
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, 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 Huada Technology Company Limited (the “Company”), 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 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**

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

ALTUS CAPITAL LIMITED

To safeguard the health and safety of the shareholders of the Company and to prevent the spread of novel coronavirus, no refreshment or drink will be served at the special general meeting of the Company.

A notice convening a special general meeting of the Company to be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 29 June 2021 at 4:00 p.m. is set out on pages 45 to 46 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 and transfer office in Hong Kong, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later 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 adjourned meeting should you so wish.

A letter from the independent board committee of the Company containing its recommendation to the independent shareholders of the Company is set out on pages 18 to 19 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 20 to 37 of this circular.

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DEFINITIONS

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

“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
“Altus Capital”	Altus Capital Limited, a corporation licensed to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, and the independent financial adviser appointed by the Board to advise the Independent Board Committee and 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
“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

DEFINITIONS

“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(s)”	has the meaning ascribed to this term under the Listing Rules
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	a committee of Directors, which consists of only 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
“Latest Practicable Date”	28 May 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“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
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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

DEFINITIONS

“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

LETTER FROM THE BOARD



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)

Non-executive Directors:

Xu Haidong (*Chairman*)

Liu Jinmei

Executive Directors:

Yu Jian (*Deputy Chairman*)

Liu Hongzhou (*Managing Director*)

Independent non-executive Directors:

Chan Kay Cheung

Qiu Hongsheng

Chow Chan Lum

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal place of

business in Hong Kong:

Room 3403, 34th Floor

China Resources Building

26 Harbour Road

Wanchai

Hong Kong

4 June 2021

To the Shareholders

Dear Sir or Madam,

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

INTRODUCTION

Reference is made to the announcement of the Company dated 13 April 2021 in relation to, among others, the entering into of (a) the 2021 Business Services Agreement with CEC; and (b) the 2021 Financial Services Agreement with CEC Finance.

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the 2021 Business Services Agreement and the 2021 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder. In this respect, Altus Capital has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among others, (i) details of the 2021 Business Services Agreement and the 2021 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder; (ii) the advice from Altus Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders; (iii) the recommendation from the Independent Board Committee; and (iv) a notice of SGM.

BACKGROUND

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.

On 13 April 2021, in order to continue the existing continuing connected transactions contemplated under the 2018 Agreements, the Company entered into the 2021 Business Services Agreement with CEC and the 2021 Financial Services Agreement with CEC Finance to reflect the terms of the proposed continuing connected transactions and their respective proposed caps of the transactions contemplated thereunder 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.

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.

LETTER FROM THE BOARD

(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 from independent third parties.

The consideration payable by the Group shall be determined by a pricing mechanism with reference to: (i) the market price at the time of entering into of the separate agreements for same or similar products or services; and (ii) quality and prices of products or services offered by independent third party suppliers.

The consideration receivable by the Group shall be determined by a pricing mechanism as follows: (i) the price of products of the Group shall be determined with reference to the prevailing market price of same or similar products; and (ii) the contract price for technology development service to be provided by the Group shall be determined with reference to the expected cost to be incurred by the Group in providing such services, including but not limited to raw materials, salaries, administrative expenses and finance costs.

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.

LETTER FROM THE BOARD

Historical transaction amounts

Type of transaction	Year ended 31 December		Three months ended
	2019	2020	31 March 2021
	(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	147,387	102,919	47,676
Sale of products and provision of technology development services			
– consideration receivable by the Group	146,850	76,352	36,220

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

LETTER FROM THE BOARD

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) the intention of the Group to strengthen cooperation with the CEC Group for its production in the forthcoming years due to the tight production capacity of semiconductors resulted from the rapid development of the 5G and Internet of Things market, and has incorporated 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) the expected increase in demand for the Group's products and technology development services by the CEC Group due to the rapid development of the 5G and Internet of Things market, and has incorporated 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 the sales performance of the Group was seriously affected by the COVID-19 pandemic. In particular, the revenue of the Group decreased by 21.9% from HK\$1,695.5 million for the year ended 31 December 2019 to HK\$1,324.6 million for the year ended 31 December 2020.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 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

LETTER FROM THE BOARD

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.

INTERNAL CONTROL PROCEDURES FOR THE 2021 BUSINESS SERVICES AGREEMENT

To ensure that the transactions contemplated under the 2021 Business Services Agreement are conducted on normal commercial terms, fair and reasonable, and no less favourable than those available from independent third parties, the Group has adopted the following procedures to determine the pricings and terms of the transactions.

Before confirming the pricing of 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 production center will refer to contemporaneous transactions in similar quantities with two independent third parties of comparable size to determine if the pricings and terms offered by the CEC Group are fair, reasonable and no less favourable than those available from independent third parties. Contract for provision of technology development, processing, testing and assembling services, and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties will be presented to the legal department and finance department for approval. The manager of the finance department will consider from an internal control perspective to ensure that the pricing for such potential transaction is in compliance with the pricing policies as set out in the above. In addition, for all purchase of wafer, and provision of testing and assembling services over RMB2,000,000, the contract will also be presented to management in charge, financial controller and general manager for approval. The financial controller will consider from an internal control perspective to ensure that the pricing for such potential transaction is in compliance with the pricing policies as set out in the above.

