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

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

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CHINA ELECTRONICS CORPORATION HOLDINGS COMPANY LIMITED 中國電子集團控股有限公司*

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

(Stock Code: 0085)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

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

A notice convening a special general meeting of the Company to be held at 2:00 p.m. on Friday, 26 January 2007 at Room 908, 9th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong is set out on pages 41 to 42 of this circular. Whether or not you are able to attend the special general meeting, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Abacus Share Registrars 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 page 18 of this circular. A letter from Altus Capital Limited, the independent financial adviser, containing its advice to the independent board committee and the independent shareholders of the Company is set out on pages 19 to 35 of this circular.

8 January 2007

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DEFINITIONS

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

“Altus Capital”	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 Continuing Connected Transactions
“associates”	has the meaning ascribed to this term under the Listing Rules
“Baili”	深圳市桑達百利電器有限公司 (Shenzhen Sang Da Baili Electronics Co., Ltd.), an indirect non wholly-owned subsidiary of CEC
“Board”	the board of Directors
“Business Services Agreement”	the Business Services Agreement dated 17 June 2004 entered into between CEC and Sang Fei, and should the context require, as supplemented by the Supplemental Business Services Agreement
“CEC”	中國電子信息產業集團公司 (China Electronics Corporation), a state-owned enterprise established under the laws of the PRC, the Company’s ultimate controlling Shareholder
“CEC Group”	CEC and its subsidiaries (other than the Group)
“Company”	China Electronics Corporation Holdings Company Limited
“connected person”	has the meaning ascribed to this term under the Listing Rules
“Continuing Connected Transactions”	the transactions contemplated under the Supplemental Business Services Agreement and the Supplemental Processing Agreement
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	the committee of the Board, consisting of Messrs. Chan Kay Cheung, Wong Po Yan and Yin Yongli, being all the independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Continuing Connected Transactions
“Independent Shareholders”	Shareholders other than CEC and its associates
“Latest Practicable Date”	3 January 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Options”	option(s) which have been granted under the Company’s share option scheme approved and adopted by the Shareholders on 20 June 2002
“Philips Group”	Koninklijke Philips Electronics N.V., a company listed on the New York Stock Exchange and the Amsterdam Stock Exchange, together with its affiliated companies and subsidiaries
“PRC”	the People’s Republic of China
“Processing Agreement”	the processing agreement entered into between Sang Fei and Baili in August 2003, and should the context require, as supplemented by the Supplemental Processing Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Sang Fei”	深圳桑菲消費通信有限公司 (Shenzhen Sang Fei Consumer Communications Company Limited), a sino-foreign equity joint venture company established in the PRC and owned as to 65% by the Company
“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 26 January 2007 to consider and, if thought fit, to approve the Continuing Connected Transactions and the proposed annual caps, notice of which is set out on pages 41 to 42 of this circular
“Shareholder(s)”	shareholder(s) of the Company

DEFINITIONS

“SMA”	surface mount assembly
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Business Services Agreement”	the supplemental business services agreement dated 21 December 2006 and entered into between Sang Fei and CEC
“Supplemental Processing Agreement”	the supplemental processing agreement dated 21 December 2006 and entered into between Sang Fei and CEC

LETTER FROM THE BOARD



CHINA ELECTRONICS CORPORATION HOLDINGS COMPANY LIMITED

中國電子集團控股有限公司*

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

(Stock Code: 0085)

Non-executive Directors:

Chen Zhaoxiong (*Chairman*)

Tong Baoan (*Vice Chairman*)

Executive Directors:

Fan Qingwu (*Managing Director*)

Hua Longxing

Independent Non-executive Directors:

Chan Kay Cheung

Wong Po Yan

Yin Yongli

Registered office:

Clarendon House

2 Church Street

Hamilton, HM 11

Bermuda

Principal place of business

in Hong Kong:

Room 908, 9th Floor

Sun Hung Kai Centre

30 Harbour Road

Wanchai

Hong Kong

8 January 2007

To the Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

On 21 December 2006, the Board announced that the Company's principal operating subsidiary, Sang Fei, has on the same date entered into the Supplemental Business Services Agreement and the Supplemental Processing Agreement with CEC to, among other things, renew the term of the Business Services Agreement and the Processing Agreement to 31 December 2009.

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

* For identification purpose only

LETTER FROM THE BOARD

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

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the Continuing Connected Transactions and the proposed annual caps. In this respect, Altus Capital has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders.

The purpose of this circular is to provide you with further information relating to the Continuing Connected Transactions, the letter from Altus Capital containing its advice to the Independent Board Committee and the Independent Shareholders, the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders and the notice of the SGM.

BACKGROUND

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

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

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

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

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

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

LETTER FROM THE BOARD

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

SUPPLEMENTAL BUSINESS SERVICES AGREEMENT

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

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

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

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

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

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

(ii) Purchase of raw materials from the CEC Group

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

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

(iii) After sales and maintenance services

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

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

(iv) Canteen services

Pursuant to the Supplemental Business Services Agreement, Sang Fei retains Baili to provide canteen facilities and meals to Sang Fei's staff. In return, Sang Fei will pay Baili an agreed service fee, which is determined by reference to the actual consumption and an agreed fixed service fees for such services. The service fees chargeable by Baili for the canteen services is determined after arm's length negotiations between the parties with reference to market rates. The prices offered to Sang Fei will be no less favourable than those offered by other third party service providers to Sang Fei. Such pricing terms are the same as those currently adopted by the parties.

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

(v) Renovation services

In order to cope with the growing business needs, Sang Fei may need to expand and improve its production facilities and as such, additional factory premises may be required and existing factory premises may have to be renovated in order to provide an efficient production environment. Pursuant to the Supplemental Business Services Agreement, Sang Fei may engage members of the CEC Group to provide renovation services for its factory premises. The CEC Group will charge the renovation service fees with reference to market rates. The prices offered to Sang Fei will be no less favourable than those offered by other third party service providers to Sang Fei. Such pricing terms are the same as those currently adopted by the parties.

