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CHINA ELECTRONICS HUADA TECHNOLOGY COMPANY LIMITED

中國電子華大科技有限公司

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

(Stock Code: 00085)

**CONTINUING CONNECTED TRANSACTION:
2021 BUSINESS SERVICES AGREEMENT;
AND
MAJOR AND CONTINUING CONNECTED TRANSACTION:
2021 FINANCIAL SERVICES AGREEMENT**

The Board announces that on 13 April 2021 (after trading hours):

- (i) the Company entered into the 2021 Business Services Agreement with CEC, pursuant to which the CEC Group will provide technology development, processing, testing and assembling services to the Group and purchase products such as integrated circuit chips, modules and cards from the Group, the Group will purchase raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group and provide technology development services to the CEC Group, on a non-committed and non-exclusive basis, for a term of three years commencing from 1 July 2021 and ending on 30 June 2024; and
- (ii) the Company entered into the 2021 Financial Services Agreement with CEC Finance, pursuant to which CEC Finance will provide a range of financial services to the Group and the Group will utilise such financial services on a non-exclusive basis for a term of three years commencing from 1 July 2021 and ending on 30 June 2024.

The transactions contemplated under each of the 2021 Business Services Agreement and the 2021 Financial Services Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The provision of the deposit services by CEC Finance to the Group will constitute a major transaction of the Company under Chapter 14 of the Listing Rules. The entering into of the 2021 Business Services Agreement and the 2021 Financial Services Agreement and the transactions contemplated thereunder are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

The SGM will be convened to consider and, if thought fit, to approve the 2021 Business Services Agreement and the 2021 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder. The votes of the Independent Shareholders at the SGM shall be taken by poll and CEC and its associates shall abstain from voting in respect of such resolutions.

A circular containing, among others, details of the 2021 Business Services Agreement and the 2021 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder, a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, the recommendation from the Independent Board Committee, together with the notice of the SGM will be despatched to the Shareholders on or before 7 June 2021.

Reference is made to the announcement and the circular of the Company dated 25 April 2018 and 8 June 2018 respectively in relation to, among others, certain continuing connected transactions contemplated under the 2018 Business Services Agreement and the 2018 Financial Services Agreement (collectively, the “2018 Agreements”). The 2018 Agreements will expire on 30 June 2021. In light of the Group’s intention to continue entering into transactions of a similar nature from time to time after such expiry date, the Board announces that on 13 April 2021 (after trading hours):

- (i) the Company entered into the 2021 Business Services Agreement with CEC, pursuant to which the CEC Group will provide technology development, processing, testing and assembling services to the Group and purchase products such as integrated circuit chips, modules and cards from the Group, the Group will purchase raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group and provide technology development services to the CEC Group, on a non-committed and non-exclusive basis, for a term of three years commencing from 1 July 2021 and ending on 30 June 2024; and
- (ii) the Company entered into the 2021 Financial Services Agreement with CEC Finance, pursuant to which CEC Finance will provide a range of financial services to the Group and the Group will utilise such financial services on a non-exclusive basis for a term of three years commencing from 1 July 2021 and ending on 30 June 2024.

2021 BUSINESS SERVICES AGREEMENT

Date: 13 April 2021 (after trading hours)

Parties: (i) The Company

(ii) CEC

Term: 1 July 2021 to 30 June 2024

Transaction nature

Details of the transactions contemplated under the 2021 Business Services Agreement are as follows:

(a) Provision of technology development, processing, testing and assembling services by the CEC Group, and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group

The CEC Group will provide technology development, processing, testing and assembling services to the Group for the production of products such as integrated circuit chips, modules and cards on a non-committed and non-exclusive basis.

The Group will also purchase raw materials, integrated circuit modules, softwares, equipments and intellectual properties for the research and development of integrated circuit chips from the CEC Group, on a non-committed and non-exclusive basis.

(b) Sale of products and provision of technology development services to the CEC Group

The Group will also sell products such as integrated circuit chips, modules and cards, and provide technology development services to the CEC Group, on a non-committed and non-exclusive basis.