Before confirming the pricing of sale of products and provision of technology development services to the CEC Group, the sales center will refer to transactions with independent third parties in respect of similar product and similar quantities within the previous 3 months, any market information available, and the general market price of such product in the current quarter to determine if the pricings and terms offered to the CEC Group are no more favourable than those available to independent third parties. Contract for sale of products and provision of technology development services will be presented to the legal department and finance department for approval. The manager of the finance department will consider from an internal control perspective to ensure that the pricing for such potential transaction is in compliance with the pricing policies as set out in the above.

Independent non-executive Directors will conduct an annual review of the transactions (including the pricing mechanism, methods and procedures established by the Group) under the 2021 Business Services Agreement with reference to the audit department (the “Internal Audit Department”) of the Company’s conclusion on the review of such continuing connected transactions and the internal control procedures, and the independent auditor (the “Auditor”) of the Company’s confirmation letter regarding these continuing connected transactions issued by the Auditor, and submit their views to the Board.

LETTER FROM THE BOARD

Given the above, the Board considers that there are appropriate internal controls and procedures in place to ensure that the transactions contemplated under the 2021 Business Services Agreement will be conducted on normal commercial terms and are not prejudicial to the interests of the Company and the Shareholders as a whole.

The Board considers that the Group does not rely on the CEC Group to supply all or majority of products or services, except in the circumstances when the Group already has agreements with customers for the usage of certain products or services specifically provided by the CEC Group. In fact, cost of sales attributable to provision of technology development, processing, testing and assembling services and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group accounted for 14.5% and 13.2% of the cost of sales of the Group for each of the years ended 31 December 2019 and 2020, respectively.

The Group will continue to adopt a market-oriented approach with an aim to reduce the level of reliance on the CEC Group. Since the 2021 Business Services Agreement is on a non-committed and non-exclusive basis, the Board considers that the Group is capable to select and maintain its purchases from independent third party suppliers in the future in the event that terms available from independent third party suppliers would be more favourable to the Group.

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.

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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 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.

LETTER FROM THE BOARD

Historical transaction amounts

Type of transaction	Year ended 31 December		Three months ended
	2019	2020	31 March 2021
	(RMB'000)	(RMB'000)	(RMB'000)
Financial assistances			
– maximum daily balance of financial assistances provided to the Group	49,380	81,579	51,751
Deposit services			
– maximum daily balance of deposits (together with interests accrued thereon) placed by the Group	528,251	819,072	816,686
Fee-based or commission-based financial services			
– consideration payable by the Group	48	8	23

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	2022	2023	30 June 2024
	(RMB'000)	(RMB'000)	(RMB'000)	(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

LETTER FROM THE BOARD

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. For any borrower to obtain any financial assistance from any commercial banks or financial institutions, the borrower will usually need to provide securities or pledged asset with value not less than that of the financial assistance granted. As part of CEC's treasury policy, 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, instead of providing any counter security with value not less than that of the financial assistance to be granted by CEC Finance over the assets of the Group.

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 the fact that 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.

The Group has short-term bank and other borrowings of RMB550.0 million as at 30 April 2021 that needs refinancing within a year. In addition, it is expected that a trade finance facilities of RMB150.0 million would be needed for the Group's operation. As such, the Board believes that the proposed caps for the financial assistance under the 2021 Financial Services Agreement are necessary.

In the past when the Group negotiated refinancing with various bankers, they would request for guarantee from CEC. However, there is no guarantee that the bankers would agree with refinancing of such short-term bank borrowings on such terms and conditions agreeable with the Group. As such, the proposed caps for the financial assistance under the 2021 Financial Services Agreement are justified.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 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.

LETTER FROM THE BOARD

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.

INTERNAL CONTROL PROCEDURES FOR THE 2021 FINANCIAL SERVICES AGREEMENT

To ensure that the transactions contemplated under the 2021 Financial Services Agreement are conducted on normal commercial terms, fair and reasonable, and no less favourable than those available from independent third parties, the Group has adopted the following procedures to determine the pricings and terms of the transactions.

Before making a deposit with, seeking financial assistance from or using fee-based or commission-based financial services from CEC Finance, the finance department will refer to the interest rates and/or fees/commissions (as appropriate) offered by one or two reputable domestic commercial banks or financial institutions which the Group has established business relationship, and the standard or reference rates and/or fees/commissions (as appropriate) promulgated by the People's Bank of China to determine if the pricings and terms offered by CEC Finance are fair, reasonable and no less favourable than those available from independent third parties. Contract for making a deposit with, seeking financial assistance from or using fee-based or commission-based financial services from CEC Finance will be presented to the legal department, finance department, financial controller and general manager for approval. The finance department will consider from an internal control perspective to ensure that the pricing for such potential transaction is in compliance with the pricing policies as set out in the above.

LETTER FROM THE BOARD

Independent non-executive Directors will conduct an annual review of the transactions (including the pricing mechanism, methods and procedures established by the Group) under the 2021 Financial Services Agreement with reference to the Internal Audit Department's conclusion on the review of such continuing connected transactions and the internal control procedures, and the Auditor's confirmation letter regarding these continuing connected transactions issued by the Auditor, and submit their views to the Board.

