proposed annual caps for the Xenium Licence Agreement, the Company has taken in account the historical sales volume of “*Xenium*” mobile handsets, the anticipated sales volume of “*Xenium*” mobile handsets during the term of the Xenium Licence Agreement. As the global consumer communications products market is expected to maintain its growth momentum in the coming years, it is expected that the sales volume of “*Xenium*” mobile handsets will grow steadily during the term of the Xenium Licence Agreement.

COMPREHENSIVE SERVICES AGREEMENTS

On 8 August 2007, Sang Fei also entered into the Singapore Services Agreement with P-Marshall Singapore and the HK Services Agreement with P-Marshall HK, pursuant to which P-Marshall Singapore and P-Marshall HK agreed to provide various business support services to Sang Fei. Such business support services include information technology services, human resources services, office space leasing services and such other business support services as Sang Fei may from time to time require. The Comprehensive Services Agreements do not impose any obligations on the part of Sang Fei to use any business support services to be provided by P-Marshall Singapore and P-Marshall HK.

Subject to the approval by the Independent Shareholders at the SGM, the Comprehensive Services Agreements shall be for a term of three years commencing from the date of the SGM.

The charges of the business support services to be provided by P-Marshall Singapore and P-Marshall HK under the Comprehensive Services Agreements shall be the actual costs incurred by P-Marshall Singapore and P-Marshall HK for the provision of such services.

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It is expected that total consideration payable by Sang Fei under the Comprehensive Services Agreements during the term of the Comprehensive Services Agreements will not exceed the respective amounts set out in the following table. Accordingly, those amounts have been set as the proposed annual caps for the total consideration payable by Sang Fei under the Comprehensive Services Agreements:

Period	Amount <i>(RMB'000)</i>
From the commencement date of the Comprehensive Services Agreements to 31 December 2007	42,120
For the year ending 31 December 2008	56,160
For the year ending 31 December 2009	56,160
From 1 January 2010 to the expiry of the Comprehensive Services Agreements	14,040

In arriving at the proposed annual caps for the Comprehensive Services Agreements, the Company has taken into account the anticipated scope of business support services that Sang Fei is going to obtain from P-Marshall Singapore and P-Marshall HK. Since P-Marshall Singapore and P-Marshall HK will charge Sang Fei the actual costs incurred by them in providing the services, the Company has also taken in account the historical and anticipated costs of such services.

REASONS FOR ENTERING INTO THE XENIUM LICENCE AGREEMENT AND THE COMPREHENSIVE SERVICES AGREEMENTS

Sang Fei is the principal operating subsidiary of the Company which is primarily engaged in the manufacturing and sales of mobile handsets and other portable electronic products for the Philips Group. On 12 February 2007, CEC, the ultimate controlling shareholder of the Company, announced that it had entered into an acquisition agreement with Royal Philips Electronics, pursuant to which CEC agreed to acquire the mobile handsets business of the Philips Group. As part of the acquisition, Sang Da Group acquired ownership of the “*Xenium*” mark. With the licence to use the “*Xenium*” mark, Sang Fei will be able to manufacture and sell mobile handsets bearing the “*Xenium*” mark after CEC’s acquisition of the mobile handsets business of the Philips Group. In addition, as Sang Da Group has extensive sales channels within and outside the PRC for the distribution of communications and electronic products and has substantial experience in promoting and marketing communications and electronic products globally, the provision of sales channels services by the Sang Da Group can facilitate Sang Fei in establishing its global business network effectively and efficiently.

Exploring business opportunities in and expanding into overseas markets have always been Sang Fei’s business objectives and development strategies. Whilst the provision of sales channels services by the Sang Da Group can facilitate Sang Fei in establishing its global business network effectively and efficiently, the provision of business support services by P-Marshall HK and P-Marshall Singapore under the Comprehensive Services Agreements will

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enable Sang Fei to build up its international presence and global business network in a more effective and efficient manner. By engaging the business support services to be provided by P-Marshall HK and P-Marshall Singapore, Sang Fei is able to leverage on the market experience and the economies of scale of P-Marshall HK and P-Marshall Singapore so that it can obtain the business supporting services at competitive rates.

The Directors considered that the Xenium Licence Agreement and the Comprehensive Services Agreements were entered into on normal commercial terms and in the ordinary and usual course of business of the Group. The Directors also considered that their terms are fair and reasonable and that the entering into of the Xenium Licence Agreement and the Comprehensive Services Agreements is in the interests of the Company and the Shareholders as a whole.

REVISION OF ANNUAL CAPS FOR CERTAIN CONTINUING CONNECTED TRANSACTIONS UNDER THE BUSINESS SERVICES AGREEMENT

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.

The Business Services Agreement was supplemented by a supplemental business services agreement dated 21 December 2006 entered into between the same parties, pursuant to which, the term of the Business Services Agreement was extended to 31 December 2009. Reference is made to the circular of the Company dated 8 January 2007, which set out details of the Business Services Agreement.

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 after sales and maintenance services and renovation services, to Sang Fei.

The Business Services Agreement was approved by the independent shareholders of the Company at the special general meeting of the Company held on 14 July 2004 and the renewal of the Business Services Agreement to extend until 31 December 2009, together with the applicable annual caps for the transactions contemplated thereunder, were approved by the independent shareholders of the Company at the special general meeting of the Company held on 26 January 2007.

Description of transactions

Details of the continuing connected transactions contemplated under the Business Services Agreement, the annual caps of which are proposed to be revised, are as follows:

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

Pursuant to the Business Services Agreement, Sang Fei manufactures and supplies mobile handsets and semi-finished products to the CEC Group. One of the existing

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distributors of Sang Fei's mobile handsets is a member of the CEC Group. The CEC Group also purchases 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. The CEC Group also sources the required raw materials and electronic parts from Sang Fei for the purpose of providing after sales and maintenance services to Sang Fei.

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

(ii) Purchase of raw materials from the CEC Group

Pursuant to the Business Services Agreement, Sang Fei purchases from members of the CEC Group raw materials, including but not limited to mobile handsets batteries, integrated chips and electronic parts, which are used to manufacture mobile handsets on a non-committed basis. The 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 are no less favourable than those offered by other third party suppliers to Sang Fei.

(iii) After sales and maintenance services

The typical warranty period of Sang Fei's mobile handsets is twelve months. Pursuant to the Business Services Agreement, 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 charges 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 are no less favourable than those offered by other third party service providers to Sang Fei.

(iv) Renovation services

In order to cope with the growing business needs, Sang Fei needs 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 Business Services Agreement, Sang Fei engages

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members of the CEC Group to provide renovation services for its factory premises. The CEC Group charges renovation service fees with reference to market rates. The prices offered to Sang Fei are no less favourable than those offered by other third party service providers to Sang Fei.