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

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SUPPLEMENTAL PROCESSING AGREEMENT

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

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

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

LETTER FROM THE BOARD

HISTORICAL FIGURES AND EXISTING ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTIONS

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

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

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Notes:

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

All existing annual caps were determined based on Sang Fei's best estimate and the circumstances then existing at the time when such annual caps were determined. As Sang Fei's business develops, the business model of Sang Fei and the cooperation model between Sang Fei and the CEC Group have been adjusted in order to better suit Sang Fei's business needs and to increase Sang Fei's competitiveness in the market. As such, the actual figures of the transactions may be different from the existing annual caps of such transactions.

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

PROPOSED ANNUAL CAPS

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

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

LETTER FROM THE BOARD

Sale of products, raw materials and samples

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

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

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

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

After sales and maintenance services

For the nine months ended 30 September 2006, the consideration payable by the Group for the after sales and maintenance services provided by the CEC Group amounted to RMB1,900,000. Since mid 2006, Sang Fei has engaged the CEC Group to provide after sales and maintenance services for an extended range of products. Compared to the historical figures of RMB1,199,000 and RMB1,522,000 for 2004 and 2005 respectively, the volume of this continuing connected

LETTER FROM THE BOARD

transaction has increased substantially in 2006. The increase in volume is mainly due to the extension of the services provided by the CEC Group. It is expected that the total consideration payable by the Group will, as a result of this new business arrangement, continue to increase.

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

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

Purchase of raw materials

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

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

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

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

LETTER FROM THE BOARD

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

Canteen services

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

Renovation services

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

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

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Processing arrangements

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

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

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

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

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

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

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

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

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

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

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

LETTER FROM THE BOARD

SGM

A notice convening the SGM to be held at Room 908, 9th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong on Friday, 26 January 2007 at 2:00 p.m. is set out on pages 41 to 42 of this circular. At the SGM, ordinary resolutions will be proposed to approve the Continuing Connected Transactions and the proposed annual caps. The vote of the Independent Shareholders at the SGM shall be taken by poll.

In accordance with the Listing Rules, CEC, the Company's ultimate controlling Shareholder holding 74.98% interest in the Company as at the Latest Practicable Date, and its associates, will abstain from voting on the ordinary resolutions approving the Continuing Connected Transactions and the proposed caps at the SGM.

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

GENERAL INFORMATION

The Company is an investment holding company. Its principal operating subsidiary, Sang Fei, is primarily engaged in the manufacturing and sales of mobile handsets and other portable electronics products in the PRC.

CEC is a state-owned enterprise established under the laws of the PRC. Established in 1989 with the approval of the State Council of the PRC, CEC is a nationwide electronics and information technology conglomerate directly administered by the PRC government. CEC actively focuses on communications/consumer electronics, semi-conductor and software sectors in the PRC.

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

RECOMMENDATION

Altus Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the terms of the Continuing Connected Transactions and the proposed annual caps. Altus Capital considers that the terms and conditions of the Continuing Connected Transactions and the relevant annual caps under the Supplemental Business Services Agreement and the Supplemental Processing Agreement with CEC are in the ordinary and usual course of business of the Group and are on normal commercial terms. Altus Capital also considers that they are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Altus

LETTER FROM THE BOARD

Capital therefore advises the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the resolutions to be proposed at the SGM to approve the Continuing Connected Transactions and the proposed annual caps. The text of the letter from Altus Capital containing its advice and the principal factors and reasons it has taken into consideration in arriving at its advice are set out on pages 19 to 35 of this circular.

The Independent Board Committee, after considering the advice from Altus Capital, concurs with the view of Altus Capital and considers that the terms of the Continuing Connected Transactions and the proposed annual caps are fair and reasonable, and that the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Continuing Connected Transactions and the proposed annual caps. The text of the letter from the Independent Board Committee is set out on page 18 of this circular.

FURTHER INFORMATION

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

Yours faithfully
For and on behalf of the Board
China Electronics Corporation Holdings Company Limited
Chen Zhaoxiong
Chairman



CHINA ELECTRONICS CORPORATION HOLDINGS COMPANY LIMITED

中國電子集團控股有限公司*

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

(Stock Code: 0085)

8 January 2007

To the Independent Shareholders

Dear Sir or Madam

RENEWAL CONTINUING CONNECTED TRANSACTIONS

We have been appointed by the Board to advise you as to whether the terms of the Continuing Connected Transactions and the proposed annual caps are fair and reasonable, and whether the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole. Details of the Continuing Connected Transactions are set out in the letter from the Board on pages 4 to 17 of the circular (the “**Circular**”) of the Company dated 8 January 2007, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular, unless the context otherwise requires.

We wish to draw your attention to the letter from the Board set out on pages 4 to 17 of the Circular and the letter of advice from Altus Capital set out on pages 19 to 35 of the Circular.

We, after taking advice from Altus Capital, concur with the views of Altus Capital and consider that the Continuing Connected Transactions are on normal commercial terms and are conducted in the ordinary and usual course of business of the Group. We are also of the view that the terms of the Continuing Connected Transactions and the proposed annual caps are fair and reasonable, and that the Continuing Connected Transactions are in the interests of the Company and the 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 Continuing Connected Transactions and the proposed annual caps.