Members of the CEC Group shall enter into separate agreement with members of the Group, which shall set out specific terms and conditions pursuant to the principles and conditions provided in the 2021 Business Services Agreement.

Pricing basis

Pursuant to the 2021 Business Services Agreement, the consideration payable and receivable by the Group shall be subject to the provisions of the 2021 Business Services Agreement and the price as set out in the separate agreement(s) to be entered into between members of the Group and members of the CEC Group, which shall be based on normal commercial terms, fair and reasonable, and no less favourable than those available to other independent third parties. The consideration payable and receivable by the Group shall be determined by a pricing mechanism with reference to the market price at the time of entering into of the separate agreements for same or similar products or services.

The aforesaid “market price” represents the price at which same or similar product or service provided or received by independent third parties in the same or nearby areas in the ordinary and usual course of business.

The consideration payable and receivable by the Group under the 2021 Business Services Agreement will be settled in cash and in accordance with the specific terms of the separate agreements to be entered into between members of the Group and members of the CEC Group.

Historical transaction amounts

Type of transaction	Year ended 31 December	
	2019 (RMB'000)	2020 (RMB'000)
Provision of technology development, processing, testing and assembling services and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties		
– consideration payable by the Group	147,387	102,919
Sale of products and provision of technology development services		
– consideration receivable by the Group	146,850	76,352

Proposed caps

It is expected that for the six months ending 31 December 2021, each of the years ending 31 December 2022 and 2023 and the six months ending 30 June 2024, the maximum consideration payable by the Group to the CEC Group and the maximum consideration receivable by the Group from the CEC Group will not exceed the following respective amounts and such amounts have been set as the proposed caps for the relevant continuing connected transactions contemplated under the 2021 Business Services Agreement.

Type of transaction	Six months ending	Year ending 31 December		Six months ending
	31 December 2021	2022	2023	30 June 2024
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Provision of technology development, processing, testing and assembling services and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties				
– consideration payable by the Group	81,100	178,400	196,200	107,900
Sale of products and provision of technology development services				
– consideration receivable by the Group	80,800	177,700	195,500	107,600

The above caps for the consideration payable by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group is determined based on (i) the historical transaction amounts, especially the transaction amount for the year ended 31 December 2019; (ii) the expected demand of the Group for the provision of technology development, processing, testing and assembling services by the CEC Group in the forthcoming years; (iii) the expected demand of the Group for the raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group in the forthcoming years; (iv) the expected market rate for such technology development, processing, testing and assembling services in the forthcoming years; (v) the expected market price for such raw materials, integrated circuit modules, softwares, equipments and intellectual properties in the forthcoming years; and (vi) incorporating a 10% year-by-year increase to cater for any fluctuation in the operation of the Group.

The above caps for the consideration receivable by the Group for the sale of products and provision of technology development services to the CEC Group is determined based on (i) the historical transaction amounts, especially the transaction amount for the year ended 31 December 2019; (ii) the expected demand of the Group's products and technology development services by the CEC Group in the forthcoming years; (iii) the expected market price or rate for such products and technology development services in the forthcoming years; and (iv) incorporating a 10% year-by-year increase to cater for any fluctuation in the operation of the Group.

It is noted that whilst the historical transaction amounts were taken into consideration for determining the above caps, little reference has been made for the transaction amount for the year ended 31 December 2020 as that was adversely affected by the COVID-19 pandemic.

2021 FINANCIAL SERVICES AGREEMENT

Date: 13 April 2021 (after trading hours)

Parties: (i) The Company
(ii) CEC Finance

Term: 1 July 2021 to 30 June 2024

Transaction nature

Pursuant to the 2021 Financial Services Agreement, the financial services to be provided by CEC Finance to the Group include:

- (a) financial assistances, including but not limited to, RMB loans, finance leasing, discounting of bank acceptance bills and commercial acceptance bills and factoring of account receivables;
- (b) deposit services, including but not limited to, time deposits, call deposits and negotiable deposits; and
- (c) fee-based or commission-based financial services, including but not limited to, guarantee services, fund management, agency services and financial consultancy services.