Historical figures and existing annual caps of continuing connected transactions

In respect of the abovementioned continuing connected transactions contemplated under the Business Services Agreement, the historical figures for each of the three financial years ended 31 December 2004, 2005 and 2006 and the existing annual caps for the years 2007, 2008 and 2009 are set out below:

Type of transaction	Existing annual caps for			Historical figures for		
	2009	2008	2007 ^(Note 1)	2006	2005	2004
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Sale of products, samples and raw materials						
– Annual charges receivable or received by the Group	13,820	11,520	9,600	4,561	4,900 ^(Note 2)	44,919
Purchase of raw materials						
– Annual charges payable or paid by the Group	29,380	24,480	20,400	4,628	8,483	8,213
After sales and maintenance services						
– Annual service charges payable or paid by the Group	5,180	4,320	3,600	2,855	1,522	1,199
Renovation services						
– Annual service charges payable or paid by the Group	10,000	10,000	10,000	1,875	2,508	5,166

Notes:

1. The existing annual caps for the transactions contemplated under the Business Services Agreement were revised and determined based on the factors disclosed in the Company's circular dated 8 January 2007.
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 started distributing products through its own distribution channels. As a result of this new business arrangement, the historical figures for this continuing connected transaction dropped substantially from 2004 to 2005.

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Proposed Revised Annual Caps

Following CEC's acquisition of the mobile handsets business of the Philips Group and with the licence to use the "Xenium" mark, the business model of Sang Fei and the cooperation model between Sang Fei and the CEC Group will be adjusted in order to better capitalise the new business opportunities. It is expected that as a result of such adjustments, 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 and the renovation services for the three financial years ending 31 December 2007, 2008 and 2009 will increase to amounts not exceeding those as set out in the following table. Accordingly, those amounts have been set as the proposed revised annual 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	2,520,000	3,500,000	3,900,000
Purchase of raw materials			
– Annual charges payable by the Group	820,000	1,160,000	1,300,000
After sales and maintenance services			
– Annual charges payable by the Group	60,000	80,000	90,000
Renovation services			
– Annual charges payable by the Group	15,000	10,000	10,000

Reasons for the revision of annual caps

(i) Sale 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, the historical sales volume of mobile handsets, raw materials and samples to the Philips Group and the anticipated sales volume of products, raw materials and samples to the CEC Group after completion of CEC's acquisition of the mobile handsets business of the Philips Group.

Before CEC's acquisition of the mobile handsets business of the Philips Group, Sang Fei would sell "*Philips*" mobile handsets to members of the Philips Group, which would then resell

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such “*Philips*” mobile handsets to their distributors in all over the world. CEC Group was previously one of the major distributors of “*Philips*” mobile handsets. Following CEC’s acquisition of the mobile handsets business of the Philips Group, CEC Group will continue to be one of the major distributors of “*Philips*” mobile handsets. As such, a substantial portion of “*Philips*” mobile handsets which would, before the acquisition, be sold to the Philips Group for resale, will now be sold to the CEC Group directly. As a result, it is expected that the sales volume of Sang Fei to the CEC Group will increase substantially in 2007. As the global consumer communications products markets is expected to maintain its growth momentum in the coming years, it is expected that the sales volume to the CEC Group will continue to show an upward trend.

In determining the expected increase in sales of products, raw materials and samples to the CEC Group, the Company has taken into account the expected sales volume of mobile handsets (including Sang Fei’s own brand and “*Philips*” mobile handsets) and the estimated proportion of products to be distributed by the CEC Group. The Company has also taken into account the historical sales volume of “*Philips*” mobile handsets to the Philips Group in 2006. For the year ended 31 December 2006, the total consideration received by Sang Fei from the Philips Group for the sales of mobile handsets, raw materials and samples was RMB2,981 million. Following CEC’s acquisition of the mobile handsets business of the Philips Group, CEC Group will take up a substantial portion of the sales which, if the acquisition did not take place, would be made to the Philips Group.

(ii) After sales and maintenance services

Before the disposal of its mobile handsets business, the Philips Group engaged the CEC Group to provide after sales and maintenance services to its customers.

Following the disposal by the Philips Group of its mobile handsets business, Sang Fei, as the manufacturer of “*Philips*” mobile handsets, will provide warranty services to its customers directly. In order to discharge its product warranty obligations, Sang Fei will engage the CEC Group to provide after sales and maintenance services which CEC Group had previously provided to the Philips Group. As a result, it is expected that the total consideration payable by Sang Fei to the CEC Group for the provision of after sales and maintenance services will increase accordingly.

The demand for after sales and maintenance services depends on the sales of Sang Fei manufactured mobile handsets. As the global communications products market is expected to maintain its growth momentum in the coming years, it is expected that the volume of mobile handsets to be supplied by Sang Fei will grow steadily. Therefore, 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 expected sales volume of “*Philips*” mobile handsets over the period and the historical repair rate of “*Philips*” mobile handsets.

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(iii) Purchase of raw materials

Before CEC's acquisition of the mobile handsets business of the Philips Group, the CEC Group was one of the raw material suppliers of the Philips Group, and the Philips Group was one of the raw materials suppliers of Sang Fei. Sang Fei purchased from the Philips Group and its approved suppliers the raw materials used for the manufacture and the maintenance of mobile handsets. For the years ended 31 December 2006, the total consideration paid by Sang Fei to the Philips Group for the purchase of raw materials were RMB226 million.

Following CEC's acquisition of the mobile handsets business of the Philips Group, instead of sourcing its required raw materials from the Philips Group and its approved suppliers, Sang Fei will source the required raw materials directly from the CEC Group. This new business arrangement will increase Sang Fei's total purchase volume from the CEC Group.

CEC is a nationwide electronics and information technology conglomerate focusing on communications/consumer electronics, semiconductor and software sectors in the PRC. In order to leverage on the advantage of economies of scale enjoyed by the CEC Group to the fullest extent, Sang Fei intends to further increase its purchase volume of raw materials from the CEC Group. For the year ended 31 December 2006, the Group's total expenses on raw materials and consumables used was approximately RMB3,158 million and the Group's total purchase volume of raw materials from the CEC Group was approximately RMB4.63 million. It is expected that the proportion of raw materials to be sourced from the CEC Group will increase over the term of the Business Services Agreement as a result of the reasons set out above.

In arriving at the above revised 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.

(iv) Renovation services

In view of the expected growth in Sang Fei's business, Sang Fei plans to further expand and improve its production facilities during 2007 in order to provide an efficient production environment which meets the substantial production needs. 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 RMB15 million for the financial year ending 31 December 2007. Accordingly, this amount has been set as the proposed revised annual cap for this continuing connected transaction for 2007. The existing annual caps for this continuing connected transaction for each of the two financial years ending 31 December 2008 and 2009 of RMB10 million will remain unchanged.

In determining the proposed revised annual cap for 2007 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.

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REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED UNDER THE BUSINESS SERVICES AGREEMENT

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 Business Services Agreement are therefore vital and integral to the business operations of Sang Fei.

The Board considers that the revision of the annual caps of the various continuing connected transactions contemplated under the Business Services Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Such transactions have been entered into, and will continue to be carried out, on normal commercial terms and in the ordinary and usual course of business of the Group.

LISTING RULES IMPLICATIONS

Sang Da Electronics is a subsidiary of CEC and a substantial shareholder of Sang Fei holding 25% of its equity interest. Each of P-Marshall HK and P-Marshall Singapore is a wholly-owned subsidiary of Sang Da Electronics. CEC is the Company's ultimate controlling Shareholder, holding 74.98% interest in the Company. Therefore, all of Sang Da Electronics, P-Marshall HK, P-Marshall Singapore and CEC are connected persons of the Company. Accordingly, the transactions contemplated under the Xenium Licence Agreement, the Comprehensive Services Agreements and the Business Services Agreement are continuing connected transactions of the Company.