Yours faithfully

Independent Board Committee

Chan Kay Cheung

Wong Po Yan

Yin Yongli

* For identification purpose only

LETTER FROM ALTUS CAPITAL

The following is the text of a letter received from Altus Capital in respect of the Continuing Connected Transactions prepared for the purpose of incorporation in this circular:

ALTUS CAPITAL LIMITED

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

8 January 2007

The Independent Board Committee and the Independent Shareholders

China Electronics Corporation Holdings Company Limited

Room 908, 9th Floor
Sun Hung Kai Centre
No. 30 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as independent financial adviser to the Independent Board Committee and Independent Shareholders in respect of the Continuing Connected Transactions and the annual caps relating thereto. Details of the Continuing Connected Transactions and the terms and conditions of the Continuing Connected Transaction Agreements are set out in the Letter from the Board (“**Letter**”) contained in the circular of the Company dated 8 January 2007 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter have the same meanings ascribed to them in the Circular unless the context otherwise requires.

The Independent Board Committee has been established to give advice and recommendation to the Independent Shareholders in relation to the Continuing Connected Transactions and the relating annual caps thereto. The Independent Board Committee comprises the independent non-executive Directors namely Messrs. Chan Kay Cheung, Wong Po Yan and Yin Yongli. We have been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Supplemental Business Services Agreement and the Supplemental Processing Agreement and the proposed annual caps thereunder in respect of the Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned, and to give our opinion to the Independent Board Committee in relation to the Continuing Connected Transactions for their consideration in making a recommendation to the Independent Shareholders.

LETTER FROM ALTUS CAPITAL

BASIS OF OUR OPINION

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background

Sang Fei, the principal operating subsidiary of the Company, is primarily engaged in the manufacturing and sales of mobile handsets and other portable electronics products in the PRC. CEC, the ultimate controlling Shareholder which holds 74.98% interest in the Company, is regarded as a connected person of the Company under the Listing Rules. CEC Group has had an established business relationship with Sang Fei since the incorporation of Sang Fei where they have entered

LETTER FROM ALTUS CAPITAL

into the Business Services Agreement in June 2004 and the Processing Agreement in August 2003 respectively for the following continuing connected transactions:

Business Services Agreement

- (i) Sales of products, raw materials and samples by Sang Fei to CEC Group;
- (ii) Purchase of raw materials by Sang Fei from CEC Group;
- (iii) Provision of after sales and maintenance services by CEC Group to Sang Fei;
- (iv) Provision of canteen services by CEC Group to Sang Fei;
- (v) Provision of renovation services by CEC Group to Sang Fei; and
- (vi) Provision of products design services by CEC Group to Sang Fei.

Processing Agreement

- (vii) Provision of processing services by CEC Group to Sang Fei.

As the relevant annual caps set out under the Business Services Agreement and the Processing Agreement have expired on 31 December 2006, the Board is seeking Independent Shareholders' approval for the renewal of the transactions listed (i) to (v) and (vii) above, to be covered under the Supplemental Business Services Agreement and the Supplemental Processing Agreement respectively for another three years commencing from 1 January 2007 and up to 31 December 2009. As stated in the Letter, Sang Fei does not plan to engage CEC Group for the provision of product design services as it will engage its in-house research and development team and other third party service providers instead. Therefore, the connected transactions for the provision of product design services by CEC Group to Sang Fei under the Business Services Agreement will not be renewed under the Supplemental Business Services Agreement.

Save for the change in time period and the proposed annual caps, the Directors consider that there is no material change to the terms of the Supplemental Business Services Agreement and the Supplemental Processing Agreement, including the pricing terms which will be the same as those currently adopted by the parties, as compared with the Business Services Agreement and the Processing Agreement.

2. Reasons for the Continuing Connected Transactions

The continuing connected transactions set out under the Business Services Agreement and the Processing Agreement have been conducted in the ordinary and usual course of business of Sang Fei and on normal commercial terms and on an arm's length basis.

CEC, being the controlling Shareholder and a state-owned conglomerate under the direct administration of the Central Government of the PRC, and its subsidiaries are actively engaged in all key aspects of the production and supply chain in the mobile handset industry – covering research and development, production, distribution, repair and maintenance and sourcing of parts and components of mobile handsets. It has been CEC's intention to strengthen and strategically support the continued growth of the Group's core business so as to maximise synergies between the Group and CEC Group.

Over the years, Sang Fei has been able to leverage on the extensive business network and the economies of scale of CEC Group. The transactions contemplated under the Business Services Agreement and the Processing Agreement have been a vital and an integral part of the business operations of Sang Fei. The ability of CEC Group to provide consistently high quality products and timely services to Sang Fei in the past, facilitated better management of production, logistics and maintenance services arrangements for Sang Fei. These have resulted in cost-savings for Sang Fei. For these reasons, we believe that it is reasonable and in the interests of Sang Fei to continue with the Continuing Connected Transactions with CEC Group.

3. Terms and proposed annual caps for the Continuing Connected Transactions

(A) Sales of products, raw materials and samples by Sang Fei to CEC Group

1. Terms

Sang Fei manufactures and supplies mobile handsets and semi-finished products to CEC Group. One of the existing distributors of Sang Fei's mobile handsets is a member of the CEC Group. Sang Fei may also supply semi-finished products and sample mobile handsets to the CEC Group for its in-house testing purpose and as replacement units for its customers. CEC Group will also source the required raw materials and electronics parts from Sang Fei for the purpose of providing after sales and maintenance services to Sang Fei.

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

Direct comparison of prices of products and raw materials sold to CEC Group could not be made against prices of those which are sold to third party customers as the specifications of each model of mobile handsets are not identical. Sang Fei has a system in place to keep records of the costs of each of the products and raw materials and the management will ensure that the prices of products and raw materials sold to the CEC Group are above its costs and the margins are comparable to those sold to third party customers. We have reviewed and compared sample invoices issued by Sang Fei to CEC Group and to third party customers for the sale of products and raw materials which are similar in specifications, and we noted that the prices sold to the CEC Group are above their costs and the margins are comparable to those sold to third party customers.

LETTER FROM ALTUS CAPITAL

Based on the above, we are of the view that the terms of the ongoing connected transactions in relation to the sale of products, raw materials and samples by Sang Fei to CEC Group are in ordinary course of business of the Group and are on normal commercial terms and are fair and reasonable.

