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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: 00085)

**(1) CONTINUING CONNECTED TRANSACTIONS
2010-2013 BUSINESS SERVICES AGREEMENT WITH CEC
AND
FINANCIAL SERVICES AGREEMENT WITH CEC FINANCE**

(2) RE-ELECTION OF DIRECTORS

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

ALTUS CAPITAL LIMITED

A notice convening a special general meeting of the Company to be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 10 September 2010 at 3:00 p.m. is set out on pages 38 to 39 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 registrar and transfer office 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 19 to 20 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 21 to 33 of this circular.

* *For identification purpose only*

9 August 2010

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DEFINITIONS

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

“2010-2013 Business Services Agreement”	the 2010-2013 business services agreement dated 19 July 2010 and entered into between CEC and the Company
“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 2010-2013 Business Services Agreement and the Financial Services Agreement
“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“CBRC”	China Banking Regulatory Commission
“CEC”	中國電子信息產業集團有限公司 (China Electronics Corporation Limited), a state-owned enterprise established under the laws of the PRC and the ultimate controlling Shareholder
“CEC Finance”	中國電子財務有限責任公司 (China Electronics Corporation Finance Co., Ltd.)
“CEC Group”	CEC and its subsidiaries (other than the Group)
“China Huada”	中國華大集成電路設計集團有限公司 (China Integrated Circuit Design Corp., Ltd.), a substantial Shareholder
“Company”	China Electronics Corporation Holdings Company Limited
“connected person”	has the meaning ascribed to this term under the Listing Rules
“Directors”	the directors of the Company

DEFINITIONS

“Financial Services Agreement”	the comprehensive financial services agreement dated 19 July 2010 and entered into between the Company and CEC Finance
“Group”	the Company and its subsidiaries
“Hua Da Business Services Agreement”	the business services agreement dated 20 June 2008 and entered into between CEC and Huada Electronics
“Hua Da Deposit Services Agreement”	the deposit services agreement dated 20 June 2008 and entered into between CEC Finance and Huada Electronics
“Huada Acquisition”	the acquisition of the entire equity interest in Huada Electronics by the Company, which was completed on 9 September 2009
“Huada Electronics”	北京中電華大電子設計有限責任公司 (CEC Huada Electronic Design Co., Ltd.), a company established under the laws of the PRC
“Independent Board Committee”	the committee of Directors consisting of Mr. Chan Kay Cheung, Mr. Wong Po Yan and Mr. Yin Yongli, being all independent non-executive Directors, formed to advise the Independent Shareholders in respect of the terms of the 2010-2013 Business Services Agreement and the Financial Services Agreement
“Independent Shareholders”	Shareholders other than CEC and its associates
“Latest Practicable Date”	4 August 2010, 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
“Option(s)”	option(s) which have been granted under the Company’s share option scheme approved and adopted by the Shareholders on 20 June 2002
“PBOC”	the People’s Bank of China
“PRC”	the People’s Republic of China

DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“Sang Fei”	深圳桑菲消費通信有限公司 (Shenzhen Sang Fei Consumer Communications Company Limited)
“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 Friday, 10 September 2010 to consider and, if thought fit, to approve the 2010-2013 Business Services Agreement and the Financial Services Agreement
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

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

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: 00085)

Non-executive Directors:

Xiong Qunli (*Chairman*)

Zhao Guiwu (*Vice Chairman*)

Executive Directors:

Fan Qingwu (*Managing Director*)

Liu Jinping

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

9 August 2010

To the Shareholders

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS
2010-2013 BUSINESS SERVICES AGREEMENT WITH CEC
AND
FINANCIAL SERVICES AGREEMENT WITH CEC FINANCE
(2) RE-ELECTION OF DIRECTORS**

INTRODUCTION

On 19 July 2010, the Board announced that the Company has, on the same date, entered into the 2010-2013 Business Services Agreement with CEC pursuant to which CEC Group will provide products processing, testing and assembling services to the Group and purchase integrated circuit cards and smart cards modules and chips from the Group and the Group will purchase raw materials and modules from the CEC Group.

* For identification purpose only

LETTER FROM THE BOARD

On the same date, the Company has entered into the Financial Services Agreement with CEC Finance pursuant to which CEC Finance will provide a range of financial services to the Group and the Group will utilise such financial services on a non-exclusive basis. The financial services to be provided by CEC Finance to the Group under the Financial Services Agreement include deposit services, financial assistance and fee- and commission-based financial services.

The 2010-2013 Business Services Agreement and the Financial Services Agreement will, upon taking effect, supersede the Hua Da Business Services Agreement and the Hua Da Deposit Services Agreement.

CEC, which was interested in approximately 71.30% of the issued share capital of the Company as at the Latest Practicable Date, is the ultimate controlling Shareholder and hence a connected person of the Company. CEC Finance, being a subsidiary of CEC, is also a connected person of the Company.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the 2010-2013 Business Services Agreement are more than 5%, the 2010-2013 Business Services Agreement is subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Financial Services Agreement are more than 5% and that the Group may be required to provide security for certain types of financial assistance to be provided by CEC Finance, the Financial Services Agreement is subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

On 19 July 2010, the Company also announced that Mr. Zhao Guiwu was appointed the Vice Chairman of the Company and a non-executive Director and Mr. Liu Jinping was appointed an executive Director, with effect from the same date. Pursuant to Code Provision A.4.2 of Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules, Mr. Zhao and Mr. Liu shall retire at the first general meeting after their appointment and, being eligible, Mr. Zhao and Mr. Liu offer themselves for re-election at the SGM.

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the 2010-2013 Business Services Agreement and the Financial Services Agreement. In this respect, Altus has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with further information relating to the 2010-2013 Business Services Agreement and the Financial Services Agreement and the re-election of Directors, and to seek your approval of the ordinary resolutions set out in the notice of the SGM on pages 38 to 39 of this circular. The letter from Altus containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 33 of this circular and the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 19 to 20 of this circular.

BACKGROUND

Reference is made to the announcement dated 20 June 2008 and the circular dated 30 June 2008 of the Company for the background and details of the Hua Da Business Services Agreement and the Hua Da Deposit Services Agreement.

On 20 June 2008, Huada Electronics entered into the Hua Da Business Services Agreement with CEC to set out the framework for the ongoing business relationship between the CEC Group on the one hand and Huada Electronics on the other after completion of the Huada Acquisition. Pursuant to the Hua Da Business Services Agreement, (i) CEC Group provides products processing, testing and assembling services to Huada Electronics and purchases integrated circuit cards and smart cards modules and chips from Huada Electronics; (ii) Huada Electronics purchases raw materials and modules from the CEC Group; and (iii) CEC Group provides canteen services to Huada Electronics.

On the same date, Huada Electronics entered into the Hua Da Deposit Services Agreement with CEC Finance pursuant to which CEC Finance provides deposit services to Huada Electronics.

The transactions contemplated under the Hua Da Business Services Agreement and the Hua Da Deposit Services Agreement and the relevant caps for the period commencing from the completion date of the Huada Acquisition until 31 December 2010 were approved by the then independent shareholders of the Company at a special general meeting held on 21 July 2008. The Huada Acquisition was completed on 9 September 2009. The Hua Da Business Services Agreement and the Hua Da Deposit Services Agreement took effect from the completion date of the Huada Acquisition and is effective until 31 December 2010.