The 2021 Financial Services Agreement does not create any obligation on the part of the Group to utilise any particular services of CEC Finance. The Group may obtain financial services available from any other financial institutions in addition to, or instead of, CEC Finance, as it deems fit. Other than time deposits which have specified deposit terms, the Group may at any time withdraw the funds deposited with CEC Finance without incurring any penalty.

CEC Finance shall enter into separate agreement with members of the Group, which shall set out specific terms and conditions pursuant to the principles and conditions provided in the 2021 Financial Services Agreement.

Pricing basis

Pursuant to the 2021 Financial Services Agreement, the interest payable and receivable by the Group and the consideration payable by the Group for the fee-based or commission-based financial services shall be subject to the provisions of the 2021 Financial Services Agreement and the rate, fee or commission as set out in the separate agreement(s) to be entered into between members of the Group and CEC Finance, which shall be based on normal commercial terms, fair and reasonable, and subject to compliance with the relevant rules and regulations of the People's Bank of China and the China Banking Regulatory Commission:

- (i) the interest rate for the financial assistance provided by CEC Finance to the Group will be determined by reference to, and shall not be higher than, the rate offered to the Group by other domestic commercial banks for same type of financial assistance;
- (ii) the interest rate for the deposit placed by the Group with CEC Finance will be determined by reference to, and shall not be less than, the rate offered to the Group by other domestic commercial banks for same type of deposit; and

- (iii) the fee or commission for the fee-based or commission-based financial service provided by CEC Finance to the Group will be determined by reference to, and shall not be higher than, the fee or commission charged by other domestic commercial banks or financial institutions for the same type of financial service.

The interest payable on the financial assistances, the interest receivable on the deposits, and the fees and commissions payable for the fee-based or commission-based financial services under the 2021 Financial Services Agreement will be settled in cash and in accordance with the specific terms of the separate agreements to be entered into between members of the Group and CEC Finance.

Historical transaction amounts

Type of transaction	Year ended 31 December	
	2019 (RMB'000)	2020 (RMB'000)
Financial assistances		
– maximum daily balance of financial assistances provided to the Group	49,380	81,579
Deposit services		
– maximum daily balance of deposits (together with interests accrued thereon) placed by the Group	528,251	819,072
Fee-based or commission-based financial services		
– consideration payable by the Group	48	8

Proposed caps

It is expected that for the six months ending 31 December 2021, each of the years ending 31 December 2022 and 2023 and the six months ending 30 June 2024, the maximum daily balance of the financial assistances and the deposits, and the maximum consideration payable by the Group for the fee-based or commission-based financial services will not exceed the following respective amounts and such amounts have been set as the proposed caps for the relevant continuing connected transactions contemplated under the 2021 Financial Services Agreement.

Type of transaction	Six months ending	Year ending 31 December		Six months ending
	31 December 2021 (RMB'000)	2022 (RMB'000)	2023 (RMB'000)	30 June 2024 (RMB'000)
Financial assistances				
– maximum daily balance of financial assistances provided to the Group	700,000	700,000	700,000	700,000
Deposit services				
– maximum daily balance of deposits (together with interests accrued thereon) placed by the Group	700,000	700,000	700,000	700,000
Fee-based or commission-based financial services				
– consideration payable by the Group	2,000	3,500	3,500	2,000

As part of its treasury policy, CEC is prepared to provide financial assistances of the above amounts to the Group through CEC Finance. The proposed caps for the provision of financial assistances by CEC Finance have been determined with reference to the estimated capital and operational needs of the Group, which the Company understands to be the limit proposed by CEC Finance based on its internal assessment on the maximum amount of financial assistances which it may provide to the Group. In return for the financial assistances provided by CEC Finance, the proposed caps for the deposits placed by the Group with CEC Finance are set at a level which is the same as the limit of the financial assistances that could be provided.