Given the above, the Board considers that there are appropriate internal controls and procedures in place to ensure that the transactions contemplated under the 2021 Financial Services Agreement will be conducted on normal commercial terms and are not prejudicial to 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 Latest Practicable Date, 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.

LETTER FROM THE BOARD

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

A notice convening the SGM to be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 29 June 2021 at 4:00 p.m. is set out on pages 45 to 46 of this circular. At the SGM, resolutions will be proposed to approve the 2021 Business Services Agreement and the 2021 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder. Any connected person, and any Shareholder with a material interest in the transaction and its associates, will not vote. As such, CEC and its associates shall abstain from voting on the resolutions approving the 2021 Business Services Agreement and the 2021 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder. Pursuant to Rule 13.39(4) of the Listing Rules, the vote of the Independent Shareholders at the SGM will be taken by poll.

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 and transfer office in Hong Kong, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later 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.

In light of the continuing risks posed by the novel coronavirus, the Company strongly advises Shareholders NOT to attend the SGM in person, and recommends Shareholders to appoint the chairman of the SGM as his/her/its proxy to vote according to his/her/its indicated voting instructions as an alternative to attending the SGM in person.

LETTER FROM THE BOARD

BOOK CLOSURE PERIOD

Shareholders whose names appear on the register of members of the Company at the close of business on 24 June 2021 will be entitled to attend and vote at the SGM. The register of members of the Company will be closed from 24 June 2021 to 29 June 2021 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be entitled to attend and vote at the SGM, completed transfer form with relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 23 June 2021.

RECOMMENDATION

Based on the relevant information disclosed herein, the Board is of the view 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 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. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the relevant resolution(s) approving the 2021 Business Services Agreement and the 2021 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder at the SGM.

FURTHER INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

Yours faithfully,

For and on behalf of the Board

China Electronics Huada Technology Company Limited

Xu Haidong

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

4 June 2021

To the Independent Shareholders

Dear Sirs or Madams,

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

We refer to the circular of the Company dated 4 June 2021 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter will have the same meanings as those defined in the Circular, unless the context otherwise requires.

In compliance with the Listing Rules, we have been appointed to advise the Independent Shareholders in relation to the terms of the 2021 Business Services Agreement and the 2021 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder. In this connection, Altus Capital has been appointed as the independent financial adviser to advise on these matters.

Your attention is drawn to the letter from the Board as set out on pages 4 to 17 of the Circular which contains, among others, details of the terms of the 2021 Business Services Agreement and the 2021 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder, the letter from Altus Capital as set out on pages 20 to 37 of the Circular which contains the advice from Altus Capital in respect of the terms of the 2021 Business Services Agreement and the 2021 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder, and the information set out in the appendices thereto.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We, having considered the terms of the 2021 Business Services Agreement and the 2021 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder and having taken into account the principal factors and reasons considered by Altus Capital as stated in its letter, consider 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 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. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM in relation to the 2021 Business Services Agreement and the 2021 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder, as detailed in the notice of SGM as set out on pages 45 to 46 of the Circular.

Yours faithfully,

Independent Board Committee

Chan Kay Cheung Qiu Hongsheng Chow Chan Lum

Independent non-executive Directors

LETTER FROM ALTUS CAPITAL

The following is the text of a letter of advice from Altus Capital to the Independent Board Committee and the Independent Shareholders in respect of the 2021 Business Services Agreement, the 2021 Financial Services Agreement and the respective proposed caps of the transactions thereunder, which has been prepared for the purpose of incorporation in the Circular.

ALTUS

Altus Capital Limited
21 Wing Wo Street
Central, Hong Kong

4 June 2021

*To the Independent Board Committee and
the Independent Shareholders*

China Electronics Huada Technology Company Limited
Room 3403, 34th Floor
China Resources Building
26 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

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

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2021 Business Services Agreement, the 2021 Financial Services Agreement, the transactions contemplated under each of the aforesaid agreements (the “**Continuing Connected Transactions**”) and the proposed caps for the transactions contemplated under each of the aforesaid agreements (the “**Proposed Caps**”). Details of the 2021 Business Services Agreement, the 2021 Financial Services Agreement and the Continuing Connected Transactions are set out in the “Letter from the Board” contained in the circular dated 4 June 2021 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the announcement of the Company dated 13 April 2021. The Company entered into (a) 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; and (b) 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.

LETTER FROM ALTUS CAPITAL

As at the Latest Practicable Date, CEC, which was interested in 59.42% of the issued share capital of the Company, is the ultimate controlling shareholder of the Company and thus a connected person of the Company under the Listing Rules. As at the Latest Practicable Date, CEC Finance, being a subsidiary of CEC, was also a connected person of the Company under the Listing Rules. As such 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 set out in 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 reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios 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.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee consisting of all the independent non-executive Directors namely Mr. Chan Kay Cheung, Mr. Qiu Hongsheng and Mr. Chow Chan Lum, has been established to consider the terms of the 2021 Business Services Agreement, the 2021 Financial Services Agreement and the Proposed Caps, and to advise the Independent Shareholders as to (i) whether the 2021 Business Services Agreement and the 2021 Financial Services Agreement and the Continuing Connected Transactions 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; (ii) whether the terms of the 2021 Business Services Agreement and the 2021 Financial Services Agreement are on normal commercial terms and are fair and reasonable; (iii) whether the Proposed Caps are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole; and (iv) how to vote in respect of the resolutions to be proposed at the SGM in relation to the 2021 Business Services Agreement and the 2021 Financial Services Agreement and the Proposed Caps (the “**Resolutions**”), taking into account the recommendation of the independent financial adviser.