As the expected aggregate consideration payable by the Group under the Xenium Licence Agreement and the Comprehensive Services Agreements on an annual basis and the proposed revised annual caps for the various continuing connected transactions under the Business Services Agreement on an annual basis will exceed the 2.5% threshold under Rule 14A.34 of the Listing Rules, the transactions contemplated under the Xenium Licence Agreement and the Comprehensive Services Agreements and the related proposed annual caps as well as the revision of the annual caps for the various continuing connected transactions under the Business Services Agreement are subject to the approval of the Independent Shareholders.

SGM

A notice convening the SGM to be held at Falcon Room II, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on Friday, 14 September 2007 at 2:30 p.m. is set out on pages 40 to 41 of this circular. At the SGM, ordinary resolutions will be proposed to approve the the Xenium Licence Agreement, the Comprehensive Services Agreements and the related annual caps as well as the revision of the annual caps for certain continuing connected transactions contemplated under the Business Services Agreement. The vote of the Independent Shareholders at the SGM shall be taken by poll.

LETTER FROM THE BOARD

In accordance with the Listing Rules, CEC, the Company's ultimate controlling Shareholder holding 74.98% interest in the Company as at the Latest Practicable Date, and its associates, will abstain from voting on the ordinary resolutions approving the Xenium Licence Agreement, the Comprehensive Services Agreements and the related annual caps as well as the revision of the annual caps for certain continuing connected transactions contemplated under the Business Services Agreement at the SGM.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

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 electronic 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.

Sang Da Electronics is a subsidiary of CEC and is principally engaged in the sales and distribution of a wide range of electronic products covering mobile communications equipment, terminal network equipment, computer application equipment, software, electronic components and household appliances.

P-Marshall HK and P-Marshall Singapore are the principal operating subsidiaries of Sang Da Electronics and are engaged in the sales and distribution of electronic products in Hong Kong and overseas countries.

RECOMMENDATION

Altus has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the Xenium Licence Agreement, the Comprehensive Services Agreements and the revision of the annual caps for the various continuing connected transactions contemplated under the Business Services Agreement. Altus considers that the Xenium Licence Agreement, the Comprehensive Services Agreements and the Business Services Agreement were entered into in the ordinary and usual

LETTER FROM THE BOARD

course of business of the Group and reflect normal commercial terms. Altus also considers that the terms of the Xenium Licence Agreement and the Comprehensive Services Agreements as well as the revision of the annual caps for the various continuing connected transactions contemplated under the Business Services Agreement are fair and reasonable, and that the entering into of the Xenium Licence Agreement and the Comprehensive Services Agreements as well as the revision of the annual caps for the various continuing connected transactions contemplated under the Business Services Agreement are in the interests of the Company and the Shareholders as a whole. Altus therefore advises the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the resolutions to be proposed at the SGM to approve the Xenium Licence Agreement, the Comprehensive Services Agreements and the revision of the annual caps for the various continuing connected transactions contemplated under the Business Services Agreement. The text of the letter from Altus containing its advice and the principal factors and reasons it has taken into consideration in arriving at its advice are set out on pages 19 to 33 of this circular.

The Independent Board Committee, after considering the advice from Altus, concurs with the view of Altus and considers that the terms of the Xenium Licence Agreement and the Comprehensive Services Agreements as well as the revision of the annual caps for the various continuing connected transactions contemplated under the Business Services Agreement are fair and reasonable, and that the entering into of the Xenium Licence Agreement and the Comprehensive Services Agreements as well as the revision of the annual caps for the various continuing connected transactions contemplated under the Business Services Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Xenium Licence Agreement, the Comprehensive Services Agreements and the revision of the annual caps for the various continuing connected transactions contemplated under the Business Services Agreement. The text of the letter from the Independent Board Committee is set out on pages 17 to 18 of this circular.

FURTHER INFORMATION

Your attention is also drawn to the letter from Altus which contains its advice to the Independent Board Committee and the Independent Shareholders, the letter from the Independent Board Committee which sets out its recommendation to the Independent Shareholders, and the additional information set out in the Appendix to this circular.

Yours faithfully

For and on behalf of the Board

China Electronics Corporation Holdings Company Limited

Chen Zhaoxiong

Chairman



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)

29 August 2007

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We have been appointed by the Board to advise you as to whether the terms of the Xenium Licence Agreement and the Comprehensive Services Agreements as well as the revision of the annual caps for the various continuing connected transactions contemplated under the Business Services Agreement are fair and reasonable, and whether the entering into of the Xenium Licence Agreement and the Comprehensive Services Agreements as well as the revision of the annual caps of the various continuing connected transactions contemplated under the Business Services Agreement are in the interests of the Company and the Shareholders as a whole. Details of the Xenium Licence Agreement, the Comprehensive Services Agreements and the various continuing connected transactions contemplated under the Business Services Agreement are set out in the letter from the Board on pages 4 to 16 of the circular (the “**Circular**”) of the Company dated 29 August 2007, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular, unless the context otherwise requires.

We wish to draw your attention to the letter from the Board set out on pages 4 to 16 of the Circular and the letter of advice from Altus set out on pages 19 to 33 of the Circular.

We, after taking advice from Altus, concur with the views of Altus and consider that the terms of the Xenium Licence Agreement and the Comprehensive Services Agreements as well as the revision of the annual caps for the various continuing connected transactions contemplated under the Business Services Agreement are fair and reasonable, and that the entering into of the Xenium Licence Agreement and the Comprehensive Services Agreements as well as the revision of the annual caps for the various continuing connected transactions contemplated under the Business Services Agreement are in the interests of the Company and the Shareholders as a whole.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Xenium Licence Agreement, the Comprehensive Services Agreements and the revision of the annual caps of the various continuing connected transactions contemplated under the Business Services Agreement, as detailed in the notice of the SGM set out at the end of the circular.

Yours faithfully

Independent Board Committee

Chan Kay Cheung

Wong Po Yan

Yin Yongli

LETTER FROM ALTUS

The following is the text of a letter received from Altus in respect of the Xenium Licence Agreement, the Comprehensive Services Agreements and the related annual caps as well as the revision of the annual caps for the various continuing connected transactions contemplated under the Business Services Agreement, prepared for the purpose of incorporation in this circular:

ALTUS CAPITAL LIMITED

8/F Hong Kong Diamond Exchange Building
8 Duddell Street, Central
Hong Kong

29 August 2007

The Independent Board Committee and the Independent Shareholders

China Electronics Corporation Holdings Company Limited

Room 3503, 35th Floor
China Resources Building
26 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as independent financial adviser to the Independent Board Committee and Independent Shareholders in respect of the transactions contemplated under the Xenium Licence Agreement and the Comprehensive Services Agreements and the related proposed annual caps as well as the revision of the annual caps for certain continuing connected transactions under the Business Services Agreement (“**Continuing Connected Transactions**”). Details of the Continuing Connected Transactions and the major terms of the Xenium Licence Agreement and the Comprehensive Services Agreements are set out in the Letter from the Board (“**Letter**”) contained in the circular of the Company dated 29 August 2007 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter have the same meanings ascribed to them in the Circular unless the context otherwise requires.