In December 2009, the Company disposed of its entire interest in Sang Fei, its then principal operating subsidiary. Following completion of the Company's disposal of its entire interest in Sang Fei, the principal activities of the Group has changed to the design, research and development and sale of integrated circuits. In order to streamline the continuing connected transactions between members of the Group (including Huada Electronics) and members of the CEC Group and to extend the scope of financial services to be provided by CEC Finance to the Group, the Company entered into the 2010-2013 Business Services Agreement with CEC and the Financial Services Agreement with CEC Finance which will, upon taking effect, supersede the Hua Da Business Services Agreement and the Hua Da Deposit Services Agreement.

LETTER FROM THE BOARD

2010-2013 BUSINESS SERVICES AGREEMENT

Date: 19 July 2010

Parties: (i) the Company

(ii) CEC

The 2010-2013 Business Services Agreement covers (i) the provision of products processing, testing and assembling services by the CEC Group and the purchase of raw materials and modules from the CEC Group; and (ii) the sale of integrated circuit cards and smart cards modules and chips to the CEC Group. The Group does not plan to engage the CEC Group for the provision of canteen services under the 2010-2013 Business Services Agreement.

The 2010-2013 Business Services Agreement is subject to the approval of the Independent Shareholders and will take effect from the date of approval by the Independent Shareholders at the SGM and will expire on 30 June 2013. Upon expiry of the term of the 2010-2013 Business Services Agreement, the agreement may be renewed for further terms of three years automatically if the parties so wish.

Details of the continuing connected transactions contemplated under the 2010-2013 Business Services Agreement are as follows:

- (i) *Provision of products processing, testing and assembling services by the CEC Group and purchase of raw materials and modules from the CEC Group*

Pursuant to the 2010-2013 Business Services Agreement, members of the CEC Group will provide products processing, testing and assembling services to the Group for the production of products including integrated circuit cards, smart cards and chips.

The service fees chargeable by members of the CEC Group for the products processing, testing and assembling services will be determined after arm's length negotiations between the parties with reference to market rates. The prices offered to the Group will be no less favourable than the prices of similar services offered by other third party service providers to the Group.

The Group will also, pursuant to the 2010-2013 Business Services Agreement, purchase from members of the CEC Group raw materials and modules for the research and development of integrated circuit cards, smart cards and chips, on a non-committed basis. Such raw materials and modules will include but not limited to wafer, integrated circuit modules, integrated circuit cards, integrated circuits and printed circuit boards.

LETTER FROM THE BOARD

The prices of the raw materials and modules to be supplied by the CEC Group to the Group will be determined after arm's length negotiations between the parties with reference to market rates. The prices offered to the Group will be no less favourable than the prices of similar products offered by other third party suppliers to the Group.

The 2010-2013 Business Services Agreement does not impose any obligation on the part of the Group either to engage CEC Group to provide products processing, testing and assembling services or to purchase raw materials and modules from the CEC Group on an exclusive basis. The Group may engage any other parties to provide products processing, testing and assembling services or source raw materials and modules from any other parties.

(ii) Sale of products to the CEC Group

Pursuant to the 2010-2013 Business Services Agreement, the Group will sell products including integrated circuit cards and smart cards modules and chips to members of the CEC Group.

The products supplied to members of the CEC Group will be priced in accordance with their models and specifications. The prices will be determined after arm's length negotiations between the parties with reference to market rates. The prices offered to members of the CEC Group will be no less favourable than the prices of similar products offered to other third party customers of the Group.

The consideration payable and receivable by the Group under the 2010-2013 Business Services Agreement will be settled in cash according to the terms upon which the services or products are provided.

LETTER FROM THE BOARD

Historical Amounts and Existing Annual Caps for the Hua Da Business Services Agreement

In respect of each category of continuing connected transactions contemplated under the 2010-2013 Business Services Agreement, the historical amounts for each of the years ended 31 December 2007, 2008 and 2009 and the five months ended 31 May 2010 and the existing annual caps for the year ending 31 December 2010 for the Hua Da Business Services Agreement are set out below:

Type of transaction	Existing annual caps for 2010	Historical amounts for the year ended 31 December			Five months ended 31 May 2010
	(RMB'000) (Note 1)	2007 (RMB'000)	2008 (RMB'000)	2009 (RMB'000) (Note 2)	(RMB'000)
Products processing, testing and assembling services and purchase of raw materials and modules					
– Service charges payable by Huada Electronics	421,140	375,198	343,041	208,064	131,842
Sale of products					
– Charges receivable by Huada Electronics	43,200	46,886	43,265	34,557	23,072

Notes:

- The Company confirmed that the consideration payable and receivable by Huada Electronics under the Hua Da Business Services Agreement for the period commencing from 1 January 2010 until the Latest Practicable Date have not exceeded the annual caps for the year ending 31 December 2010 set out in the above table.
- Huada Electronics became a wholly-owned subsidiary of the Company following completion of the Huada Acquisition on 9 September 2009. The transactions between Huada Electronics and the CEC Group have since then become continuing connected transactions of the Company.

LETTER FROM THE BOARD

Proposed Caps for the 2010-2013 Business Services Agreement

It is expected that for each of the years ending 31 December 2010, 2011 and 2012 and the six months ending 30 June 2013, the consideration payable by the Group to the CEC Group and the consideration receivable by the Group from the CEC Group will not exceed the following respective amounts and such amounts have been set as the proposed caps for the relevant continuing connected transactions contemplated under the 2010-2013 Business Services Agreement accordingly:

Type of transaction	For the year ending 31 December			Six months ending
	2010	2011	2012	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
	<i>(Note)</i>			
Products processing, testing and assembling services and purchase of raw materials and modules				
– Service charges payable by the Group	422,000	366,000	392,000	207,000
Sale of products				
– Charges receivable by the Group	68,000	86,000	106,000	68,000

Note: The caps for the consideration payable by the Group to the CEC Group and the consideration receivable by the Group from the CEC Group for the year ending 31 December 2010 set out above cover both (i) the consideration payable and receivable and expected to be payable and receivable by Huada Electronics under the Hua Da Business Services Agreement from 1 January 2010 until the effective date of the 2010-2013 Business Services Agreement and (ii) the consideration expected to be payable and receivable by the Group under the 2010-2013 Business Services Agreement from the effective date of the 2010-2013 Business Services Agreement until 31 December 2010. The 2010-2013 Business Services Agreement is subject to the approval of the Independent Shareholders at the SGM, which will take place on 10 September 2010. As such, the term of the 2010-2013 Business Services Agreement will not exceed three years.

In arriving at the above caps for the consideration payable by the Group for the provision of products processing, testing and assembling services by the CEC Group and the purchase of raw materials and modules from the CEC Group, the Company has made reference to the historical service fees paid by Huada Electronics and the historical purchase of raw materials and modules from the CEC Group and has taken into account the expected demand of the products of the Group, the production plan of the Group and the costs of such services, raw materials and modules.