THE INDEPENDENT FINANCIAL ADVISER

As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the 2021 Business Services Agreement and the 2021 Financial Services Agreement and the Continuing Connected Transactions 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; (ii) whether the terms of the 2021 Business Services Agreement and the 2021 Financial Services Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (iii) whether the Proposed Caps have been fairly and reasonably arrived at and are in the interests of the Company and the Shareholders as a whole; and (iv) how the Independent Shareholders should vote in respect of the Resolutions in relation to the 2021 Business Services Agreement and the 2021 Financial Services Agreement and the Proposed Caps at the SGM.

LETTER FROM ALTUS CAPITAL

We have not acted as an independent financial adviser or financial adviser for the Company's other transactions in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the 2021 Business Services Agreement, the 2021 Financial Services Agreement, the Continuing Connected Transactions and the Proposed Caps is at market level and not conditional upon successful passing of the Resolutions, and that our engagement is on normal commercial terms, we are independent of the Company.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others (i) the 2021 Business Services Agreement and the 2021 Financial Services Agreement; (ii) the 2018 Business Services Agreement and the 2018 Financial Services Agreement; (iii) the annual report of the Company for the year ended 31 December 2020; (iv) the internal audit reports of the Company for the years ended 31 December 2018, 2019 and 2020 respectively; and (v) other information as set out in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Group (the "**Management**"). We have assumed that all the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and will continue to be so up to the date of SGM. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regards to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading.

We consider that we have been provided with, and have reviewed, sufficient information to reach an informed view and provide a reasonable basis for our opinion. We have not, however, conducted an independent investigation into the business, financial conditions and affairs or future prospects of the Group. The Company will notify the Shareholders of any material change after the Latest Practicable Date and after the despatch of the Circular.

LETTER FROM ALTUS CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background

a. Principal businesses of the Group, CEC and CEC Finance

The Group is principally engaged in the design and sale of integrated circuit chips.

CEC, a state-owned enterprise established under the laws of the PRC, was established in 1989 with the approval of the State Council of the PRC and is the ultimate controlling shareholder of the Company. CEC is a nationwide electronics and information technology conglomerate, which actively focuses on communications, consumer electronic products, semi-conductor and software sectors in the PRC.

CEC Finance, a subsidiary of CEC, is a non-banking financial institution approved and regulated by the People's Bank of China and the China Banking Regulatory Commission. It 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.

b. The previous business services agreements and financial services agreements

Due to the optimality of transactions between the Group and the CEC Group, and to enhance the competitiveness of the Group, the Company has entered into business services agreements with CEC and financial services agreements with CEC Finance for over a decade with consecutive renewals. The most recent agreements are the 2018 Business Services Agreement and 2018 Financial Services Agreement.

As both agreements will expire on 30 June 2021, the Company entered into the 2021 Business Services Agreement with CEC and the 2021 Financial Services Agreement with CEC Finance on 13 April 2021. Subject to the approval by the Independent Shareholders at the SGM, the 2021 Business Services Agreement and the 2021 Financial Services Agreement are expected to take effect from 1 July 2021 and be valid until 30 June 2024.

LETTER FROM ALTUS CAPITAL

2. The 2021 Business Services Agreement

The services to be provided under the 2021 Business Services Agreement are substantially the same as those prescribed in the 2018 Business Services Agreement. To assess the fairness and reasonableness of the 2021 Business Services Agreement, we have considered the following:

a. Terms of the 2021 Business Services Agreement

- (i) The transactions thereunder shall be based on normal commercial terms, fair and reasonable, and on terms no less favourable to the Group than terms available from and to independent third parties.
- (ii) The pricing of the transactions thereunder shall be determined by a pricing mechanism with reference to the prevailing market price, meaning 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.

We understand that the Group has established internal control procedures to monitor the implementation of pricing mechanism of the transactions contemplated under the 2021 Business Services Agreement including (i) making reference to relevant market information; and (ii) comparing the purchase prices and selling prices with independent third parties to ensure the pricings and terms offered by and to the CEC Group are fair, reasonable and no less favourable than those available from and to independent third parties. Having reviewed the Group's internal control procedures and samples of invoices randomly selected covering each of the sale and purchase of products and services throughout the period of the 2018 Business Services Agreement (as further elaborated in the paragraph headed "2b. Internal controls" below), we noted the Group's internal control has been adhered to. In addition, we have obtained and reviewed three internal audit reports of the Company covering continuing connected transactions under the 2018 Business Services Agreement, which concluded the Group's internal controls are sufficient and effective. For further details of the Group's internal controls, please refer to the paragraph headed "2b. Internal controls" below. As such, we believe there exist procedures to ensure transactions contemplated under the 2021 Business Services Agreement will be continuously carried out on normal commercial terms and with reference to the prevailing market price and accordingly, fair and reasonable.

- (iii) The transactions thereunder shall be on a non-committed and non-exclusive basis.