2. Historical figures and proposed annual caps

The following sets out the: (i) historical figures for this category of continuing connected transactions for the two financial years ended 31 December 2004 and 2005 and the unaudited nine months ended 30 September 2006; (ii) the relevant approved caps for 2004, 2005 and 2006; and (iii) the proposed annual caps for this category of continuing connected transactions for 2007, 2008 and 2009:

	For the year ended 31 December 2004 (RMB'000)	2005 (RMB'000)	For the nine months ended 30 September (unaudited) 2006	Proposed caps for the year ending 31 December 2007 2008 2009 (RMB'000)		
Approved caps	610,000	760,000	950,000	9,600	11,520	13,820
Historical figures	44,919	4,900	3,500			
Percentage of historical figures to approved caps	7.4%	0.6%	0.4%			

The actual historical sales to CEC Group in 2004, 2005 and the nine months ended 30 September 2006 have been significantly below the annual cap previously approved. Sales level in 2005 and the nine months ended 30 September 2006 were especially low where only RMB4.9 million and RMB3.5 million were recorded respectively. Having discussed with the management of the Company, the reason for the lower sales was due to a change in the business arrangement by Sang Fei.

Before 2005, the CEC Group was the principal distributor of Sang Fei manufactured mobile handsets. In 2005, Sang Fei set up its own distribution channels and started to distribute products through its own distribution channels. As a result of this new business arrangement, the historical figures for this category of continuing connected transactions have been substantially below to the previously approved caps.

LETTER FROM ALTUS CAPITAL

As stated in the Letter, in mid 2006, Sang Fei has engaged CEC Group to provide after sales and maintenance services for an extended range of products. For the nine months ended 30 September 2006, the sales volume to CEC Group amounted to approximately RMB3.5 million, which was principally attributable to the sales of raw materials and electronic parts to CEC Group in the third quarter of 2006. Having discussed with the management, CEC Group has placed additional orders of a comparable amount in the fourth quarter of 2006. Therefore, it is estimated that the total purchase of raw materials and electronic parts by CEC Group will continue to show an upward trend.

In view of the change in circumstances and based on the historical sales volume as well as the anticipated business growth of Sang Fei, the proposed annual caps for the sale of products, samples and materials for 2007, 2008 and 2009 are RMB9.6 million, RMB11.52 million and RMB13.82 million respectively.

To assess the fair and reasonableness of the above proposed annual caps, which represent an annual increase of about 20%, we have considered the followings:

- i. the demand for Sang Fei's products, raw materials and samples by CEC Group is positively correlated to the demand for CEC Group's after sales and maintenance services by Sang Fei. Since CEC Group also provides after sales services to Sang Fei's manufactured products, the more manufactured products manufactured or undertaken by Sang Fei, the more demand for CEC Group's after sales services.

As mentioned above, CEC Group will source the required raw materials and electronics parts from Sang Fei for its after sales and maintenance services to Sang Fei, it is therefore reasonable for the Directors to expect that the sales of products, raw materials and samples to CEC Group in the coming years will increase in line with the business growth of Sang Fei as well as the growth of the global consumer electronics and communications products market as further discussed below;

- ii. for the two years ended 31 December 2004 and 2005, the Group's segment results for the sale of own branded mobile handset products were approximately HK\$368.7 million and HK\$1,063.4 million respectively, representing an increase of approximately 188%. For the six months ended 30 June 2005 and 2006, the Group's segment results for the sale of own branded mobile handset products were approximately HK\$569.4 million and HK\$741.5 million respectively, representing an increase of approximately 30%. It is therefore reasonable for Sang Fei to expect that the future sale of this segment will maintain at a steady growth rate of approximately 20% each year in coming years;

LETTER FROM ALTUS CAPITAL

- iii. according to Wireless Intelligence, a global mobile industry research company based in the United Kingdom, the number of mobile handset users globally has been growing at a rapid pace where it increased from about 1.38 billion in 2003 to about 1.71 billion in 2004, representing a growth of about 23.9% then to about 2.18 billion in 2005, representing a growth of about 27.5%. The number of users further increased to about 2.41 billion in June 2006, representing a growth of about 10.6% in six months; and
- iv. since mid 2006, Sang Fei has engaged CEC Group to provide after sales and maintenance services for an extended range of products. It is estimated that the total purchase of raw materials and electronic parts by CEC Group will continue to show an upward trend.

Based on the above, we are therefore of the view that the terms and proposed annual caps in relation to the sale of products, samples and materials by Sang Fei to CEC Group are fair and reasonable.

(B) Purchase of raw materials by Sang Fei from CEC Group

1. Terms

Sang Fei from time to time purchases raw materials for its manufacturing activities from members of the CEC Group, on a non-committed basis. Such raw materials include batteries, integrated chips and electronic parts for mobile handsets use.

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

As a reference, we have compared the respective prices of certain raw materials and components such as batteries and plastic parts acquired by Sang Fei from CEC Group and from third party suppliers and consider that, the prices of the raw materials or components sourced from CEC Group were comparable to prices quoted by third party suppliers.

Based on the above, we are of the view that the terms of the continuing connected transactions in relation to the purchase of raw materials by Sang Fei from CEC Group are in ordinary and usual course of business of the Group and are on normal commercial terms and are fair and reasonable.