LETTER FROM THE BOARD

In arriving at the above caps for the consideration receivable by the Group for the sale of products to the CEC Group, the Company has made reference to the historical sales, the expected demand of the Group's products by the CEC Group and the order status of the products. The proposed annual cap for the consideration receivable by the Group for the sale of products to the CEC Group under the 2010-2013 Business Services Agreement for the year ending 31 December 2010 represents an increase from the existing annual cap for the same type of transactions under the Hua Da Business Services Agreement for the same period. Such increase is due to the significant growth in the sale volume to the CEC Group in the five months ended 31 May 2010; and it is expected that this growth momentum will continue to sustain in the second half of 2010.

FINANCIAL SERVICES AGREEMENT

Date: 19 July 2010

Parties: (i) the Company

(ii) CEC Finance

Pursuant to the Financial Services Agreement, CEC Finance will provide a range of financial services to the Group and the Group will utilise such financial services on a non-exclusive basis. The financial services to be provided by CEC Finance to the Group under the Financial Services Agreement include:

- (a) deposit services, including time deposits, call deposits and negotiable deposits;
- (b) provision of financial assistance, including unsecured RMB and foreign currencies loans, finance leases, discounting of bank acceptance bills and commercial acceptance bills and factoring of account receivables; and
- (c) provision of fee- and commission-based financial services, including guarantee services, entrustment loans and entrustment investments services, approved insurance brokerage services, fund management, agency services and financial consultancy services.

The Financial Services Agreement is subject to the approval of the Independent Shareholders and will take effect from the date of approval by the Independent Shareholders at the SGM and will expire on 30 June 2013.

The Financial Services Agreement does not create any obligation on the part of the Group to utilise any particular services of CEC Finance. Other than time deposits which have specified deposit terms, members of the Group may at any time withdraw the funds deposited with CEC Finance without incurring any penalty. CEC Finance is one of a number of financial institutions which provide financial services to the Group. Members of the Group may obtain financial services available from any other financial institutions in addition to or instead of CEC Finance, as it sees fit.

LETTER FROM THE BOARD

The interest rates for the Group's deposits with CEC Finance will be determined by making reference to the standard interest rates published by PBOC for the same type of deposits. Such interest rates will not be less than the rates offered to the Group by other domestic commercial banks for comparable deposits.

The interest rates for the financial assistance provided by CEC Finance to the Group will be determined by making reference to the standard interest rates published by PBOC for the same type of financial assistance. Such interest rates will not be higher than the rates offered to the Group by other domestic commercial banks for comparable financial assistance.

The fees and commissions for the financial services provided by CEC Finance to the Group will be determined by reference to, and shall not be higher than, the fees and commissions charged by other domestic commercial banks or financial institutions for the same type of financial services.

The interests on the deposits and the financial assistance and the fees and commissions for the financial services will be payable in cash according to the terms of the deposits, financial assistance or financial services provided.

Proposed Caps for the Financial Services Agreement

The Company has proposed that the following caps be set as the maximum amount for the transactions contemplated under the Financial Services Agreement:

Type of transaction	Historical amounts	Existing caps	Proposed caps	Basis for determining the proposed caps
<i>Provision of deposit services by CEC Finance to the Group</i>	The maximum daily balance of deposits (together with the interests accrued thereon) maintained by Huada Electronics with CEC Finance under the Huada Deposit Services Agreement had not exceeded RMB10 million.	The maximum daily balance of deposits (together with the interests accrued thereon) maintained by Huada Electronics with CEC Finance shall not exceed RMB10 million.	For the period commencing from the effective date of the Financial Services Agreement until 30 June 2013, the maximum daily balance of deposits (together with the interests accrued thereon) maintained by the Group with CEC Finance shall not exceed RMB80 million.	This has been made after taking into account the cash flow position and the treasury policy of the Group.

LETTER FROM THE BOARD

Type of transaction	Historical amounts	Existing caps	Proposed caps	Basis for determining the proposed caps
<i>Provision of financial assistance by CEC Finance to the Group</i> Maximum amount of financial assistance, including unsecured RMB and foreign currencies loans, finance leases, discounting of bank acceptance bills and commercial acceptance bills and factoring of account receivables, provided by CEC Finance to the Group (<i>Note</i>).	The Company and its existing principal operating subsidiary, Huada Electronics, have not obtained any financial assistance from CEC Finance.	There is no existing cap.	For the period commencing from the effective date of the Financial Services Agreement until 30 June 2013, the maximum amount of financial assistance provided by CEC Finance to the Group shall not exceed RMB80 million on any given day.	This has been made with reference to the expected capital and operational needs of the Group.
<i>Provision of fee- and commission-based financial services by CEC Finance to the Group</i> Fees and commissions payable by the Group to CEC Finance for the fee- and commission-based financial services, including guarantee services, entrustment loans and entrustment investments services, approved insurance brokerage services, fund management, agency services and financial consultancy services, provided by CEC Finance.	There is no historical amount for the previous years.	There is no existing cap.	For the period commencing from the effective date of the Financial Services Agreement to 31 December 2010 – RMB2 million For each of the years ending 31 December 2011 and 2012 – RMB4 million For the six months ending 30 June 2013 – RMB2 million	This has been made with reference to the expected demand of the fee- and commission-based financial services provided by CEC Finance and the fees and commissions payable for such services.

Note: Pursuant to the Financial Services Agreement, apart from unsecured RMB and foreign currencies loans, the Group may be required to provide security for certain types of financial assistance to be provided by CEC Finance.

LETTER FROM THE BOARD

REASONS FOR ENTERING INTO THE 2010-2013 BUSINESS SERVICES AGREEMENT AND THE FINANCIAL SERVICES AGREEMENT

Following completion of the disposal of Sang Fei, Huada Electronics has become the principal operating subsidiary of the Company and the principal activities of the Group have changed to the design, research and development and sale of integrated circuits. In order to streamline the continuing connected transactions between members of the Group (including Huada Electronics) and members of the CEC Group and to extend the scope of financial services to be provided by CEC Finance to the Group, the Company entered into the 2010-2013 Business Services Agreement with CEC and the Financial Services Agreement with CEC Finance which will, upon taking effect, supersede the Hua Da Business Services Agreement and the Hua Da Deposit Services Agreement.

Members of the CEC Group provide products processing, testing and assembling services for the production of the Group's products and supply raw materials and modules to the Group for its research and development purposes. Members of the CEC Group are also customers of the products of the Group. The transactions contemplated under the 2010-2013 Business Services Agreement are, therefore, vital and integral to the business operations of the Group.

CEC Finance is a non-bank financial institution approved and regulated by the PBOC and CBRC. CEC Finance was established for the purpose of enhancing the centralised management of funds among members of the CEC Group and for improving the fund utilisation efficiency of the CEC Group as a whole. CEC Finance is permitted to provide various financial services such as deposit services, loan services, finance leasing and investment services to members of the CEC Group.