As the transactions will be on a non-committed and non-exclusive basis, the Group will have flexibility to opt for other service providers if terms are more favourable than those offered by the CEC Group.

In light of the above, we consider the terms of the 2021 Business Services Agreement to be fair and reasonable.

LETTER FROM ALTUS CAPITAL

b. Internal controls

We have reviewed three internal audit reports of the Company covering continuing connected transactions under the 2018 Business Services Agreement for the years ended 31 December 2018, 2019 and 2020 respectively, and set out below our understanding from the Management of the relevant internal controls.

It is noted that prior to confirming the pricing of 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 production center will refer to contemporaneous transactions in similar quantities with two independent third parties of comparable size to determine if the pricings and terms offered by the CEC Group are fair, reasonable and no less favourable than those available from independent third parties. In addition, contract for provision of technology development, processing, testing and assembling services, and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties will be presented to the legal department and finance department for approval. The manager of the finance department will consider from an internal control perspective to ensure that the pricing for such potential transaction is compliant with the above pricing policies. In addition, for all purchase of wafer, and provision of testing and assembling services over RMB2,000,000, the contract will also be presented to the management-in-charge, financial controller and general manager for approval. The financial controller will consider from an internal control perspective to ensure that the pricing for such potential transaction is compliant with the above pricing policies.

It is also noted that prior to confirming the pricing of sale of products and provision of technology development services to the CEC Group, the sales center will refer to previous transactions with independent third parties of comparable products and quantities within the previous three months, any market information available, and the general market price of such product in the current quarter to determine if the pricings and terms offered to the CEC Group are no more favourable than those available to independent third parties. Contract for sale of products and provision of technology development services will be presented to the legal department and finance department for approval. The manager of the finance department will consider from an internal control perspective to ensure that the pricing for such potential transaction is compliant with the above pricing policies.

LETTER FROM ALTUS CAPITAL

In addition, the independent non-executive Directors will conduct an annual review of the transactions (including the pricing mechanism, methods and procedures established by the Group) under the 2021 Business Services Agreement with reference to the audit department (the “**Internal Audit Department**”) of the Company’s conclusion on the review of such continuing connected transactions and the internal control procedures, and the independent auditor (the “**Auditor**”) of the Company’s confirmation letter regarding these continuing connected transactions issued by the Auditor, and submit their views to the Board.

As mentioned in the paragraph headed “2a. Terms of the 2021 Business Services Agreement”, to ascertain whether the pricing mechanism had been effectively implemented, we have obtained and reviewed (i) the relevant internal control policies; and (ii) a total of 60 samples of the Group’s transactions with the CEC Group under the 2018 Business Services Agreement, which are selected based on (a) top five transactions of each of the purchase and sale of products/services from/to the CEC Group for each of the years ended 31 December 2018, 2019 and 2020 respectively; and (b) additional five randomly selected transactions from different intervals in the same financial years of each of the purchase and sale of products/services from/to the CEC Group respectively. Considering the samples obtained and reviewed cover the period of the 2018 Business Services Agreement as well as both purchase and sale of products/services from/to the CEC Group, we believe (i) the pricing mechanism had been adhered to and the prices of goods and services purchased from/sold to the CEC Group was no less favourable to the Group than the price of goods and services purchased from/sold to independent third parties; and (ii) the transactions with the CEC Group were on terms no less favourable to the Group than terms available from and to independent third parties.

c. Reasons for and benefits of the 2021 Business Services Agreement

With reference to the paragraph headed “1a. Principal businesses of the Group, CEC and CEC Finance” in this letter, the Group is principally engaged in the design and sale of integrated circuit chips. The Group’s integrated circuits design operation consists of the design of security smart card chips and the development of application system. The Group is 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. In its ordinary and usual course of business, the Group has a demand for (i) raw materials, integrated circuit modules, softwares, equipments and intellectual properties for its research and development purpose; and (ii) technology development, processing, testing and assembling services for the production of the Group’s products whilst the CEC Group specialises in providing the aforesaid products and services. Meanwhile, the selling of the Group’s products such as integrated circuit chips and provision of technology development services are within the ordinary and usual course of business of the Group. Given that the 2021 Business Services Agreement contemplates 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 and the sale of the Group’s products and services to the CEC Group, we consider the transactions contemplated under the 2021 Business Services Agreement are in the ordinary and usual course of the Group’s principal business and concur with the Management that they are vital and integral to the Group’s business operations.

LETTER FROM ALTUS CAPITAL

We understand from the Management that the raw materials and modules purchased by the Group typically require detailed communication between the Group and the seller. With the long-term business relationship and proven track record in business transactions between the Group and the CEC Group, the products and/or services provided by the CEC Group have been always of high quality with relatively competitive prices. Leveraging on the long-term harmonious business relationship with the CEC Group, by purchasing products and/or services from the CEC Group, the Group can benefit from less communication costs with higher efficiency compared to independent third parties. In addition, the Group's established business relationship with the CEC Group may be able to offer a higher degree of supply chain security for its production of integrated circuit chips in light of the ongoing global semiconductor shortage. In view of the past operational convenience and benefits brought to the Group, the continuity of the business relationship with CEC Group is beneficial to the long-term development of the Group. As such, the Management considers that the provision of products and services by the CEC Group contemplated under the 2021 Business Services Agreement is in the interests of the Company and the Shareholders as a whole.