LETTER FROM ALTUS CAPITAL

2. Historical figures and proposed annual caps

The following sets out the: (i) historical figures for this category of continuing connected transactions for the two financial years ended 31 December 2004 and 2005 and the unaudited nine months ended 30 September 2006; (ii) the relevant approved caps for 2004, 2005 and 2006; and (iii) the proposed annual caps for this category of continuing connected transactions for 2007, 2008 and 2009:

	For the year ended 31 December		For the nine months ended 30 September (unaudited)	Proposed caps for the year ending 31 December		
	2004	2005	2006	2007	2008	2009
	(RMB'000)			(RMB'000)		
Approved caps	11,000	14,000	17,000	20,400	24,480	29,380
Historical figures	8,213	8,483	2,000			
Percentage of historical figures to approved caps	74.7%	60.6%	11.8%			

For the two years ended 31 December 2004 and 2005, Sang Fei purchased approximately RMB8.2 million and RMB8.5 million worth of raw materials from CEC Group, representing approximately 74.7% and 60.6% of the approved caps of the relevant years. For the nine months ended 30 September 2006, purchases from CEC Group dropped to RMB2 million. We understand from the Directors that this was due to Sang Fei's purchase orders for raw materials from CEC Group are concentrated in the fourth quarter of 2006.

We understand from the management that purchase of raw materials from CEC Group has been in smaller scale in the past. The Group's total purchase of raw materials from CEC Group in 2005 only accounted for approximately 0.2% of the Group's total expenses on raw materials and consumables. Over the years, the terms and quality of the raw materials provided by CEC Group to Sang Fei have been reasonable and consistent; and raw materials are delivered in a timely manner. While the terms and prices offered by CEC Group are no less favourable than by other suppliers, Sang Fei intends to further leverage on the economies of scale enjoyed by CEC Group and to maintain a strong and stable relationship with CEC Group. Subsequently, Sang Fei has increased purchases of raw materials from CEC Group since the fourth quarter of 2006. We have reviewed the historical quarterly sales in previous years, orders-on-hand and sales projection of the Group for the year ended 31 December 2006 and are of the view that the projected increase in purchases from CEC Group is reasonable.

LETTER FROM ALTUS CAPITAL

As mobile handsets become more sophisticated, it is expected that the amount of raw materials and components used will increase. In addition, the global consumer electronics and communications products market is expected to maintain a steady growth in the coming years, accordingly, Sang Fei expected that its demand for raw materials required for its manufacturing activities will also increase. The proposed annual caps for sourcing raw materials from CEC Group the three years ending 31 December 2009 are RMB20.4 million, RMB24.5 million and RMB29.4 million respectively, representing an estimated annual growth of 20%.

Based on the above and having considered: (i) the global mobile handset market has been increasing at a satisfactory pace in the past and is expected to increase steadily in the coming years; and (ii) the Group's historical growth in sales of its own branded mobile handsets has been in line with the growth pace of the global mobile handset market, we are of the view that it is reasonable for Sang Fei to expect that its annual production of mobile handsets will also increase steadily in the coming years accordingly as well as the demand for raw materials. On this basis, we are of the view that the terms and proposed annual caps in relation to the purchase of raw materials from CEC Group are fair and reasonable.

(C) Provision of after sales and maintenance services by CEC Group to Sang Fei

1. Terms

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

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

The pre-agreed price is determined after taken into account material costs, labour costs and other related costs (including but not limited to transportation costs and logistics costs) and CEC Group's service charge. According to the management, the basis of price charged by CEC Group is comparable to that charged by other maintenance service provider engaged by Sang Fei. In addition, Sang Fei could engage other service providers if their pricing terms are more favourable. We have reviewed invoices issued by CEC Group to Sang Fei and invoices issued by other service providers engaged by Sang Fei in relation to after sales and maintenance services and consider that the basis of price charged by CEC Group is comparable to that charged by other maintenance service providers.

LETTER FROM ALTUS CAPITAL

Based on the above, we are of the view that the terms of the ongoing connected transactions in relation to the provision of after sales and maintenance services by CEC Group to Sang Fei are in ordinary course of business and are on normal commercial terms and are fair and reasonable.

2. Historical figures and proposed annual caps

The following sets out the: (i) historical figures for this category of continuing connected transactions for the two financial years ended 31 December 2004 and 2005 and the unaudited nine months ended 30 September 2006; (ii) the relevant approved caps for 2004, 2005 and 2006; and (iii) the proposed annual caps for this category of continuing connected transactions for 2007, 2008 and 2009:

	For the year ended 31 December 2004 (RMB'000)	2005 (RMB'000)	For the nine months ended 30 September (unaudited) 2006	Proposed caps for the year ending 31 December 2007 (RMB'000)		
				2007	2008	2009
Approved caps	27,000	33,000	41,000	3,600	4,320	5,180
Historical figures	1,199	1,522	1,900			
Percentage of historical figures to approved caps	4.4%	4.6%	4.6%			

The actual historical after sales and maintenance services required by Sang Fei from CEC Group in 2004, 2005 and the nine months ended 30 September 2006 have been below the annual cap previously approved.

Since mid-2006, in order to focus its resources on the mobile handsets manufacturing business, Sang Fei has increasingly engaged CEC Group to provide after sales and maintenance services for an extended range of products (including *Philips* branded and Sang Fei's own branded mobile handsets). Therefore, during the nine months ended 30 September 2006, after sales and maintenance services required by Sang Fei from CEC Group has relatively increased. It is expected that by the end of 2006, the after sales and maintenance services required by Sang Fei from CEC Group could amount to approximately RMB3 million, and will maintain a steady growth of approximately 20% from 2007 to 2009. This is in line with the growth in demand for Sang Fei's manufactured mobile handsets of about 20% each year.

In view of the fact that the historical sale of Sang Fei's own branded mobile handsets has been increasing at a satisfactory pace in the past few years. On this basis, we are of the view that the above proposed annual caps in relation to the purchase of after sales and maintenance services from CEC Group are fair and reasonable.