The main reasons and advantages for utilising the financial services provided by CEC Finance are as follows:

- (i) The interest rates on deposits and financial assistance offered by CEC Finance to the Group will be no less favourable than those offered by other domestic commercial banks. The fees and commissions for the fee- and commission-based financial services provided by CEC Finance will not be higher than those charged by other domestic commercial banks or financial institutions.
- (ii) CEC Finance is regulated by PBOC and CBRC and provides its services in accordance and in compliance with the rules and operational requirements of these regulatory authorities.
- (iii) The Group is expected to benefit from CEC Finance's better understanding of the operations of the Group which will allow expedient and efficient service provision. The Group also expects that as an intra-group service provider, CEC Finance will generally have a better and more efficient communication with the Group compared with other domestic commercial banks or financial institutions.
- (iv) The Financial Services Agreement will provide the Group with the right and flexibility, which it may choose to utilise the different kinds of financial assistance provided by CEC Finance and secure an additional and stable financing for its operations.

LETTER FROM THE BOARD

The Directors are of the view that the transactions contemplated under the 2010-2013 Business Services Agreement and the Financial Services Agreement will be conducted on normal commercial terms and in the ordinary and usual course of business of the Group and that the terms of the 2010-2013 Business Services Agreement and the Financial Services Agreement and the proposed caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole. None of the Directors have a material interest in the 2010-2013 Business Services Agreement and the Financial Services Agreement and therefore no Director is required to abstain from voting on the board resolutions approving the 2010-2013 Business Services Agreement and the Financial Services Agreement.

LISTING RULES IMPLICATIONS

CEC, which was interested in approximately 71.30% of the issued share capital of the Company as at the Latest Practicable Date, is the ultimate controlling Shareholder and hence a connected person of the Company. CEC Finance, being a subsidiary of CEC, is also a connected person of the Company.

The 2010-2013 Business Services Agreement and the Financial Services Agreement will, upon taking effect, supersede the Hua Da Business Services Agreement and the Hua Da Deposit Services Agreement. The Group has no prior transactions with CEC, CEC Finance and their respective associates which required aggregation with the transactions contemplated under the 2010-2013 Business Services Agreement and the Financial Services Agreement under Rule 14A.25 of the Listing Rules.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the 2010-2013 Business Services Agreement are more than 5%, the 2010-2013 Business Services Agreement is subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Financial Services Agreement are more than 5% and that the Group may be required to provide security for certain types of financial assistance to be provided by CEC Finance, the Financial Services Agreement is subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL INFORMATION

The Company is an investment holding company. Huada Electronics is the principal operating subsidiary of the Company and is engaged in the design, research and development and sale of integrated circuits.

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 sector in the PRC.

LETTER FROM THE BOARD

CEC Finance is a non-bank financial institution approved and regulated by the PBOC and CBRC. CEC Finance was established for the purpose of enhancing the centralised management of funds among the members of the CEC Group and for improving the fund utilisation efficiency of the CEC Group as a whole.

RE-ELECTION OF DIRECTORS

On 19 July 2010, Mr. Zhao Guiwu was appointed the Vice Chairman of the Company and a non-executive Director and Mr. Liu Jinping was appointed an executive Director, with effect from the same date. Pursuant to Code Provision A.4.2 of Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules, Mr. Zhao and Mr. Liu shall retire at the first general meeting after their appointment and, being eligible, Mr. Zhao and Mr. Liu offer themselves for re-election at the SGM.

The biographical details of Mr. Zhao Guiwu and Mr. Liu Jinping are set out below:

Mr. Zhao Guiwu, aged 47, is the Vice Chairman of the Company and a non-executive Director. Mr. Zhao graduated from Tianjin University in the PRC and holds a postgraduate degree in Inorganic Non-metallic Materials and is a senior engineer. Mr. Zhao is a director of the Integrated Circuit Department of CEC, the Company's ultimate controlling Shareholder. Mr. Zhao is also the chairman of Shanghai Beiling Co., Ltd (a company listed on the Shanghai Stock Exchange), Shanghai Huahong Integrated Circuit Co., Ltd and Beijing Huahong IC Design Co., Ltd. From 2002 to 2006, Mr. Zhao was in charge of the Planning Division of the Department of Corporate Planning of China Electronics Technology Group Corporation and the deputy general manager of CETC Deqing Huaying Electronics Co., Ltd. From 2006 to 2008, Mr. Zhao was the deputy general manager of the Strategic Planning Department of CEC. From 2008 to 2009, Mr. Zhao was the general manager of the Planning and Development Department of CEC. Save as disclosed above, Mr. Zhao has not held any directorship in any other listed public companies in the past three years.

Mr. Liu Jinping, aged 58, is an executive Director. Mr. Liu graduated from the Department of Radio Engineering of Beijing Institute of Technology in the PRC and is a senior engineer. Since 2003, Mr. Liu is the general manager of China Huada, the Company's substantial Shareholder, and the chairman of various subsidiaries of China Huada, which include Nationz Technologies Inc. (a company listed on the Shenzhen Stock Exchange) and Beijing Huada Zhibao Electronic System Co., Ltd. From 1994 to 2002, Mr. Liu was the deputy general manager of the SDIC Electronic Co. From 2002 to 2003, Mr. Liu was the deputy general manager of SDIC Venture Capital Co., Ltd. Save as disclosed above, Mr. Liu has not held any directorship in any other listed public companies in the past three years.

Neither Mr. Zhao Guiwu nor Mr. Liu Jinping has entered into any service contract with the Company which provides for a specified length of service. Mr. Zhao Guiwu and Mr. Liu Jinping will be subject to retirement by rotation and re-election at annual general meetings of the Company every three years. Mr. Zhao Guiwu and Mr. Liu Jinping will be entitled to a discretionary bonus and a discretionary award of share options as may be recommended by the

LETTER FROM THE BOARD

remuneration committee of the Board and determined by the Board with reference to their performance, duties and responsibilities, and to the prevailing market conditions. The remuneration of Mr. Zhao Guiwu and Mr. Liu Jinping will be subject to review after the end of the financial year. Details of the remuneration of the directors of the Company are available in the Company's annual report.

Save as disclosed herein, Mr. Zhao Guiwu and Mr. Liu Jinping do not have any relationship with any directors, senior management or substantial or controlling Shareholders. As at the Latest Practicable Date, neither Mr. Zhao Guiwu nor Mr. Liu Jinping has any interest in shares of the Company within the meaning of Part XV of the SFO.

Save as disclosed herein, there is no other matter relating to the re-election of Mr. Zhao Guiwu and Mr. Liu Jinping that needs to be brought to the attention of the Shareholders, nor is there any information which is required to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Listing Rules.

SGM

A notice convening the SGM to be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 10 September 2010 at 3:00 p.m. is set out on pages 38 to 39 of this circular. At the SGM, ordinary resolutions will be proposed to approve the 2010-2013 Business Services Agreement, the Financial Services Agreement and the re-election of Directors. Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the SGM will be taken by poll.

In accordance with the Listing Rules, CEC, the Company's ultimate controlling Shareholder which was interested in approximately 71.30% of the issued share capital of the Company as at the Latest Practicable Date, and its associates, will abstain from voting on the ordinary resolutions approving the 2010-2013 Business Services Agreement and the Financial 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 registrar and transfer office 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.