The Group has been selling integrated circuit cards, smart card modules and chips to the CEC Group for over a decade, during which the CEC Group has brought a stable revenue stream to the Group's revenue and demonstrated its credit-worthiness by settling the invoices of the Group in a timely manner. As the 2018 Business Services Agreement will expire on 30 June 2021, taking into consideration the satisfactory business relationship with the CEC Group, the Management considers that retaining the CEC Group as a customer in relation to the sale of products and services contemplated under the 2021 Business Services Agreement is in the interests of the Company and the Shareholders as a whole.

In view of the above, we concur with the Management's view that the entering into of the 2021 Business Services Agreement is in line with the interests of the Company and the Shareholders as a whole.

LETTER FROM ALTUS CAPITAL

d. Proposed caps for the 2021 Business Services Agreement

(i) Existing caps and historical variances

Below is a table setting out (i) each category of continuing connected transactions contemplated under the 2018 Business Services Agreement; (ii) the existing cap approved for the 2018 Business Services Agreement; and (iii) the historical amount of charges recorded for each of the years ended 31 December 2019 and 2020 respectively.

Type of transaction	Existing caps/historical amount recorded	
	For the 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		
Historical amount	147,387	102,919
Approved cap	903,000	948,000
Percentage	16.3%	10.9%
Sale of products and provision of technology development services		
Historical amount	146,850	76,352
Approved cap	212,000	223,000
Percentage	69.3%	34.2%

LETTER FROM ALTUS CAPITAL

As shown in the above table, the utilisation rates of historical annual caps were approximately (i) 16.3% and 10.9% for the years ended 31 December 2019 and 2020 respectively, for the purchase of products and services from the CEC Group; and (ii) 69.3% and 34.2% for the years ended 31 December 2019 and 2020 respectively, for the sale of products and services to the CEC Group. As advised by the Management, the decreasing trend of historical transaction amount and utilisation rate of the previous annual caps in 2019 and 2020 were mainly due to the outbreak of COVID-19 pandemic, which casts certain degree of uncertainty on the overall macroeconomic environment in the PRC and worldwide. Due to the impact of COVID-19 pandemic, the restrictions on resumption of work and production in various industries were implemented during the pandemic, resulting in a stagnant demand for some of the Group's products, such as the social security card chips. Since the beginning of 2021, the Management advised that the impact of the COVID-19 pandemic continued to affect the operations of the Group, but expects that the business operation will gradually recover and therefore has proposed the lowered annual caps for the three years ending 30 June 2024 than the historical annual caps as stated in the above table.

(ii) *Proposed caps*

Type of transaction	For the six months ending 31 December 2021 RMB'000	For the year ending 31 December 2022 RMB'000	2023 RMB'000	For the six months ending 30 June 2024 RMB'000
Provision of technology development, processing, testing and assembling services and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties				
Proposed cap	81,100	178,400	196,200	107,900
Sale of products and provision of technology development services				
Proposed cap	80,800	177,700	195,500	107,600

LETTER FROM ALTUS CAPITAL

In determining the above proposed annual caps for the purchases and sales of products and services, we understand from the Management that the Company had taken into consideration (i) the historical transaction amounts, in particular, the historical transaction amounts for the year ended 31 December 2019. The historical transaction amounts for the year ended 31 December 2020, seriously affected by the COVID-19 pandemic, were considered unrepresentative and therefore inappropriate for such purpose; and (ii) incorporating a 10% year-by-year increase to cater for any fluctuations in the operation of the Group, having considered, amongst others, (a) the gradual recovery of the macroeconomic environment from the outbreak of COVID-19 pandemic¹; (b) the smart card chips market in the PRC is expected to be driven by further application of the domestic production and the state cryptographic algorithm, as well as the continued development of 5G and Internet of Things for new infrastructure². In this regard, the Group plans to strengthen the applications for industries such as smart transportation, smart cities, smart home, automotive electronics based on its smart card chips security and application technology accumulated over years; and (c) the global supply shortage of semiconductor products which may cause potential upward pressure to the market price or rate for similar products and technology services³, while in light of such backdrop, the Group intends to strengthen the cooperation with domestic suppliers based in the PRC, in particular with the CEC Group.

Taking into accounts the above factors and reasons, which are in line with publicly available information from independent sources, we are of the view that the Proposed Caps with regard to the transactions contemplated under the 2021 Business Services Agreement are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

3. The 2021 Financial Services Agreement

a. Terms of the 2021 Financial Services Agreement

The services to be provided under the 2021 Financial Services Agreement are substantially the same as those prescribed in the 2018 Financial Services Agreement. To assess the fairness and reasonableness of the 2021 Financial Services Agreement, we have considered the following:

- (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 Group's deposit 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.

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1. This is supported by the "World Economic Outlook, April 2021: Managing Divergent Recoveries" published by the International Monetary Fund as at 23 March 2021, which projected the global economy to grow at 6% and 4.4% in 2021 and 2022 respectively.
 2. This is supported by the PRC's "14th Five-Year Plan" for the integrated circuit chips market development, which amongst others, encouraged the development of domestic production of integrated circuit chips and to accelerate the development and implementation of 5G network and new infrastructure in the PRC.
 3. This is supported by market news reported by reputable publications in relation to the global semiconductor market, which reported there exists global supply shortage in semiconductor products, primarily driven by the underlying strong demand for products such as consumer electronics.