LETTER FROM ALTUS CAPITAL

(D) Provision of canteen services by CEC Group to Sang Fei

1. Terms

Baili, an indirectly non-wholly owned subsidiary of CEC, operates canteen facilities for its staff. As the production facilities of Sang Fei are located near to Baili's canteen, Sang Fei retains Baili to provide canteen facilities and meals to Sang Fei's staff. In return, Sang Fei will pay Baili an agreed service fee, which is determined by reference to the actual consumption and an agreed fixed service fees for such services. The service fees chargeable by Baili for the canteen services are determined after arm's length negotiations between the parties with reference to market rates. The prices offered to Sang Fei will be no less favourable than those offered by other third party service providers to Sang Fei. Such pricing terms are the same as those currently adopted by the parties.

Based on the above, we have reviewed the pricing of the items listed on Baili canteen's food menu. We are of the view that prices offered to Sang Fei by Baili are not less favourable than those offered by other local canteens. On this basis, we are of the view that the pricing terms of the continuing connected transactions between Baili and Sang Fei for the canteen services are fair and reasonable.

2. Historical figures for canteen services and proposed annual caps

The following sets out the: (i) historical figures for this category of continuing connected transactions for the two financial years ended 31 December 2004 and 2005 and the unaudited nine months ended 30 September 2006; (ii) the relevant approved caps for 2004, 2005 and 2006; and (iii) the proposed annual caps for this category of continuing connected transactions for 2007, 2008 and 2009:

	For the year ended 31 December		For the nine months ended 30 September (unaudited)	Proposed caps for the year ending 31 December		
	2004	2005	2006	2007	2008	2009
	(RMB'000)			(RMB'000)		
Approved caps	7,000	14,000 ^{Note}	18,000 ^{Note}	20,000	25,000	25,000
Historical figures	6,588	11,498	8,400			
Percentage of historical figures to approved caps	94.1%	82.1%	46.7%			

LETTER FROM ALTUS CAPITAL

Note: As disclosed in the announcement of the Company dated 6 January 2006, the aggregate amount of service fees paid by Sang Fei to Baili in relation to the provision of canteen services had exceeded the original approved caps of RMB8 million for the year ended 31 December 2005. Also, having taken into account the expected growth in headcount in Sang Fei in the year ended 31 December 2006, the Company subsequently increased the annual caps for the relevant canteen services to RMB14 million for the year ended 31 December 2005 and RMB18 million for the year ended 31 December 2006 respectively.

As stated in the announcement of the Company dated 6 January 2006, the average headcount of Sang Fei has increased by 48% to 3,055 in 2005. Actual canteen services figures amounted to 82.1% for the year ended 31 December 2005 while the management estimated that for the year ended 31 December 2006, such amount will reach approximately 70% of the annual caps or about RMB12.6 million.

With reference to these historical amounts and taking into account the factors further discussed below, the Company proposed the annual caps for canteen services by Sang Fei for the three years ending 31 December 2007, 2008 and 2009 to be RMB20 million, RMB25 million and RMB25 million respectively. The proposed caps represent an increase of about 25% from 2007 to 2008, and will remain at a same level in 2008 and 2009 respectively.

When determining the proposed caps, the Company has taken into account that the volume of sales of products, raw materials and samples is expected to grow at a steady pace in the coming years at about 20% annually. Sang Fei has also planned to expand its production facilities and office during 2007 to 2009 and headcount is expected to increase accordingly although we understand from the management that details of the expansion plan has yet to be finalised and the exact increase in headcount in the coming years is also not finalised.

It is also noted that Sang Fei has been conservative in estimating its demand for canteen services when determining the annual caps in the past, as evidenced by the need of their subsequent upward revisions. Based on the above and having reference to the amount of canteen services estimated to be incurred for the year ended 31 December 2006, we believe there is reasonable basis for the moderate increase in the annual caps for 2007 and onwards, and are of the view that the proposed annual caps for 2007, 2008 and 2009 are fair and reasonable.

(E) Provision of renovation services by CEC Group to Sang Fei

1. Terms

The production facilities of Sang Fei are located within an industrial complex owned by the CEC Group. Sang Fei has engaged members of the CEC Group for renovation services for its factory premises during 2004 to 2006.

LETTER FROM ALTUS CAPITAL

In anticipation of further growth in business, Sang Fei intends to expand its production facilities and office during the period from 2007 to 2009 to ensure sufficient production capacity to cope with the expected growth. Having considered the quality of the CEC Group's renovation work performed to its existing premises in the past, Sang Fei intends to retain members of the CEC Group to undertake its future renovation works. CEC Group will charge renovation service fees with reference to market rates. The prices offered to Sang Fei will be no less favourable than those offered by other third party service providers to Sang Fei.

As details of the expansion plan has yet to be finalised, Sang Fei has yet to obtain tenders from independent third party contractors in relation to the future renovation works, no comparison can be made as to whether quotations and terms from independent third party contractors are not significantly different from those offered by CEC Group. As discussed with the management, the above pricing terms are the same as those currently adopted by the parties. Also, Sang Fei will appoint independent third party surveyors to supervise and monitor the progress of major renovation projects in order to ensure that the CEC Group could meet the renovation schedule and quality requirements.

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

2. Historical figures for renovation services and proposed annual caps

The following sets out the: (i) historical figures for this category of continuing connected transactions for the two financial years ended 31 December 2004 and 2005 and the unaudited nine months ended 30 September 2006; (ii) the relevant approved

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caps for 2004, 2005 and 2006; and (iii) the proposed annual caps for this category of continuing connected transactions for 2007, 2008 and 2009:

	For the year ended 31 December 2004	2005	For the nine months ended 30 September (unaudited) 2006	Proposed caps for the year ending 31 December 2007 2008 2009		
	(RMB'000)			(RMB'000)		
Approved caps	15,000	15,000	15,000	10,000	10,000	10,000
Historical figures	5,166	2,508	1,600			
Percentage of historical figures to approved caps	34.4%	16.7%	10.7%			

From the above table, we note that the actual renovation expenditures of Sang Fei were relatively higher in 2004 and lower in 2005 and the nine months ended 30 September 2006. Nevertheless, they were well within the previous approved caps. The management informed us that Sang Fei had secured its second SMA production line from CEC Group in 2004. Accordingly, certain renovation works, which were in smaller scale, had been done to its factory premises to facilitate the operation of the additional production line, amounting to approximately RMB5.2 million. The amounts of RMB2.5 million and RMB1.6 million for renovation services from CEC Group for the year ended 31 December 2005 and the nine months ended 30 September 2006 were mainly attributable to the regular and maintenance works to Sang Fei's factory premises.