LETTER FROM THE BOARD

RECOMMENDATION

Altus has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2010-2013 Business Services Agreement and the Financial Services Agreement. Altus considers that the terms of the 2010-2013 Business Services Agreement and the Financial Services Agreement and their respective proposed caps are on normal commercial terms, are in the ordinary and usual course of business of the Group, and are fair and reasonable so far as the Independent Shareholders are concerned. Altus also considers that the aforesaid agreements and their respective proposed caps are also in the interests of the Company and its Shareholders as a whole. Accordingly, Altus advises the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the 2010-2013 Business Services Agreement and the Financial 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 is set out on pages 21 to 33 of this circular.

The Independent Board Committee, after taking advice from Altus, concurs with the view of Altus and considers that the terms of the 2010-2013 Business Services Agreement and the Financial Services Agreement and their respective proposed caps are fair and reasonable and in the interests of the Company and its 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 2010-2013 Business Services Agreement and the Financial Services Agreement. The text of the letter from the Independent Board Committee is set out on pages 19 to 20 of this circular.

FURTHER INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee which sets out its recommendation to the Independent Shareholders, the letter from Altus which contains its advice to the Independent Board Committee and 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

Xiong Qunli

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: 00085)

9 August 2010

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
2010-2013 BUSINESS SERVICES AGREEMENT WITH CEC
AND
FINANCIAL SERVICES AGREEMENT WITH CEC FINANCE**

We refer to the circular (the “**Circular**”) of the Company dated 9 August 2010, 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.

On 19 July 2010, the Board announced that the Company has, on the same date, entered into the 2010-2013 Business Services Agreement with CEC pursuant to which CEC Group will provide products processing, testing and assembling services to the Group and purchase integrated circuit cards and smart cards modules and chips from the Group and the Group will purchase raw materials and modules from the CEC Group.

On the same date, the Company has entered into the Financial Services Agreement with CEC Finance pursuant to which CEC Finance will provide a range of financial services to the Group and the Group will utilise such financial services on a non-exclusive basis. The financial services to be provided by CEC Finance to the Group under the Financial Services Agreement include deposit services, financial assistance and fee- and commission-based financial services.

We have been appointed by the Board to advise you as to whether the terms of the 2010-2013 Business Services Agreement and the Financial Services Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Details of the 2010-2013 Business Services Agreement and the Financial Services Agreement are set out in the section headed “Letter from the Board” of the Circular.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Altus has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2010-2013 Business Services Agreement and the Financial 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 is set out on pages 21 to 33 of the Circular.

We, after taking advice from Altus, concur with the view of Altus and consider that the terms of the 2010-2013 Business Services Agreement and the Financial Services Agreement and their respective proposed caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the 2010-2013 Business Services Agreement and the Financial Services Agreement, as detailed in the notice of the SGM set out on pages 38 to 39 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 of advice from Altus to the Independent Board Committee and the Independent Shareholders in respect of the 2010-2013 Business Services Agreement and the Financial Services Agreement which has been prepared for the purpose of inclusion in this circular.

ALTUS CAPITAL LIMITED

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

9 August 2010

The Independent Board Committee and 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

2010-2013 BUSINESS SERVICES AGREEMENT WITH CEC AND FINANCIAL SERVICES AGREEMENT WITH CEC FINANCE

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2010-2013 Business Services Agreement and the Financial Services Agreement and the caps relating thereto. Details of these continuing connected transactions and the terms of the relevant agreements are set out in the Letter from the Board (“Letter”) contained in the circular of the Company dated 9 August 2010 (the “Circular”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

LETTER FROM ALTUS

The Independent Board Committee has been established to give advice and recommendation to the Independent Shareholders in relation to the 2010-2013 Business Services Agreement and the Financial Services Agreement and the caps relating thereto. The Independent Board Committee comprises Mr. Chan Kay Cheung, Mr. Wong Po Yan and Mr. Yin Yongli, being all independent non-executive Directors. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the 2010-2013 Business Services Agreement and the Financial Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and its Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our opinion and recommendation with regard to the 2010-2013 Business Services Agreement and the Financial Services Agreement, 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 of such information and the information contained in the Circular to provide a reasonable basis for our opinion. 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 representations 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 these continuing connected transactions, we have considered the following principal factors and reasons:

1. Background

On 19 July 2010, the Company has entered into the 2010-2013 Business Services Agreement pursuant to which CEC Group will provide products processing, testing and assembling services to the Group and purchase integrated circuit cards and smart cards modules and chips from the Group and the Group will purchase raw materials and modules from the CEC Group.

On the same day, the Company has entered into the Financial Services Agreement with CEC Finance pursuant to which CEC Finance will provide a range of financial services to the Group and the Group will utilise such financial services on a non-exclusive basis. The financial services to be provided by CEC Finance to the Group under the Financial Services Agreement include deposit services, financial assistance and fee- and commission-based financial services.

The 2010-2013 Business Services Agreement will, upon taking effect, supersede the Hua Da Business Services Agreement. The Financial Services Agreement will, upon taking effect, supersede the Hua Da Deposit Services Agreement. The Company entered into the 2010-2013 Business Services Agreement and the Financial Services Agreement with CEC and CEC Finance respectively to replace the aforesaid existing agreements in order to streamline the continuing connected transactions between members of the Group (including Huada Electronics) and members of the CEC Group and to extend the scope of financial services to be provided by CEC Finance to the Group.

Listing Rules implications

CEC, which was interested in approximately 71.30% of the issued share capital of the Company at the Latest Practicable Date, is the ultimate controlling Shareholder and hence a connected person of the Company. CEC Finance, being a subsidiary of CEC, is also a connected person of the Company.

The Group has no prior transactions with CEC, CEC Finance and their respective associates which required aggregation with the transactions contemplated under the 2010-2013 Business Services Agreement and the Financial Services Agreement under Rule 14A.25 of the Listing Rules.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the 2010-2013 Business Services Agreement are more than 5%, the 2010-2013 Business Services Agreement is subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Financial Services Agreement are more than 5% and that the Group may be required to provide security for certain types of financial assistance to be provided by CEC Finance, the Financial Services Agreement is subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

2. Reasons for the non-exempt continuing connected transactions

A. 2010-2013 Business Services Agreement

Following completion of the Company's disposal of its entire interest in Sang Fei in December 2009, the principal activities of the Group has been changed to the design, research and development and sale of integrated circuits, which is primarily carried out by Huada Electronics. Huada Electronics does not own facilities to perform the processing, testing and assembling procedures on integrated circuits products and these procedures are outsourced to specialised service providers which include members of the CEC Group. The Group will also purchase from members of the CEC Group raw materials and modules for the research and development of integrated circuit cards, smart cards and chips on a non-committed basis.

CEC is a nationwide electronics and information technology conglomerate established in 1989 and has been focusing on communications, consumer electronics, semi-conductor and software sector in the PRC. Over the years, the CEC Group has developed the technical expertise and has established itself as one of the major suppliers of various raw material and modules and one of the major providers of processing, testing and assembling services for other companies in the PRC, which includes Huada Electronics.

Huada Electronics has established a long term business relationship with the CEC Group and has been conducting on-going transactions with members of the CEC Group in its ordinary and usual course of business. The management advised that members of the CEC Group have been efficient in fulfilling majority of the outsourcing and purchase requirements of the Group, and the CEC Group has been providing the Group with high quality services and reliable supply of raw materials and modules at competitive prices throughout the years. The management therefore considers the CEC Group as an important supplier of the Group and it is commercially sensible to continue with such business relationship.