The Independent Board Committee has been established to give advice and recommendation to the Independent Shareholders in relation to the Continuing Connected Transactions and the relating annual caps thereto. The Independent Board Committee comprises the independent non-executive Directors namely Messrs. Chan Kay Cheung, Wong Po Yan and Yin Yongli. We have been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Xenium Licence Agreement

LETTER FROM ALTUS

and the Comprehensive Services Agreements and the related proposed annual caps, as well as the revision of the annual caps for certain continuing connected transactions under the Business Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and to give our opinion to the Independent Board Committee in relation to the Continuing Connected Transactions for their consideration in making a recommendation to the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion and recommendation with regard to the Continuing Connected Transactions, we have relied to a considerable extent on the information, statements, opinions and representations supplied to us by the Company and the Directors and we have assumed that all such information, statements, opinions and representations contained or referred to in the Circular were true, accurate and complete at the time they were made and continue to be true, accurate and complete at the date of the Circular. We have assumed that all statements of belief, opinion and intention of the Directors as set out in the Letter were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular. We have also relied on certain publicly available information and we have assumed such information to be accurate and reliable, and we have not carried out any independent verification on the accuracy of such information.

The Directors confirmed that they have provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy such information and the information contained in the Circular to provide a reasonable basis of our opinions. We have no reason to suspect that any material facts or information (which is known to the Company, its representatives and the Directors) have been omitted or withheld from the information supplied or opinions expressed in the Circular nor to doubt the truth and accuracy of the information, facts, and representation provided, or the reasonableness of the opinions expressed by the Company, its representatives and the Directors. We consider that we have reviewed sufficient information which enables us to form a reasonable basis for our opinion. We also consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules to ascertain the reliability of the information provided to us and to form our opinion. We have not, however, carried out any independent verification on the information provided to us by the Company, its representatives and the Directors, nor have we conducted an independent in-depth investigation into the business affairs, assets and liabilities, and the prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation with regard to the Continuing Connected Transactions, we have considered the following principal factors and reasons:

1. Acquisition by CEC Group of Philips Group's mobile handset business

CEC, the ultimate controlling Shareholder which holds 74.98% interest in the Company, entered into an acquisition agreement with Royal Philips Electronics, for the acquisition of the mobile handset business of the Philips Group. As part of the acquisition, Sang Da Group acquired the ownership of the “Xenium” mark. It is intended that Sang Fei will be granted the licence to manufacture and sell mobile handsets under the “Xenium” mark directly to distributors worldwide.

1. Xenium Licence Agreement

A. Background and reasons for the Xenium Licence Agreement

Sang Fei, the principal operating subsidiary of the Company, is primarily engaged in the manufacturing and sales of mobile handsets and other portable electronic products for the Philips Group.

On 8 August 2007, Sang Da Electronics, a subsidiary of CEC and a substantial shareholder of Sang Fei holding 25% of its equity interest, and Sang Fei entered into the Xenium Licence Agreement. Pursuant to the Xenium Licence Agreement, Sang Da Electronics agreed to procure the licensing of the “Xenium” mark to Sang Fei for the exclusive use by Sang Fei in its design, manufacture, promotion, sales and marketing of mobile handsets and to provide Sang Fei with sales channel services. As a complementary service to the licensing of the “Xenium” mark, the sales channel service will be provided by the Sang Da Group to Sang Fei for free.

We are of the view that the entering into of the Xenium Licence Agreement is incidental to the change in business and cooperation arrangements between Sang Fei and CEC Group following the acquisition of Philips Group's mobile handset business by CEC. It is therefore reasonable and in line with the business objectives and strategies of Sang Fei.

B. Terms of the Xenium Licence Agreement and the relevant proposed caps

The Xenium Licence Agreement is for a term of three years commencing from the date of the SGM, which will be held on 14 September 2007.

Pursuant to the Xenium Licence Agreement, royalty is payable by Sang Fei to Sang Da Group for the licensing of the “Xenium” mark. The royalty was determined and agreed between the parties after arm's length negotiations with reference to

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market rates and is calculated based on a fixed rate for every unit of mobile handset bearing the “Xenium” mark sold. Based on our discussions with the management of the Company, the royalty fee payable per unit amounts to around 1% of the average sale price of the mobile handsets. The proposed annual caps for royalty payable during the term of the Xenium Licence Agreement are as follow:

Period	Amount RMB	% change
From the effective date of the Xenium Licence Agreement until 31 December 2007	13.5 million	–
1 January 2008 to 31 December 2008	16.0 million	18.5%
1 January 2009 to 31 December 2009	17.5 million	9.4%
1 January 2010 to the expiry of the Xenium Licence Agreement	4.2 million	(76.0%)

When determining the proposed annual caps, the Company has taken into account: (i) the historical sales volume of “Xenium” mobile handsets; (ii) the anticipated sales volume of “Xenium” mobile handsets; and (iii) the expected future growth in the global consumer communications products market.

To assess the fairness and reasonableness of the terms and the proposed annual caps, we have taken into account the following:

- a. According to ABI Research, a research company based in the United States of America with focus on, among others, mobile wireless, multimedia and emerging technologies, cumulative royalty rates for consumer devices is about 5%. It is forecasted that the total handset royalty revenues will reach US\$10.0 billion in 2010, with average cumulative royalty rates of between 3.8% and 8.5%, depending on the technologies in question. On this basis, we are of the view that the royalty rates payable by Sang Fei to Sang Da Group are lower than the prevailing and the projected royalty rates in the market and hence are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.
- b. We noted that the annual cap for royalty for the period from the effective date of the Xenium Licence Agreement until 31 December 2007, which is approximately three months, is comparatively higher than the annual caps for 2008, 2009 and the remaining terms of the agreement in 2010. We also noted that the annual cap for royalty for the period from 1 January 2010 to the expiry of the Xenium Licence Agreement is comparatively lower than the annual caps of the previous years.

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Having discussed with the management of the Company, we understand that:

- i. after the Philips Group released its intention to dispose of its mobile handsets business in late 2006, a number of distributors of “*Philips*” mobile handsets (including the “*Xenium*” mobile handsets) held up their orders due to uncertainties toward the business reorganization. It is anticipated that orders from distributors will be resumed and substantial backlog orders will be received in the fourth quarter of 2007. Correspondingly, the royalty fee payable for the three months ending 31 December 2007 is expected to be higher; and
- ii. the sales volume of Sang Fei is subject to seasonal factors where sales are normally higher in the fourth quarter due to orders placed in conjunction with the Christmas and Chinese Lunar New Year seasons. Therefore, the royalty fee payable for the period ending 31 December 2007 is expected to be relatively higher while for the period from 1 January 2010 until the expiry of the *Xenium* Licence Agreement is expected to be lower.

To this end, we have reviewed: (i) the sales projection of “*Xenium*” mobile handsets; and (ii) records of historical sales volume of Sang Fei in the past two years. The findings are consistent with the above and on this basis, we are of the view that the annual caps under the *Xenium* Licence Agreement are reasonably arrived at.