The above caps for the consideration payable by the Group for the provision of fee-based or commission-based financial services by CEC Finance is determined based on (i) the expected demand of the Group for the fee-based or commission-based financial services to be provided by CEC Finance in the forthcoming years; and (ii) the expected market rate for such fee-based or commission-based financial services in the forthcoming years. The Group recorded a relatively low level of transaction amounts for each of the years ended 31 December 2019 and 2020 primarily due to no guarantee services was required from CEC Finance and the scale of other fee-based or commission-based financial services provided was also quite small.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2021 BUSINESS SERVICES AGREEMENT AND THE 2021 FINANCIAL SERVICES AGREEMENT

2021 Business Services Agreement

The Group is principally engaged in the business of design and sale of integrated circuit chips. The Group's integrated circuits design operation comprises the design of security smart card chips and the development of application system. The Group does not involved in the direct manufacturing of the integrated circuit chips itself. Currently, the Group's products are mainly used in sectors of identity authentication, financial payment, government utilities and telecommunication. The Group has been entering into various business services transactions of a similar nature with the CEC Group since 2008 under various business services agreements including the 2018 Business Services Agreement. Under the 2018 Business Services Agreement, the CEC Group has been providing products processing, testing and assembling services for the production of the Group's products and supplying raw materials, modules, softwares and equipments to the Group for its research and development purposes, and the Group has also been selling products to the CEC Group. The transactions contemplated under the 2021 Business Services Agreement are, therefore, vital and integral to the business operations of the Group. In view of past operational convenience and benefits brought to the Group, the Board considers it beneficial to maintain such friendly business cooperative relationship with the CEC Group, taking into consideration that CEC is one of the key state-owned nationwide electronics and information technology conglomerates focusing on communications, consumer electronics products, semi-conductor and software sectors in the PRC.

2021 Financial Services Agreement

CEC Finance is a non-banking financial institution approved and regulated by the relevant PRC authorities. CEC Finance was established for the purpose of enhancing the centralised management of funds within the CEC Group and for improving the fund utilisation efficiency of the CEC Group as a whole. CEC Finance is permitted to provide various financial services such as loan services, deposit services, finance leasing and financial consultancy services to members of the CEC Group.

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

- (i) the interest rate on financial assistance and deposit offered by CEC Finance to the Group will be no less favourable than those offered by other domestic commercial banks. The fee or commission for the fee-based or commission-based financial service provided by CEC Finance will not be higher than those charged by other domestic commercial banks or financial institutions;
- (ii) CEC Finance is regulated by the People's Bank of China and the China Banking Regulatory Commission and provides its services in accordance and in compliance with the rules and operational requirements of these regulatory authorities;

- (iii) the Group expects to benefit from CEC Finance's better understanding of the operations of the Group which will allow expedient and efficient delivery of services. The Group also expects that as an intra-group service provider, CEC Finance will generally have more efficient communication channels with the Group as compared with other domestic commercial banks or financial institutions; and
- (iv) the 2021 Financial Services Agreement will provide the Group with the right and flexibility, which it may choose from different kinds of financial assistances provided by CEC Finance and secure additional and stable financing for the Group's operations.

In view of the above reasons and benefits, the Board (other than the independent non-executive Directors who will express their views after considering the advice of the independent financial adviser) considers that (1) the entering into of the 2021 Business Services Agreement and the 2021 Financial Services Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole, (2) the terms of the 2021 Business Services Agreement and the 2021 Financial Services Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable, and (3) the proposed caps of the transactions contemplated under the 2021 Business Services Agreement and the 2021 Financial Services Agreement are also fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

INFORMATION OF THE PARTIES

The Company

The Company is an investment holding company. The Group is principally engaged in the business of design and sale of integrated circuit chips.

CEC

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 products, semi-conductor and software sectors in the PRC. CEC is the ultimate controlling shareholder of the Company and is interested in 59.42% of the issued share capital of the Company.