LETTER FROM ALTUS

In respect of the sale transactions, members of the CEC Group have been long term customers of the Group's products, which include integrated circuit cards and smart card modules and chips. While the Group will continue to diversify its customer base, the CEC Group is one of the important customers. The sale prices will be determined based on arm's length negotiations with reference to market rates and the prices to CEC Group shall be no less favourable than the prices of similar products offered to other third party customers. In any event, pursuant to the 2010-2013 Business Services Agreement, the Group is not obliged to sell its products to the CEC Group. The Group may sell its products to any third party customers if there is demand, at comparable or higher prices.

Based on the above, we are of the view that the transactions contemplated under the 2010-2013 Business Services Agreement are vital and integral to the Group's business operations. It is fair and reasonable and in the interests of the Group and its Shareholders as a whole to enter into the 2010-2013 Business Services Agreement such that the Company has the option to continue to fulfill its outsourcing and purchase requirements from the CEC Group when its prices are competitive. This may ensure reliable supply in the event that the Group is not able to purchase the raw materials and modules from independent third party suppliers during time of supply shortage or when prices of independent third party suppliers are not competitive. It also provides the Group flexibility to sell its products to the CEC Group.

B. Financial Services Agreement

Pursuant to the Financial Services Agreement, CEC Finance will provide a range of financial services to the Group and the Group will utilise such financial services on a non-exclusive basis. CEC Finance is a non-bank financial institution approved and regulated by the PBOC and CBRC and is permitted to provide various financial services such as deposit services, loan services, finance leasing and investment services to members of the CEC Group. CEC Finance, as a regulated financial institution, is required to comply with all rules and operational requirements of the regulatory authorities. Therefore, the utilisation of the financial services provided by CEC Finance would not expose the Group to additional financial risk as compared to utilising financial services provided by other similar regulated financial institutions.

Huada Electronics has established business relationship with CEC Finance through utilising the deposit services offered by CEC Finance pursuant to the Hua Da Deposit Services Agreement. As an intra-group service provider, CEC Finance has also been providing various financial services to other members of the CEC Group for years. The management believes that CEC Finance has good understanding of the Group's operations and this has enabled effective communication as compared to other domestic commercial banks and financial institutions which may be less familiar with the electronics industry.

Under the Financial Services Agreement, the Group is neither obliged nor committed to carry out any transactions if the terms, interest rates on deposits and financial assistance, the fees and commissions for the fee- and commission-based financial services provided are less favourable in comparison to those offered by other domestic commercial banks or financial institutions. Hence, the Financial Services Agreement serves to provide the Group an additional and alternative source of financial services, while maintaining its flexibility to utilise them as and when necessary.

Based on the above, we are of the view that it is fair and reasonable and in the interests of the Group and its Shareholders as a whole to enter into the Financial Services Agreement such that the Group can have the flexibility to utilise the services provided by CEC Finance so long as the interest rates on deposits and financial assistance and the fees and commissions for the fee- and commission-based financial services offered by CEC Finance are no less favourable than those offered by other domestic commercial banks or financial institutions.

3. Terms and proposed caps

A. 2010-2013 Business Services Agreement

(i) Terms of transactions

Products processing, testing and assembling services and purchase of raw materials and modules

We understand from the management that a majority of the products of the Group are proprietarily designed for specific applications and as a result, the raw material and modules used by the Group in its research and development and production processes (such as products processing, testing and assembling) are usually product-specific and heterogeneous with different specifications. The service charges and purchase prices are determined on arm's length negotiation with reference to the prevailing market price for similar services and raw materials. We have compared samples of past purchase prices and relevant service charges for modules obtained from members of the CEC Group with those of similar products provided by independent third party service providers and found that the prices and service charges are comparable. We have also compared the purchase prices of raw material purchased from the CEC Group with those of similar products purchased from independent third party suppliers and found that the prices are comparable.

LETTER FROM ALTUS

Importantly, pursuant to the 2010-2013 Business Services Agreement, the Group is neither obliged nor committed to outsource or purchase only from members of the CEC Group if their prices are not competitive or their services are unsatisfactory. The Group is free to engage other third party service providers or suppliers to supply the Group with comparable services and products. All outsourcing and/or purchase transactions will be conducted in the ordinary and usual course of business of the Group and on normal commercial terms.

Sale of products

The sale of products mainly refers to those sold by Huada Electronics to the CEC Group. The sale transactions under the 2010-2013 Business Services Agreement are entered into in the ordinary and usual course of business of the Group and are on normal commercial terms. The sale prices will be determined based on arm's length negotiation with reference to the prevailing market price of similar products.

We have reviewed samples of historical terms and sale price of products sold by Huada Electronics to the CEC Group and they are consistent with the price determination basis as mentioned above. We have also compared the sale prices of products sold by the Group to the CEC Group and the sale prices of similar products sold by the Group to independent third party customers and found that they are comparable.

Pursuant to the 2010-2013 Business Services Agreement, the Group is neither obliged nor committed to sell only to members of the CEC Group if prices are not comparable to prevailing market prices. The Group is free to sell its products to other third party customers at comparable or higher selling prices.

Based on the above, we are of the view that the terms of the transactions contemplated under the 2010-2013 Business Services Agreement are fair and reasonable.

LETTER FROM ALTUS

(ii) Proposed caps

The table below sets out (i) the historical amounts for the years ended 31 December 2008 and 2009 and the five months ended 31 May 2010 and (ii) proposed caps of the consideration payable by the Group to the CEC Group and the consideration receivable by the Group from the CEC Group for the years ending 31 December 2010, 2011 and 2012 and for the six months ending 30 June 2013 pursuant to the 2010-2013 Business Services Agreement.

Type of transaction		Amounts/Caps			Caps			
		2008	2009	Five months ended 31 May 2010 (Unaudited)	For the year ending 31 December			Six months ending 30 June 2013
		(RMB'000)	(RMB'000)	(RMB'000)	2010	2011	2012	(RMB'000)
		(Note 1)			(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Products processing, testing and assembling services and purchase of raw materials and modules								
– Service charges payable by Huada Electronics/the Group	Historical Amount	343,041	208,064	131,842				
	Approved Cap	284,640	293,310		421,140			
	Proposed Cap				422,000	366,000	392,000	207,000
Sale of products								
– Charges receivable by Huada Electronics/the Group	Historical Amount	43,265	34,557	23,072				
	Approved Cap	19,620	36,000		43,200			
	Proposed Cap				68,000	86,000	106,000	68,000

Note

- The historical amounts for the year ended 31 December 2008 is shown for reference only. The transactions between Huada Electronics and the CEC Group in 2008 did not constitute connected transactions of the Group as the Huada Acquisition was completed in September 2009.