LETTER FROM ALTUS CAPITAL

- (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 same type of financial service.

We understand that the Group has established internal control procedures to ensure the pricings and terms offered by CEC Finance are fair, reasonable and no less favourable than those offered by independent third parties. Having reviewed the Group's internal control procedures and samples of invoices randomly selected covering each of the provision of (i) financial assistance; (ii) deposit services; and (iii) fee-based or commission-based financial services throughout the period of the 2018 Financial Services Agreement (as further elaborated in the paragraph headed "3b. Internal controls" below), we noted the Group's internal control has been adhered to. In addition, we have obtained and reviewed three internal audit reports of the Company covering continuing connected transactions under the 2018 Financial Services Agreement, which concluded the Group's internal controls are sufficient and effective. For further details of the Group's internal controls, please refer to the paragraph headed "3b. Internal controls" below. As such, we believe there exist procedures to ensure transactions contemplated under the 2021 Financial Services Agreement will be continuously carried out on normal commercial terms and with reference to the prevailing market price or rate and accordingly, fair and reasonable.

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

As the transactions will be on a non-exclusive basis and the Group may at any time withdraw the funds deposited (other than time deposits which have specified deposit terms) with CEC Finance without incurring any penalty, the Group will have flexibility to opt for other service providers if terms are more favourable than those offered by CEC Finance.

In light of the above, we consider the terms of the 2021 Financial Services Agreement to be fair and reasonable.

LETTER FROM ALTUS CAPITAL

b. Internal controls

We have reviewed three internal audit reports of the Company covering continuing connected transactions under the 2018 Financial Services Agreement for the years ended 31 December 2018, 2019 and 2020 respectively, and set out below our understanding from the Management of the relevant internal controls.

It is noted that prior to making a deposit with, seeking financial assistance from or using fee-based or commission-based financial services from CEC Finance, the finance department will refer to the interest rates and/or fees/commissions (as appropriate) offered by one or two reputable domestic commercial banks or financial institutions which the Group has established business relationship, the standard or reference rates and/or fees/commissions (as appropriate) promulgated by the People's Bank of China (the "PBOC") to determine if the pricings and terms offered by CEC Finance are fair, reasonable and no less favourable than those offered by independent third parties. Contract for making a deposit with, seeking financial assistance from or using fee-based or commission-based financial services from CEC Finance will be presented to the legal department, finance department, financial controller and general manager for approval. The finance department will consider from an internal control perspective to ensure that the pricing for such potential transaction is compliant with the pricing policies as set out in the above.

In addition, the independent non-executive Directors will conduct an annual review of the transactions (including the pricing mechanism, methods and procedures established by the Group) under the 2021 Financial Services Agreement with reference to the Internal Audit Department's conclusion on the review of such continuing connected transactions and the internal control procedures, and the Auditor's confirmation letter regarding these continuing connected transactions issued by the Auditor, and submit their views to the Board.

As mentioned in the paragraph headed "3a. Terms of the 2021 Financial Services Agreement" above, we have obtained and reviewed (i) 21 samples of deposit services, which are selected based on top seven daily deposit balance for each of the years ended 31 December 2018, 2019 and 2020 respectively; (ii) 21 samples of financial assistance, which are selected based on top seven daily financial assistance balance for each of the years ended 31 December 2018, 2019 and 2020 respectively; and (iii) two samples of fee-based or commission-based financial services, which are selected based on top one fee-based or commission-based financial services for each of the years ended 31 December 2019 and 2020 respectively (no sample has been selected for the year ended 31 December 2018 as there was no relevant transaction conducted during the year). Considering the samples obtained and reviewed cover the period of the 2018 Financial Services Agreement as well as deposit services, financial assistance and fee-based or commission-based financial services provided by CEC Finance to the Group, we noted that the transactions with CEC Finance were on terms no less favourable to the Group than those of transactions with independent third parties.

Taking into account the aforesaid factors, we consider the transactions contemplated under the 2021 Financial Services Agreement to be on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM ALTUS CAPITAL

c. Reasons for and benefits of the 2021 Financial Services Agreement

As stated in the paragraph headed “1a. Principal businesses of the Group, CEC and CEC Finance”, 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.

We concur with the Management that it would be in the interests of the Company and the Shareholders as a whole for the Group to have the option to utilise the financial services provided by CEC Finance, as:

- (i) under the regulation of the PBOC and the China Banking Regulatory Commission (the “CBRC”), CEC Finance provides its services in accordance and in compliance with rules and operational requirements of the PBOC and the CBRC, where other commercial banks are also governed by the same regulations. This illustrates that making a deposit with and seeking financial assistance from CEC Finance will not impose extra risks to the Group;
- (ii) 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
- (iii) the 2021 Financial Services Agreement will enable the Group to flexibly select different kinds of financial assistance provided by CEC Finance and independent third parties to secure additional and stable financing for its operations. The 2021 Financial Services Agreement will only serve as an additional option for the Group on a non-exclusive basis. The internal controls of the Group will ensure that the financial services provided by CEC Finance will only be employed when the terms are no less favourable to the Group than that provided by independent third parties.