- c. According to Wireless Intelligence, an independent researcher and consulting company based in the United Kingdom, the number of mobile handset users globally has been growing at a rapid pace where it increased from about 1.38 billion in 2003 to about 1.71 billion in 2004, representing a growth of about 23.9%; then to about 2.18 billion in 2005, representing a growth of about 27.5%. The number of users further increased to about 2.5 billion in 2006, representing a growth of about 14.7%. The projected annual growth of the annual caps above is therefore in line with market trends.
- d. As a complementary service to the licensing of the “*Xenium*” mark, the sales channel service will be provided by the Sang Da Group to Sang Fei for free. In view of Sang Da Group’s extensive sales channels within and outside of the PRC for the distribution of communications and electronic products and its substantial experience in promoting and marketing communications and electronic products globally, we are of the view that the sales channels service to be provided by Sang Da Group to Sang Fei will facilitate Sang Fei’s establishment of its global presence and network, which is beneficial to the Shareholders and the Company as a whole.

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Based on the above, we are of the view that the terms of the Xenium Licence Agreement are on normal commercial terms and are conducted in the ordinary and usual course of business of the Group. We also consider that the terms and the proposed annual caps under the Xenium Licence Agreement are fair and reasonable and are in the interests of the Company and Shareholders as a whole.

3. *Comprehensive Services Agreements*

A. *Background and reasons for the Comprehensive Services Agreements*

The Comprehensive Services Agreements, comprising the Singapore Services Agreement and the HK Services Agreement, were also entered into on 8 August 2007. Pursuant to the Comprehensive Services Agreements, P-Marshall Singapore and P-Marshall HK, both being wholly-owned subsidiaries of Sang Da Electronics, agreed to provide various business support services to Sang Fei. These include information technology services, human resources services, office space leasing services and such other business support services, as Sang Fei may require from time to time.

P-Marshall Singapore and P-Marshall HK have extensive market experience, resources and global business network that can facilitate Sang Fei's expansion into overseas markets and exploration of worldwide business opportunities. Given that Sang Fei does not have the relevant resources and networks in these areas, we believe it is fair and reasonable and in the interest of the Company and the Shareholders as a whole that Sang Fei engages the services to be provided by P-Marshall Singapore and P-Marshall HK.

B. *Terms of the Comprehensive Services Agreements and the relevant proposed caps*

The Comprehensive Services Agreements are for a term of three-year commencing from the date of the SGM.

Pursuant to the Comprehensive Services Agreements, P-Marshall Singapore and P-Marshall HK will provide various business support services to Sang Fei as it may require from time to time. However, Sang Fei is not obliged to use any of such services. The charges of business support services payable by Sang Fei to P-Marshall Singapore and P-Marshall HK will be based on actual costs incurred.

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The proposed annual caps during the term of the Comprehensive Services Agreements are as follow:

Period	Amount RMB	% change
From the effective date of the Comprehensive Services Agreements until 31 December 2007	42.12 million	–
1 January 2008 to 31 December 2008	56.16 million	33.3%
1 January 2009 to 31 December 2009	56.16 million	Nil
1 January 2010 to the expiry of the Comprehensive Services Agreements	14.04 million	(75.0%)

To determine the proposed annual caps, the Company has taken into account: (i) the anticipated business support services which Sang Fei will require; and (ii) the anticipated costs of such services provided by P-Marshall Singapore and P-Marshall HK.

To assess the fairness and reasonableness of the terms and the proposed annual caps, we have taken into account the following:

- a. According to the management of the Company, for the year ending 31 December 2007, the Company will require P-Marshall Singapore and P-Marshall HK to provide substantial amount of services to set up its global business operation. Therefore, it is anticipated that the amount payable by Sang Fei for services during this period will be relatively higher.
- b. As Sang Fei has not previously engaged business services from P-Marshall Singapore and P-Marshall HK, no historical costs are available for comparison. Nevertheless, prices offered by them are expected to be competitive given their market experience and economies of scale. In any event, Sang Fei will compare the costs of services from P-Marshall Singapore and P-Marshall HK with those from other service providers so as to ensure prices payable to P-Marshall Singapore and P-Marshall HK are no less favourable than those offered by third parties.
- c. We noticed that the proposed cap for the period from 1 January 2010 to the expiry of the Comprehensive Services Agreements is significantly lower than the annual caps for the other periods. The reason for such assumption is that Sang Fei intends to leverage on its business dealings with P-Marshall Singapore and P-Marshall HK to build up its own international presence and global business networks. It is expected that during the third year of the Comprehensive Services Agreements, Sang Fei would have developed its own business support service teams and

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with all relevant support systems in place. Therefore, the proposed cap for the period from 1 January 2010 to the expiry of the Comprehensive Services Agreements is substantially lower than the previous years.

Based on the above, we are of the view that the terms of the Comprehensive Services Agreements are on normal commercial terms and are conducted in the ordinary and usual course of business of the Group. We also consider that the terms and the proposed annual caps under the Comprehensive Services Agreements are fair and reasonable and are in the interests of the Company and Shareholders as a whole.

4. Revision of the annual caps for various continuing connected transactions under the Business Services Agreement

A. Background and reasons for the revision of the annual caps

CEC's acquisition of the mobile handsets business of the Philips Group would result in a change in business relationship between CEC Group and Sang Fei. Prior to the acquisition, Sang Fei, having manufactured the "*Philips*" mobile handsets, would sell them to members of the Philips Group. Following the acquisition, Sang Fei would instead sell to CEC Group which will act as the major distributor of "*Philips*" mobile handsets.

There existed also other incidental services previously conducted with Philips Group which, upon the aforesaid acquisition, will be conducted with CEC Group. These include arrangements relating to provision of after sales and maintenance services and purchase of raw materials.

Due to the above, it is expected that the amount of consideration receivable and payable between Sang Fei and CEC Group for the ongoing connected transactions as contemplated under the Business Services Agreement will increase substantially for the three years ending 31 December 2007, 2008 and 2009 and will exceed their existing annual caps. The ongoing connected transactions under the Business Services Agreement that require adjustments in annual caps include: (i) sale of products, raw materials and samples; (ii) purchase of raw materials; (iii) after sales and maintenance services; and (iv) renovation services.

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Details and description of the transactions have been set out in the Letter. The table below sets out the existing annual caps for the transactions (only taken into account Sang Fei's own branded mobile handsets) and the proposed new caps for the transactions (taken into account both Sang Fei's own branded mobile handsets and "Philips" mobile handsets, including "Xenium" mark handsets) for the three years ending 31 December 2009:

	Existing approved annual caps			Proposed new annual caps for		
	for the year ending			the year ending 31 December		
	2007 ⁽¹⁾	2008	2009	2007 ⁽²⁾	2008	2009
	(RMB'000)			(RMB'000)		
Sale of						
products, raw						
materials and						
samples	9,600	11,520	13,820	2,520,000	3,500,000	3,900,000
% change	–	20.0%	20.0%	–	38.9%	11.4%
After sales and						
maintenance						
services	3,600	4,320	5,180	60,000	80,000	90,000
% change	–	20.0%	20.0%	–	33.3%	12.5%
Purchase of raw						
materials	20,400	24,480	29,380	820,000	1,160,000	1,300,000
% change	–	20.0%	20.0%	–	41.5%	12.1%
Renovation						
services	10,000	10,000	10,000	15,000	10,000	10,000
% change	–	–	–	–	(33.3%)	–

Notes:

- (1) The existing annual caps for the transactions contemplated under the Business Services Agreement were revised and determined based on the factors disclosed in the circular of the Company dated 8 January 2007.
- (2) The proposed new caps for the year ending 31 December 2007 in respect of "Philips" mobile handset business (including "Xenium" mobile handsets) cover approximately only 3 months commencing from the date of the SGM.