The Group has utilised 70.1% of the approved annual cap of consideration payable to the CEC Group for the year ended 31 December 2009. For the five months up to 31 May 2010, the Group has utilised about 31.3% of the approved annual cap for the year ending 31 December 2010. If annualised for illustration purposes only, the utilisation rate will be 75.1%. In respect of consideration receivable from the CEC Group, the Group has utilised 96.0% of the approved annual cap for the year ended 31 December 2009. For the five months up to 31 May 2010, the Group has utilised about 53.4% of the approved annual cap for the year ending 31 December 2010. If annualised for illustration purposes only, the utilisation rate will be 128.2%. In view of this, the management has proposed an increase in such cap for the year ending 31 December 2010.

LETTER FROM ALTUS

We also noted that the historical amounts paid by the Group for the products processing, testing and assembling services and purchases of raw materials and modules were lower than the proposed caps for the years ending 31 December 2010, 2011 and 2012 and for the six months ending 30 June 2013. According to the management, the increase in proposed caps as compared to historical amounts is mainly attributable to the expected increase in the Group's production scale and new projects expected in the next few years.

In respect of consideration payable for products processing, testing and assembling services and purchase of raw materials and modules, the management has proposed a cap of RMB422.0 million for the year ending 31 December 2010 and thereafter a lower cap of RMB366.0 million for the year ending 31 December 2011. This lower cap is mainly due to forecasted decrease in processing and purchases for certain existing integrated circuit cards and smart cards module products as the end-market which uses these products is estimated to be progressively saturated during the year ending 31 December 2011. The management however believes that the utilisation of products processing, testing and assembling services as well as the purchase of raw materials and modules from members of the CEC Group to increase in the year ending 31 December 2012 and the six months ending 30 June 2013 based on future production plans in relation to new product introductions. Consequently, increasing caps have been proposed during these periods.

In respect of sale of products, the caps are proposed by the management based on current sales trend and projects in negotiation. In particular, the management has proposed that the cap for the year ending 31 December 2010 be revised up to RMB68.0 million from the existing cap of RMB43.2 million as the management has observed significant growth in the sales volume of smart card modules specifically used in rechargeable fuel cards sold to a member of the CEC Group during the first five months of 2010. It is expected that the growth momentum of sales to the CEC Group will continue in the second half of 2010. In particular, for the years ending 31 December 2011 and 2012 and the six months ending 30 June 2013, it is expected that there will be year-on-year increases of 30% in sales volume for products which include primarily the aforesaid smart card modules sold to a member of the CEC Group. In addition, other members of the CEC Group are expected to launch several new products in the next few years. The management expects that members of the CEC Group will remain one of the important customers of the Group between 2010 and 2013.

Based on the above, we are of the view that the assumptions and the proposed caps under the 2010-2013 Business Services Agreement for the years ending 31 December 2010, 2011 and 2012 and the six months ending 30 June 2013 are fair and reasonable.

B. Financial Services Agreement

(i) Terms of transactions

Pursuant to the Financial Services Agreement, the interest rates on deposits and financial assistance offered by CEC Finance to the Group shall be no less favourable than those offered by other domestic commercial banks. The fees and commissions for the fee- and commission-based financial services provided by CEC Finance shall not be higher than those charged by other domestic commercial banks or financial institutions. The management confirmed that the interest rates offered by CEC Finance for Huada Electronics' deposits pursuant to the Hua Da Deposit Services Agreement has been determined based on prevailing market rates at the time of making the deposits.

The Group is neither obliged nor committed to carry out any transactions contemplated under the Financial Services Agreement if the terms, interest rates on deposits and financial assistance, the fees and commissions for the fee- and commission-based financial services are less favourable in comparison to those offered by other domestic commercial banks or financial institutions. The management advised that interest rate or fee quotes will be obtained from other domestic commercial banks and/or financial institutions before the choice of financial services provider is made. In addition, the Group may be required to provide security for certain types of financial assistance to be provided by CEC Finance, which we consider is normal business practice among domestic commercial banks and financial institutions. In summary, the availability of deposits, financial assistance and fee- and commission-based financial services provided by CEC Finance under the Financial Services Agreement will give the Group an additional source of financing and services at reasonable costs as and when needed.

Based on the above, we are of the view that the terms of the transactions contemplated under the Financial Services Agreement are fair and reasonable.

LETTER FROM ALTUS

(ii) Proposed caps

The table below sets out the proposed caps of the amounts for the transaction contemplated by the Group with CEC Finance for the years ending 31 December 2010, 2011 and 2012 and for the six months ending 30 June 2013 pursuant to the Financial Services Agreement.

Type of transaction	Historical amounts	Proposed caps
Provision of deposit services by CEC Finance to the Group	The maximum daily balance of deposits (together with the interests accrued thereon) maintained by Huada Electronics with CEC Finance under the Hua Da Deposit Services Agreement had not exceeded RMB10 million, being the existing approved cap pursuant to the Hua Da Deposit Services Agreement.	For the period commencing from the effective date of the Financial Services Agreement until 30 June 2013, the maximum daily balance of deposits (together with the interests accrued thereon) maintained by the Group with CEC Finance shall not exceed RMB80 million.
Maximum daily balance of deposits (together with the interests accrued thereon) maintained by the Group with CEC Finance.		
Provision of financial assistance by CEC Finance to the Group	The Company and its existing principal operating subsidiary, Huada Electronics, have not obtained any financial assistance from CEC Finance.	For the period commencing from the effective date of the Financial Services Agreement until 30 June 2013, the maximum amount of financial assistance provided by CEC Finance to the Group shall not exceed RMB80 million on any given day.
Maximum amount of financial assistance, including unsecured RMB and foreign currencies loans, finance leases, discounting of bank acceptance bills and commercial acceptance bills and factoring of account receivables, provided by CEC Finance to the Group.		
Provision of fee- and commission-based financial services by CEC Finance to the Group	There is no historical amount for the previous years.	For the period commencing from the effective date of the Financial Services Agreement to 31 December 2010 – RMB2 million
Fees and commissions payable by the Group to CEC Finance for the fee- and commission-based financial services, including guarantee services, entrustment loans and entrustment investment services, approved insurance brokerage services, fund management, agency services and financial consultancy services, provided by CEC Finance.		For the years ending 31 December 2011 and 2012 – RMB4 million
		For the six months ending 30 June 2013 – RMB2 million

LETTER FROM ALTUS

When proposing the maximum daily balance of deposits maintained by the Group with CEC Finance, the management has considered the average cash balance of the Group and the deposit services required by the Group. As at 31 December 2009, the Group had a cash and cash equivalent balance of approximately HK\$397.4 million (equivalent to approximately RMB344.3 million). The proposed maximum daily balance of deposits of RMB80.0 million is equivalent to 23.2% of the aforesaid cash and cash equivalent balance, which in our view is reasonable.

The financial assistance provided by CEC Finance to the Group includes unsecured RMB and foreign currencies loans, finance leases, discounting of bank acceptance bills and commercial acceptance bills and factoring of account receivables. The Group may be required to provide security for certain types of financial assistance to be provided by CEC Finance. When proposing the maximum amount of financial assistance provided by CEC Finance to the Group, the management has taken into account the financial needs of the Group for its operations and business development and the expected transaction volume of the Group's operating activities.