In view of the expected growth in business, Sang Fei intends to expand and improve its production facilities and office during the period from 2007 to 2009 to ensure sufficient production capacity to cope with the expected growth. The proposed caps for renovation services for each of the three years ending 31 December 2007, 2008 and 2009 are RMB10 million per annum. The proposed caps are determined based on: (i) the planned expansion plan of Sang Fei in relation to its production and office premises; and (ii) the historical quotes attained from CEC Group.

Based on the above and having discussed with the management of the Group, Sang Fei's upcoming expected renovation project will be a major renovation and expansion to its production facilities and office premises, which will be in a larger scale than the renovation works performed in the past. Therefore, it is reasonable for Sang Fei to expect that the amount of renovation expenditure in the coming years will be higher than the actual renovation expenditure in 2004, 2005 and the nine months ended 30 September 2006. On this basis, we are of the view that the proposed annual caps of Sang Fei for renovation services from CEC Group in 2007, 2008 and 2009 are fair and reasonable.

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(F) Provision of processing services by CEC Group to Sang Fei

1. Terms

Sang Fei entered into a processing contract in August 2003 with Baili, which is a member of the CEC Group, for the dedicated processing services of one complete SMA production line for mobile handsets and other electronics products from Baili (together with operational management rights) for an annual fee of not less than RMB5,110,000.

Currently, Sang Fei secures the dedicated processing services of two complete SMA production lines from CEC Group. As it is expected that Sang Fei's sales of products will maintain a steady growth in the coming years, the volume of processing services demanded by Sang Fei is also expected to increase. Pursuant to the Supplemental Processing Agreement, Sang Fei will continue to secure the dedicated processing services of the SMA production lines for mobile handsets and other electronics products. The processing fees will be determined according to a pre-unit price which is determined with reference to market rates. As Sang Fei has currently secured the dedicated processing services of two complete SMA production lines, the annual aggregate processing fees will, depend on the volume related, be subject to a minimum of RMB9,423,000 per annum. The prices offered to Sang Fei will be no less favourable than those offered by other third party service providers to Sang Fei. Such pricing terms are the same as those currently adopted by the parties.

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

Based on our discussion with the Directors, Sang Fei continues to engage CEC Group for the processing services as the terms of the Processing Agreement are competitive and comparable to, if not better than, the terms offered by other independent SMA processing service providers in Shenzhen. In addition, as Baili, being the member of CEC Group who principally provides the processing services to Sang Fei, and Sang Fei are located within the same production complex, Sang Fei is able to streamline its logistics operations and keep warehousing and transportation costs to a minimum through such arrangement. In addition, according to the Directors, Baili has been able to provide consistent and high quality services to Sang Fei.

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Having considered that (i) the Processing Agreement was entered into on normal commercial terms and the terms of which are no less favourable to those offered by other independent third party; (ii) that Sang Fei is able to realise savings on warehousing and logistics operations due to the proximity of the SMA line; and (iii) the quality of services provided by Baili have been confirmed by the Directors to be satisfactory in the past, we are of the view that the terms of the Supplemental Processing Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

2. Historical figures of processing services and proposed annual caps

The following sets out the: (i) historical figures for this category of continuing connected transactions for the two financial years ended 31 December 2004 and 2005 and the unaudited nine months ended 30 September 2006; (ii) the relevant approved caps for 2004, 2005 and 2006; and (iii) the proposed annual caps for this category of continuing connected transactions for 2007, 2008 and 2009:

	For the year ended 31 December	For the nine months ended 30 September (unaudited)	Proposed caps for the year ending 31 December
	2004	2005	2006
	(RMB'000)		
Approved caps	10,220	15,330	15,330
Historical figures	6,491	9,153	8,200
Percentage of historical figures to approved caps	63.5%	59.7%	53.5%

Proposed caps for the year ending 31 December		
2007	2008	2009
(RMB'000)		
20,000	25,000	30,000

The proposed annual caps for the three years ending 31 December 2007, 2008 and 2009 are RMB20 million, RMB25 million and RMB30 million respectively, representing an annual growth of approximately 20% to 30% each year.

From the above table, we note that the historical transaction volume only accounted for about 60% of the annual caps. To access the reasonableness of the proposed caps, we have taken into account the followings:

- (i) the Group's segment results for the sale of own branded and other ODM mobile handset products had been satisfactory and had achieved annual growth of more than 20% in the past two years;
- (ii) the global mobile handset market has been growing rapidly with double digits growth from 2003 to 2006;

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- (iii) the sales volume of Sang Fei is usually higher in the fourth quarter than the rest of the year as typically more orders are placed for the Christmas and Chinese Lunar New Year seasons. To this end, we have reviewed records of historical sales volume of Sang Fei in the past two years and found that the fourth quarter is normally the peak season of Sang Fei; and
- (iv) Sang Fei's intention of securing additional SMA production lines from CEC Group in the future, which in turn will increase the demand for processing services from CEC Group.

Based on the above, we consider that it is reasonable for the management to expect that transaction volume will be higher in the fourth quarter of 2006 due to point (iii) above. The expected business growth of Sang Fei is in line with the growth of the global mobile handset market and the expansion plan of securing additional production line will also increase the demand for processing services. On this basis, we are of the view that proposed annual caps for the processing services from CEC Group are fair and reasonably arrived at.