CEC Finance

CEC Finance is a non-banking financial institution approved and regulated by the People's Bank of China and the China Banking Regulatory Commission. CEC Finance was established for the purpose of enhancing the centralised management of funds within the CEC Group and for improving the fund utilisation efficiency of the CEC Group as a whole. CEC Finance is a subsidiary of CEC.

LISTING RULES IMPLICATIONS

As at the date of this announcement, CEC is the ultimate controlling shareholder of the Company indirectly holding 59.42% of the issued share capital of the Company. CEC is therefore a connected person of the Company under the Listing Rules. CEC Finance is a subsidiary of CEC and is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under each of the 2021 Business Services Agreement and the 2021 Financial Services Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the proposed caps of the transactions contemplated under each of the 2021 Business Services Agreement and the 2021 Financial Services Agreement exceed 5%, the entering into of the 2021 Business Services Agreement and the 2021 Financial Services Agreement and the transactions contemplated thereunder are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the proposed caps of the deposit services contemplated under the 2021 Financial Services Agreement exceed 25%, the provision of the deposit services by CEC Finance to the Group will constitute a major transaction of the Company under Chapter 14 of the Listing Rules.

None of the Directors have a material interest in the 2021 Business Services Agreement and/or the 2021 Financial Services Agreement and the transactions contemplated thereunder. Accordingly, no Director was required to abstain from voting on the Board resolutions for considering and approving the same.

SGM

The SGM will be convened to consider and, if thought fit, to approve the 2021 Business Services Agreement and the 2021 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder. The votes of the Independent Shareholders at the SGM shall be taken by poll and CEC and its associates shall abstain from voting in respect of such resolutions.

DESPATCH OF CIRCULAR

A circular containing, among other information, details of the 2021 Business Services Agreement and the 2021 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder, the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, the recommendation from the Independent Board Committee, together with the notice of the SGM will be despatched to the Shareholders. As additional time is required for preparing and finalising the circular, the Company proposes to despatch the circular on or before 7 June 2021.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meaning:

“2018 Business Services Agreement”	the business services agreement dated 25 April 2018 and entered into between CEC and the Company
“2018 Financial Services Agreement”	the comprehensive financial services agreement dated 25 April 2018 and entered into between CEC Finance and the Company
“2021 Business Services Agreement”	the business services agreement dated 13 April 2021 and entered into between CEC and the Company
“2021 Financial Services Agreement”	the financial services agreement dated 13 April 2021 and entered into between CEC Finance and the Company
“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“CEC”	China Electronics Corporation Limited (中國電子信息產業集團有限公司), a state-owned enterprise established under the laws of the PRC and the ultimate controlling shareholder of the Company
“CEC Finance”	China Electronics Financial Co., Ltd (中國電子財務有限責任公司), a company established under the laws of the PRC and is a subsidiary of CEC
“CEC Group”	in respect of the 2021 Business Services Agreement, CEC and its subsidiaries and associates (other than the Group) and in respect of the 2021 Financial Services Agreement, CEC and its subsidiaries (other than the Group)
“Company”	China Electronics Huada Technology Company Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability

“connected person”	has the meaning ascribed to this term under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Independent Board Committee”	a committee of Directors consisting of all the independent non-executive Directors formed to advise the Independent Shareholders on the terms of the 2021 Business Services Agreement and the 2021 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than CEC and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, to approve the 2021 Business Services Agreement and the 2021 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder
“Shareholders”	shareholders of the Company
“%”	per cent

By order of the Board
China Electronics Huada Technology Company Limited
Xu Haidong
Chairman

Hong Kong, 13 April 2021

As at the date of this announcement, the Board comprises two Non-executive Directors, namely Mr. Xu Haidong (Chairman) and Ms. Liu Jinmei, two Executive Directors, namely Mr. Yu Jian (Deputy Chairman) and Mr. Liu Hongzhou (Managing Director), and three Independent Non-executive Directors, namely Mr. Chan Kay Cheung, Mr. Qiu Hongsheng and Mr. Chow Chan Lum.