Fees and commissions payable by the Group to CEC Finance refers to the charges in relation to guarantee services, entrustment loans and entrustment investment services, approved insurance brokerage services, fund management, agency services and financial consultancy services to be provided by CEC Finance. When proposing the caps for the fees and commissions payables, the management has considered the followings factors: (i) possible utilisation of financial guarantees provided by CEC Finance for up to RMB80.0 million at prevailing market guarantee fee rate of up to 3% of the principal amount; and (ii) financial service fees in relation to possible entrustment loans services, entrustment investments services and miscellaneous financial services to be obtained from CEC Finance with an aggregate estimated amount of RMB1.3 million per annum.

Based on the above, we are of the view that the assumptions and the proposed caps under the Financial Services Agreement for the period commencing from the effective date of the Financial Services Agreement to 31 December 2010, the years ending 31 December 2011 and 2012 and the six months ending 30 June 2013 are fair and reasonable.

LETTER FROM ALTUS

CONCLUSION AND RECOMMENDATION

Having considered the above principal factors, we are of the opinion that terms of the 2010-2013 Business Services Agreement and the Financial Services Agreement and their respective proposed caps are on normal commercial terms, are in the ordinary and usual course of business of the Group, and are fair and reasonable so far as the Independent Shareholders are concerned. The aforesaid agreements and their respective proposed caps are also in the interests of the Company and its Shareholders as a whole. We would therefore advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolutions approving the 2010-2013 Business Services Agreement and the Financial Services Agreement to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Altus Capital Limited
Arnold Ip
Executive Director

1 RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2 DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the following Director 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 Director	Number and description of equity derivatives	Number of underlying shares involved in the Options	Approximate % of the issued share capital of the Company
Fan Qingwu (<i>Managing Director</i>)	1,080,000 Options ^(Note)	1,080,000	0.06%

The interests disclosed above represent long position in the shares or underlying shares of the Company.

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 Mr. Fan Qingwu as beneficial owner. Mr. Fan is entitled to exercise the Options at a price of HK\$1.488 per share of the Company 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. Xiong Qunli, the Chairman of the Company and a non-executive Director, is the chairman of CEC and a director of China Electronics Corporation (BVI) Holdings Company Limited (“CEC (BVI)”). Mr. Zhao Guiwu, the Vice Chairman of the Company and a non-executive Director, is a director of the Integrated Circuit Department of CEC. Mr. Fan Qingwu, the Managing Director and an executive Director, is also a director of CEC (BVI). Mr. Liu Jinping, an executive Director, is the general manager of China Huada. Details of the shareholding of CEC, CEC (BVI) and China Huada 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 of the Company 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 was 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 2009, 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 of the Company 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	Percentage of shareholding
CEC (BVI)	812,500,000	48.03%
China Huada (<i>Note 1</i>)	393,680,000	23.27%
CEC (<i>Notes 1 and 2</i>)	1,206,180,000	71.30%
SDIC High-Tech Investment Co., Ltd. (<i>Note 1</i>)	393,680,000	23.27%
The State Development and Investment Corporation (<i>Note 1</i>)	393,680,000	23.27%

All the interests disclosed above represent long position in the shares of the Company.

Notes:

- (1) The equity interest of China Huada is contributed as to 50% by CEC and as to 50% by SDIC High-Tech Investment Co., Ltd. SDIC High-Tech Investment Co., Ltd. is a wholly-owned subsidiary of The State Development and Investment Corporation, which is a state-owned investment holding company established under the laws of the PRC. By virtue of the SFO, CEC, SDIC High-Tech Investment Co., Ltd. and The State Development and Investment Corporation are deemed to be interested in the 393,680,000 shares of the Company which China Huada is interested in.
- (2) CEC holds 100% interest in CEC (BVI) and is deemed to be interested in the shares held by CEC (BVI).

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 of the Company, 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 type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) 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. Xiong Qunli, the Chairman of the Company and a non-executive Director, is the chairman of CEC. Mr. Zhao Guiwu, the Vice Chairman of the Company and a non-executive Director, is a director of the Integrated Circuit Department of CEC. Mr. Zhao is also the chairman of Shanghai Beiling Co., Ltd., Shanghai Huahong Integrated Circuit Co., Ltd and Beijing Huahong IC Design Co., Ltd. Mr. Liu Jinping is the general manager of China Huada and the chairman of Nationz Technologies Inc..

Currently, the abovementioned companies are engaging in, or having subsidiaries or associates which are engaging in, integrated circuits 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. The Board exercises independent judgment and is always acting for the interests of the Company and its 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.

Apart from the above, none of the Directors nor his associates is or was interested in any business, apart from the Company's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Company's business.

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 2009, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8 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 23 August 2010 and at the SGM:

- (a) the Hua Da Business Services Agreement;
- (b) the Hua Da Deposit Services Agreement;
- (c) the 2010-2013 Business Services Agreement;
- (d) the Financial Services Agreement;
- (e) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 19 to 20 of this circular;
- (f) the letter of advice from Altus to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 21 to 33 of this circular;
- (g) the consent letter from Altus as referred to in the paragraph headed "Expert" in this Appendix; and
- (h) this circular.



CHINA ELECTRONICS CORPORATION HOLDINGS COMPANY LIMITED

中國電子集團控股有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 00085)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of the shareholders of China Electronics Corporation Holdings Company Limited (the “**Company**”) will be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 10 September 2010 at 3:00 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 2010-2013 business services agreement (the “**2010-2013 Business Services Agreement**”) dated 19 July 2010 and entered into between the Company and 中國電子信息產業集團有限公司 (China Electronics Corporation Limited), a copy of which has been initialled by the chairman of the Meeting and for the purpose of identification marked “A”, and the proposed caps be and are hereby generally and unconditionally approved and any one director of the Company be and is hereby authorised to do all such further acts and things and execute all such further documents and take all such steps which he considers necessary, desirable or expedient to implement and/or give effect to the terms of the 2010-2013 Business Services Agreement and the continuing connected transactions contemplated thereunder.”
2. “**THAT** the continuing connected transactions contemplated under the comprehensive financial services agreement (the “**Financial Services Agreement**”) dated 19 July 2010 and entered into between the Company and 中國電子財務有限公司 (China Electronics Corporation Finance Co., Ltd.), a copy of which has been initialled by the chairman of the Meeting and for the purpose of identification marked “B”, and the proposed caps be and are hereby generally and unconditionally approved and any one director of the Company be and is hereby authorised to do all such further acts and things and execute all such further documents and take all such steps which he considers necessary, desirable or expedient to implement and/or give effect to the terms of the Financial Services Agreement and the continuing connected transactions contemplated thereunder.”

* For identification purpose only

NOTICE OF THE SGM

3. “**THAT** Mr. Zhao Guiwu be re-elected as a Director of the Company.”
4. “**THAT** Mr. Liu Jinping be re-elected as a Director of the Company.”

By order of the Board of
China Electronics Corporation Holdings Company Limited
Ng Kui Kwan
Company Secretary

Hong Kong, 9 August 2010

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. 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 registrar and transfer office 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 and voting in person at the Meeting or any adjournment thereof should he so wish.
3. In the case of joint registered holders of any shares, any one of such joint holders may vote at the Meeting, either personally or by proxy, in respect of such shares as if he was 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 the joint holding 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.