LETTER FROM ALTUS

B. Proposed annual caps – Sale of products, raw materials and samples

	Existing approved annual caps			Proposed new annual caps for		
	for the year ending			the year ending 31 December		
	2007	2008	2009	2007	2008	2009
	(RMB'000)			(RMB'000)		
Sale of						
products, raw						
materials and						
samples	9,600	11,520	13,820	2,520,000	3,500,000	3,900,000
% change	–	20.0%	20.0%	–	38.9%	11.4%

To access the fairness and reasonableness of the proposed new caps, we have first considered the basis of determining the proposed annual cap for the year ending 31 December 2007, which set out as follow:

- a. The existing approved cap of RMB9.6 million for the year ending 31 December 2007 in respect of the manufacture and supply of Sang Fei's own branded mobile handsets and semi-finished products to CEC Group.
- b. A number of distributors of "Philips" mobile handsets (including the "Xenium" mobile handsets) held up their orders due to uncertainties toward the business reorganization of the Philips Group. It is anticipated that orders from distributors will be resumed and substantial backlog orders will be received in the fourth quarter of 2007.

As a reference, for the year ended 31 December 2006, the total consideration received by Sang Fei from the Philips Group for the sale of mobile handsets, raw materials and samples was RMB2,981 million. To the best of knowledge and information of the Company, prior to the acquisition, CEC Group's distribution of "Philips" mobile handsets accounted for a substantial portion of the total distribution. Following CEC's acquisition of the mobile handsets business of the Philips Group, CEC Group will continue to take up a similar portion of the sales.

- c. Prior to CEC's acquisition of the mobile handsets business of the Philips Group, Sang Fei would sell "Philips" mobile handsets to members of the Philips Group for resale to distributors worldwide. Following the acquisition, Sang Fei would sell "Philips" mobile handsets directly to distributors worldwide, including CEC Group. Hence, Sang Fei would be able to enjoy the price mark-ups between Sang Fei's sale price to Philips Group and Philips Group's sale price to the distributors. Accordingly, under the new business arrangement, the revenue amount for "Philips" mobile handsets to be sold to CEC Group for the year ending 31 December 2007, 2008 and 2009 is expected to be higher.

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In relation to the above, we have reviewed the sales projection of Sang Fei for the sale of “*Philips*” mobile handsets for the year ending 31 December 2007 and compared to that of the actual sales of “*Philips*” mobile handsets to the Philips Group by Sang Fei in 2006. The substantial increase in the proposed new cap is partly attributable to such price mark-ups previously not available.

- d. By leveraging on the business dealings with P-Marshall Singapore and P-Marshall HK to build up its own international presence and global business networks, Sang Fei intends to carry out a series of marketing activities to restart the “*Philips*” mobile handsets business under the term of the Comprehensive Services Agreements. According to the management, in the next few months, a number of new models will be launched, it is therefore anticipated that there will be an increase in sales during the fourth quarter of 2007.
- e. Despite more competition and challenges, the global mobile communication market maintained a robust 14% growth in 2006 and is expected to continue to grow at a steady pace. When considering the proposed annual caps, due to the backlog orders mentioned above, the management estimated that sales volume of mobile handsets will have an estimated growth of around 15% from 2006 while the business growth of Sang Fei in 2008 and 2009 will maintain at around 10% per annum, which are in line with the expected market growth.

Based on the above, we are of the view that the proposed new cap for the sale of mobile handsets, raw materials and samples for the year ending 31 December 2007 is fair and reasonable.

In respect of the new cap for the year ending 31 December 2008, which represents about 38.9% growth from 2007, we would like to remind that the proposed new cap for 2007 in relation to the “*Philips*” handset business covers only about three months commencing from the date of the SGM. Having taken into account: (i) the historical sales volume of mobile handsets, raw materials and samples to the Philips Group of RMB2,981 million in 2006; (ii) the expected sales of mobile handsets, raw materials and samples to CEC Group; (iii) an expected annual business growth of around 10%; and (iv) the additional mark-ups as mentioned above that was not previously available to Sang Fei prior to the acquisition, we are of the view that the proposed cap for the year ending 31 December 2008 is fair and reasonable.

For the proposed cap of 2009, representing about 11.4% growth from 2008, we are of the view that such projected growth is in line with the market growth and the expected annual business growth of Sang Fei. On this basis, we are of the view that the proposed caps for the three years ending 31 December 2007, 2008 and 2009 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM ALTUS

C. Proposed annual caps – After sales and maintenance services

	Existing approved annual caps for the year ending 31 December			Proposed new annual caps for the year ending 31 December		
	2007	2008	2009	2007	2008	2009
	(RMB'000)			(RMB'000)		
After sales and maintenance services	3,600	4,320	5,180	60,000	80,000	90,000
% change	–	20.0%	20.0%	–	33.3%	12.5%

Before the disposal of its mobile handsets business, the Philips Group engaged CEC Group to provide after sales and maintenance services to its customers. Following the disposal, Sang Fei, as the manufacturer of “*Philips*” mobile handsets, will engage CEC Group to provide after sales and maintenance services. Therefore, it is expected that the total consideration payable by Sang Fei to CEC Group for the provision of after sales and maintenance services will increase accordingly.

To access the fairness and reasonableness of the proposed new caps, we have considered the following:

- a. The projected sales volume of Sang Fei’s own branded and “*Philips*” mobile handsets for the year ending 31 July 2007 is expected to increase at around 15% from 2006 while in 2008 and 2009 will maintain at a steady growth of about 10%. We are of the view that the projected sales volume increase of Sang Fei’s own branded and “*Philips*” mobile handsets is fair and reasonable as it is in line with the overall market growth.
- b. As discussed with the management, the estimation of the proposed new caps were based on the historical repairing rates of the “*Philips*” mobile handsets. We have reviewed the historical repairing records summary of Sang Fei’s mobile handsets for the year ended 31 December 2006 and the six months ended 30 June 2007 and found that the repairing rates were consistent with those adopted for the estimation. Therefore, we are of the view that the expected repairing rates adopted when calculating the proposed new caps are fair and reasonable.
- c. We have also reviewed Sang Fei’s average costs of repairing in the past two years and are of the view that the expected average repairing costs per unit adopted by Sang Fei in calculating the proposed new caps are fair and reasonable.