CONCLUSION AND RECOMMENDATION

Having considered the above principal factors, we are of the view that the terms and conditions of the Continuing Connected Transactions and the relevant annual caps under the Supplemental Business Services Agreement and the Supplemental Processing Agreement with CEC are in the ordinary and usual course of business of the Group and are on normal commercial terms. We are of the view that they are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. We would therefore advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM.

Yours faithfully,

For and on behalf of

Altus Capital Limited

Arnold Ip

Executive Director

Sean Pey, Chang

Executive Director

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

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

Name of Directors	Number and description of equity derivatives	No. of underlying Shares involved in the Options	Approximate % of the issued capital of the Company
Tong Baoan	3,800,000 Options ^(Note)	3,800,000	0.35%
Fan Qingwu	3,600,000 Options ^(Note)	3,600,000	0.33%
Hua Longxing	3,600,000 Options ^(Note)	3,600,000	0.33%
Total		<u>11,000,000</u>	<u>1.01%</u>

Note:

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

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

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

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

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

Since 31 December 2005, 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 Capital had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

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

Name of Shareholder	Number or attributable number of Shares held	Approximate percentage or attributable percentage of total issued share capital of the Company
CEC (BVI)	812,500,000	74.98%
CEC ^(Note 1)	812,500,000	74.98%
Devon Fortune Limited (“ Devon Fortune ”)	91,421,608	8.43%
Chan Chak Shing (“ Mr. Chan ”)	95,546,608 ^(Note 2)	8.81%

Notes:

- (1)

CEC (BVI) is a wholly-owned subsidiary of CEC. Accordingly, CEC is deemed to be interested in the 812,500,000 Shares owned by CEC (BVI).
- (2)

These 95,546,608 Shares represent the aggregate of: (i) the family interest of Mr. Chan of 4,125,000 Shares and (ii) the corporate interest of 91,421,608 Shares held by Devon Fortune. As Mr. Chan holds 100% interest in Devon Fortune, the interests of Devon Fortune are deemed to be the interests of Mr. Chan.

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

Name of subsidiary	Name of shareholder	Interest held (%)
Sang Fei	Members of the Philips Group	25
Sang Fei	Shenzhen SED Industry Co., Ltd. <i>(Note 3)</i>	10

Note:

- (3)

Shenzhen SED Industry Co., Ltd. is a company established in the PRC with its A shares listed on the Shenzhen Stock Exchange. Shenzhen SED Industry Co., Ltd. is indirectly owned as to approximately 46.05% by CEC as at the Latest Practicable Date.

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

4. DIRECTORS’ SERVICE CONTRACTS

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

5. EXPERT

Altus Capital is a licensed corporation for types 4, 6 and 9 regulated activities under the SFO. Altus Capital 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 Capital is not beneficially interested in the share capital of any member of the Group and does not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

6. COMPETING INTEREST

Mr. Chen Zhaoxiong, the Chairman of the Company and a non-executive Director, is the vice chairman and president of CEC. Mr. Tong Baoan, the Vice Chairman of the Company and a non-executive Director, is a director of CEC, the president and legal representative of China Electronics Industry Corporation and the Chairman of Shenzhen SED Industry Co., Ltd. Mr. Fan Qingwu, the Managing Director and an executive Director, is the vice president of China Electronics Industry Corporation.

Currently, CEC, China Electronics Industry Corporation and Shenzhen SED Industry Co., Ltd. are engaging, or having subsidiaries or associates which are engaging, in mobile handset related businesses which compete or are likely to compete, either directly or indirectly, with the business of the Group.

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

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. PROCEDURES FOR DEMANDING A POLL AT THE SGM

In accordance with the Listing Rules, any vote taken at the SGM to approve the Continuing Connected Transactions and the proposed annual caps must be taken by poll. According to bye-law 66 of the bye-laws of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

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

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

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Linklaters, 10th Floor, Alexandra House, Chater Road, Hong Kong during normal business hours on any business day from the date of this circular up to and including 22 January 2007 and at the SGM:

- (a) the Business Services Agreement;
- (b) the Supplemental Business Services Agreement;
- (c) the Processing Agreement;
- (d) the Supplemental Processing Agreement;
- (e) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 18 of this circular;
- (f) the letter of advice from Altus Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 19 to 35 of this circular; and
- (g) the consent letter from Altus Capital as referred to in the paragraph headed “Expert” in this Appendix.



CHINA ELECTRONICS CORPORATION HOLDINGS COMPANY LIMITED

中國電子集團控股有限公司*

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

(Stock Code: 0085)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of the shareholders of China Electronics Corporation Holdings Company Limited (the “Company”) will be held at Room 908, 9th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong on Friday, 26 January 2007 at 2:00 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 supplemental business services agreement dated 21 December 2006 and entered into between 深圳桑菲消費通信有限公司 (Shenzhen Sang Fei Consumer Communications Company Limited) (“**Sang Fei**”) and 中國電子信息產業集團公司 (China Electronics Corporation) (“**CEC**”), a copy of which has been initialled by the chairman of this meeting and for the purpose of identification marked “A”, and the proposed annual caps be and are hereby generally and unconditionally approved and the directors of the Company be and are hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of the continuing connected transactions contemplated thereunder.”
2. **“THAT** the continuing connected transactions contemplated under the supplemental processing agreement dated 21 December 2006 and entered into between Sang Fei and CEC, a copy of which has been initialled by the chairman of this meeting and for the purpose of identification marked “B”, and the proposed annual caps be and are hereby generally and unconditionally approved and the directors of the Company be and are hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of the continuing connected transactions contemplated thereunder.”

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

Hong Kong, 8 January 2007

* For identification purpose only

NOTICE OF THE SGM

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

*Principal place of business in
Hong Kong:*
Room 908, 9th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

Notes:

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