Based on the above, we are of the view that the proposed new caps for the after sales and maintenance services for the year ending 31 December 2007, 2008 and 2009 are in ordinary course of business and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM ALTUS

D. Proposed annual caps – Purchase of raw materials

	Existing approved annual caps			Proposed new annual caps for		
	for the year ending			the year ending 31 December		
	31 December			the year ending 31 December		
	2007	2008	2009	2007	2008	2009
	(RMB'000)			(RMB'000)		
Purchase of raw materials	20,400	24,480	29,380	820,000	1,160,000	1,300,000
% change	–	20.0%	20.0%	–	41.5%	12.1%

To access the fairness and reasonableness of the proposed new caps, we have considered the following:

- a. Before CEC's acquisition of the mobile handsets business of the Philips Group, the CEC Group was one of the raw material suppliers of the Philips Group, and the Philips Group was one of the raw materials suppliers of Sang Fei. Sang Fei purchased raw materials from the Philips Group and its approved suppliers for the manufacture and maintenance of mobile handsets. Following CEC's acquisition of the Philips Group's mobile handsets business, Sang Fei will source the required raw materials directly from CEC Group. This new business arrangement will therefore increase the purchase volume of Sang Fei from CEC Group substantially and is reasonable.
- b. CEC is a nationwide electronics and information technology conglomerate focusing on communications/consumer electronics, semiconductor and software sectors in the PRC. For the year ended 31 December 2006, the Group's total expenses on raw materials and consumables used was approximately RMB3,158 million and the Group's total purchase volume of raw materials from CEC Group was approximately RMB4.63 million, representing merely approximately 0.15% of the total expenses on raw materials and consumables of the Group. Under the new business arrangement, Sang Fei intends to further increase its purchase volume of raw materials from CEC Group (on a non-committed basis) and leverage on the advantage of economies of scale enjoyed by CEC Group. We consider such intention is reasonable and is in the interests of the Company and Shareholders as a whole.
- c. To arrive at the proposed new cap for the year ending 31 December 2007, it is expected that the proportion of raw materials to be sourced from CEC Group for the year ending 31 December 2007 will account for about 30% of the total expenses on raw materials and consumables of the Group in 2006, having taken into account an expected annual business growth rate of about 10% and the historical purchases of raw materials from CEC Group and the Philips Group.

LETTER FROM ALTUS

For the reasons as detailed under the paragraph headed “*B. Proposed annual caps – Sale of products, raw materials and samples*” above, such as the backlog orders and new models of mobile handsets, it is estimated that of the above-mentioned 30% of the total expenses, of which about 75% will be recognized during the fourth quarter of 2007, which forms the proposed annual cap for the year ending 31 December 2007.

- d. For the proposed new cap for the year ending 31 December 2008, which represents about 41.5% increase from 2007, it was principally due to the fact that the proposed cap for 2007 only covers about three months figures (see point c. above). Having taken into account the expected annual business growth of about 10%, we are of the view that the proposed new caps for the year ending 31 December 2008 and 2009 are fair and reasonable.

E. Proposed annual caps – Renovation services

	Existing approved annual caps			Proposed new annual caps for		
	for the year ending			the year ending 31 December		
	2007	2008	2009	2007	2008	2009
	(RMB'000)			(RMB'000)		
Renovation						
services	10,000	10,000	10,000	15,000	10,000	10,000
% change	–	–	–	–	(33.3%)	–

In anticipation of further growth in business under the new business arrangement, Sang Fei intends to further expand its production facilities and office during the period from the expected date of the SGM to 31 December 2007 to ensure sufficient production capacity and to have an efficient production environment to cope with the substantial production needs. Having considered the quality of the CEC Group’s renovation work performed to its premises in the past, Sang Fei intends to retain members of the CEC Group to undertake its future renovation works.

The proposed new caps for the three years ending 31 December 2007, 2008 and 2009 are RMB15 million, RMB10 million and RMB10 million respectively. The proposed new cap for the year ending 31 December 2007 has increased from the existing approved cap of RMB10 million to RMB15 million while the annual caps for the two years ending 31 December 2008 and 2009 will remain unchanged.

The revision of the annual cap in 2007 is based on the estimation of fitment costs on the new office premises to be leased from CEC Group. As the upcoming new office premises renovation will be a major expansion project as compared to those routine renovation works performed in the past, it is reasonable for Sang Fei to expect higher renovation expenditure for the project.

LETTER FROM ALTUS

Having considered the (i) production capacity and environment required to cope with the growth in business under the new business arrangement between Sang Fei and CEC Group; (ii) the engagement of members of the CEC Group for major renovation services will be on a tender basis and the terms will be comparable, if not lower than, those of the other tenders and on normal commercial terms; (iii) the quality of the CEC Group's renovation work has been consistent and of high quality; and (iv) any major renovation work by CEC Group will be monitored by independent third party surveyors, we are of the view that the terms of the engagement of the CEC Group for renovation services for Sang Fei's factory premises and office are fair and reasonable and such arrangement is in the interests of the Company and its Shareholders as a whole.

CONCLUSION AND RECOMMENDATION

Having considered the above principal factors, we are of the view that the terms of the Xenium Licence Agreement and the Comprehensive Services Agreements as well as the revision of the annual caps for the various continuing connected transactions under the Business Services Agreement are fair and reasonable, and that the entering into of the Xenium Licence Agreement and the Comprehensive Services Agreements as well as the revision of the annual caps for the various continuing connected transactions under the Business Services Agreement are in the interests of the Company and Shareholders as a whole. We would therefore advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Xenium Licence Agreement, the Comprehensive Services Agreements and the revision of the annual caps for the various continuing connected transactions contemplated under the Business Services Agreement.

Yours faithfully,

For and on behalf of

Altus Capital Limited

Arnold Ip

Executive Director

Sean Pey, Chang

Executive Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at Latest Practicable Date, the following Directors and chief executive of the Company had, or were deemed to have, interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Name of Directors	Number and description of equity derivatives	Number of underlying Shares involved in the Options	Approximate % of the issued capital of the Company
Tong Baoan	3,800,000 Options (<i>Note</i>)	3,800,000	0.35%
Fan Qingwu	3,600,000 Options (<i>Note</i>)	3,600,000	0.33%
Hua Longxing	3,600,000 Options (<i>Note</i>)	3,600,000	0.33%
Total		<u>11,000,000</u>	<u>1.01%</u>

Note: The Options were all granted on 25 October 2005 under the share option scheme approved and adopted by the Shareholders on 20 June 2002. The Options represent personal interest held by the Directors as beneficial owners. Grantees of such Options are entitled to exercise the Options at a price of HK\$1.488 per Share in the following periods:

- (i) in respect of 40% of the Options granted, from 1 November 2005 to 31 October 2008;
- (ii) in respect of a further 30% of the Options granted, from 1 November 2006 to 31 October 2009; and
- (iii) in respect of the remaining 30% of the Options granted, from 1 November 2007 to 31 October 2010.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Mr. Chen Zhaoxiong, the Chairman of the Company and a non-executive director, is the vice chairman and president of CEC. Mr. Tong Baoan, the Vice Chairman of the Company and a non-executive Director, is a director of CEC. Messrs Chen Zhaoxiong, Tong Baoan and Fan Qingwu, the Managing Director and an executive Director, are the directors of China Electronics Corporation (BVI) Holdings Company Limited (“**CEC (BVI)**”). Details of the shareholding of CEC and CEC (BVI) in the Company are set out in the paragraph headed “Substantial Shareholders” in this Appendix. Save as disclosed herein, none of the Directors is a director or employee of a company which has, or is deemed to have, an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

None of the Directors is materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group taken as a whole.

Since 31 December 2006, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to the Latest Practicable Date, none of the Directors nor Altus had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons had, or were deemed to have, interests or short positions in the Shares or the underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Number or attributable number of Shares held	Approximate percentage or attributable percentage of total issued share capital of the Company
CEC (BVI)	812,500,000	74.98%
CEC <i>(Note 1)</i>	812,500,000	74.98%
Devon Fortune Limited (“Devon Fortune”)	71,129,358	6.56%
Chan Chak Shing (“Mr. Chan”)	75,254,358 <i>(Note 2)</i>	6.95%

Notes:

- (1) CEC (BVI) is a wholly-owned subsidiary of CEC. Accordingly, CEC is deemed to be interested in the 812,500,000 Shares owned by CEC (BVI).
- (2) These 75,254,358 Shares represent the aggregate of: (i) the family interest of Mr. Chan of 4,125,000 Shares and (ii) the corporate interest of 71,129,358 Shares held by Devon Fortune. As Mr. Chan holds 100% interest in Devon Fortune, the interests of Devon Fortune are deemed to be the interests of Mr. Chan.

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following corporations were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of subsidiary	Name of shareholder	Interest held (%)
Sang Fei	Sang Da Electronics <i>(Note 1)</i>	25
Sang Fei	Shenzhen SED Industry Co., Ltd. <i>(Note 2)</i>	10

Notes:

- (1) Sang Da Electronics is a company established in the PRC and is a non wholly-owned subsidiary of CEC.
- (2) Shenzhen SED Industry Co., Ltd. is a company established in the PRC with its A shares listed on the Shenzhen Stock Exchange. Shenzhen SED Industry Co., Ltd. is indirectly owned as to approximately 46.05% by CEC as at the Latest Practicable Date.

Save as disclosed above, there is no person known to the Directors or the chief executive of the Company who, as at the Latest Practicable Date, had, or was deemed to have, an interest or short position in the Shares or the underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or any option in respect of such capital.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, any service contract with the Company or any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensations (other than statutory compensation)).

5. EXPERT

Altus is a licensed corporation for types 4, 6 and 9 regulated activities under the SFO. Altus has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice and references to its name in the form and context in which they appear.

Altus is not beneficially interested in the share capital of any member of the Group and does not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

6. COMPETING INTEREST

Mr. Chen Zhaoxiong, the Chairman of the Company and a non-executive director, is the vice chairman and president of CEC. Mr. Tong Baoan, the Vice Chairman of the Company and a non-executive Director, is a director of CEC.

Currently, CEC is engaging in, or having subsidiaries or associates which are engaging in, mobile handset related businesses which compete or are likely to compete, either directly or indirectly, with the business of the Group.

The abovementioned competing businesses are operated and managed by independent management and administration. In addition, the Directors consider that the business model of, and the markets served by, the Group are different from those of the abovementioned competing businesses. The Board exercises independent judgment and is always acting for the interests of the Company and the Shareholders as a whole. Accordingly, the Group is capable of carrying on its business independently of, and at arm's length from, the competing businesses mentioned above.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. PROCEDURES FOR DEMANDING A POLL AT THE SGM

In accordance with the Listing Rules, any vote taken at the SGM to approve the Xenium Licence Agreement, the Comprehensive Services Agreements and the related annual caps as well as the revision of the annual caps of the various continuing connected transactions contemplated under the Business Services Agreement, must be taken by poll. According to bye-law 66 of the bye-laws of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (d) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A poll shall be taken in such manner (including the use of ballot or voting papers or tickets) and either forthwith or at such time (being not later than thirty (30) days after the date of the demand) and place as the chairman of the SGM directs. On a poll, votes may be given either personally or by proxy and every Shareholder present in person or by proxy (or, in the case of a Shareholder being a corporation, by its duly authorised representative) shall have one vote for every fully paid Share of which he is the holder. The result of such poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Linklaters, 10th Floor, Alexandra House, Chater Road, Hong Kong during normal business hours on any business day from the date of this circular up to and including 14 September 2007 and at the SGM:

- (a) the Xenium Licence Agreement;
- (b) the Comprehensive Services Agreements;
- (c) the Business Services Agreement;
- (d) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 17 to 18 of this circular;
- (e) the letter of advice from Altus to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 19 to 33 of this circular; and
- (f) the consent letter from Altus as referred to in the paragraph headed “Expert” in this Appendix.



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)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of the shareholders of China Electronics Corporation Holdings Company Limited (the “**Company**”) will be held at Falcon Room II, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on Friday, 14 September 2007 at 2:30 p.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. “**THAT** the continuing connected transactions contemplated under the Xenium Licence Agreement dated 8 August 2007 and entered into between 深圳桑菲消費通信有限公司 (Shenzhen Sang Fei Consumer Communications Company Limited) (“**Sang Fei**”) and 深圳桑達電子集團有限公司 (Shenzhen SED Electronics Group Co., Ltd.) (“**Sang Da Electronics**”), a copy of which has been initialled by the chairman of this meeting and for the purpose of identification marked “A”, and the proposed annual caps be and are hereby generally and unconditionally approved and the directors of the Company be and are hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of the continuing connected transactions contemplated thereunder.”
2. “**THAT** the continuing connected transactions contemplated under (i) the Comprehensive Services Agreement dated 8 August 2007 and entered into between Sang Fei and P-Marshall Hong Kong Limited and (ii) the Comprehensive Services Agreement dated the same date and entered into between Sang Fei and P-Marshall Singapore Pte Limited, copies of which have been initialled by the chairman of this meeting and for the purpose of identification marked “B” and “C”, respectively, and the proposed annual caps be and are hereby generally and unconditionally approved and the directors of the Company be and are hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of the continuing connected transactions contemplated thereunder.”

* For identification purpose only

NOTICE OF THE SGM

3. “**THAT** the proposed revision of annual caps for the various continuing connected transactions contemplated under the Business Services Agreement dated 17 June 2004 and entered into between Sang Fei and 中國電子信息產業集團公司 (China Electronics Corporation) as supplemented by a Supplemental Business Services Agreement dated 21 December 2006 and entered into between the same parties, as described in the paragraph headed “Revision of annual caps for certain continuing connected transactions under the Business Services Agreement” under the section “Letter from the Board” of the circular of the Company dated 29 August 2007, be and are hereby generally and unconditionally approved and the directors of the Company be and are hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient in relation thereto.”

By Order of the Board
China Electronics Corporation Holdings Company Limited
Yam Pui Hung, Robert
Company Secretary

Hong Kong, 29 August 2007

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
Room 3503, 35th Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Notes:

1. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the meeting. A proxy need not be a shareholder of the Company but must be present in person at the meeting to represent the shareholder. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and returned together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a shareholder from attending in person and voting at the meeting or any adjournment thereof, should he so wish.
3. In the case of joint holders of any shares, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such shares as if he were solely entitled thereto, but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
4. In accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, voting on the above ordinary resolutions will be taken by poll.