We have also considered that given the competitive market environment, it would be beneficial for the Group to have access to services contemplated under the 2021 Financial Services Agreement, which provides flexibility to support the Group’s financing and in turn business activities. Given that the Group had obtained such services in the past, to continue to have such access can enhance the Group’s financial stability.

LETTER FROM ALTUS CAPITAL

d. Proposed caps for the 2021 Financial Services Agreement

(i) Existing caps and historical variances

Below is a table setting out (i) each category of continuing connected transactions contemplated under the 2018 Financial Services Agreement; (ii) the existing cap approved for the 2018 Financial Services Agreement; and (iii) the historical amount recorded for each of the years ended 31 December 2019 and 2020 respectively.

Type of transaction	Existing caps/historical amount recorded For the year ended 31 December	
	2019 RMB'000	2020 RMB'000
Financial assistance		
Maximum daily balance of financial assistance provided to the Group	49,380	81,579
Approved cap	820,000	820,000
Percentage	6.0%	9.9%
Deposit services		
Maximum daily balance of deposits (together with interests accrued thereon) placed by the Group	528,251	819,072
Approved cap	820,000	820,000
Percentage	64.4%	99.9%
Fee-based or commission-based financial services		
Consideration payable by the Group	48	8
Approved cap	10,000	10,000
Percentage	0.5%	0.1%

As shown in the above table, in relation to the financial assistance provided by CEC Finance, the Group recorded relatively low utilisation rates of annual caps of approximately 6.0% and 9.9% for the years ended 31 December 2019 and 2020 respectively. In relation to deposit services provided by CEC Finance, the Group had utilised approximately 64.4% and 99.9% of the annual caps for the years ended 31 December 2019 and 2020 respectively. In relation to the fee-based or commission-based financial services provided by CEC Finance, the consideration payable by the Group to CEC Finance were RMB48,000 and RMB8,000 for the years ended 31 December 2019 and 2020 respectively, representing utilisation rates of approximately 0.5% and 0.1% respectively.

LETTER FROM ALTUS CAPITAL

We understand from the Management that the relatively low utilisation rates in relation to the financial assistance and the fee-based or commission-based financial services provided by CEC Finance was mainly due to (i) the 2018 Financial Services Agreement does not create any obligation on the part of the Group to utilise any particular services of CEC Finance, which only serves as an additional option for the Group when required; and (ii) the fact that the Group has employed such financial assistance from independent third parties with the unsecured guarantee support from CEC.

Given that the proposed caps were proposed by CEC Finance, and the Group would benefit from having the flexibility to choose to avail itself of the services and/or financial assistance offered by CEC Finance, we do not consider the historical utilisation of the caps (e.g. the relatively low utilisation rates of annual caps in relation to the financial assistance and the fee-based or commission-based financial services provided by CEC Finance as discussed above) relating to the transactions under the 2018 Financial Services Agreement relevant to our assessment of the fairness and reasonableness of the proposed caps.

(ii) *Proposed caps*

Type of transaction	For the six months ending 31 December 2021 RMB'000	For the year ending 31 December 2022 RMB'000	2023 RMB'000	For the six months ending 30 June 2024 RMB'000
Financial assistance				
Maximum daily balance of financial assistance 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

LETTER FROM ALTUS CAPITAL

Deposit services and financial assistance

We are advised by the Management that the maximum daily balance of financial assistance provided to the Group by CEC Finance was proposed by CEC Finance based on its internal assessment on the maximum amount of financial assistance which it may provide to the Group with reference to the estimated capital and operational needs of the Group. We are further advised by the Management that in obtaining financial assistance from any commercial banks or financial institutions, the borrower will typically be required to provide securities or pledged asset with value not less than that of the financial assistance granted. As part of CEC's treasury policy, in return for the financial assistance 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 financial assistance that could be provided, instead of providing any counter security with value not less than that of the financial assistance to be granted by CEC Finance over the assets of the Group. Given (i) the Group would benefit from the flexibility afforded by the availability of financial assistance and deposit services as mentioned above; (ii) that it is not obligated under the 2021 Financial Services Agreement to utilise such services; and (iii) there exists internal controls to ensure the Group would only utilise such services when terms are no less favourable to the Group as compared to independent third parties, it is in the Company and the Independent Shareholders' best interest to set the proposed caps at the maximum balance CEC Finance is willing to offer.

Fee-based or commission-based financial services

We are advised by the Management that the consideration payable for fee-based or commission-based financial services provided by CEC Finance were determined based on the expected demand of the Group for fee-based or commission-based financial services and the expected market rate for such fee-based or commission-based financial services in the forthcoming years. Given the fee-based or commission-based financial services are provided on a non-committed basis, this provides the Group with flexibility and merely an additional option which is beneficial to the Group.

Taking into account the above factors and reasons, we are of the view that the Proposed Caps with regard to the transactions contemplated under the 2021 Financial Services Agreement are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM ALTUS CAPITAL

RECOMMENDATIONS

Having considered the above principal factors, we are of the view at the date hereof that (i) the 2021 Business Services Agreement, the 2021 Financial Services Agreement and the Continuing Connected Transactions are in the Group's ordinary and usual course of business and are in the interests of the Company and the Shareholders as a whole; (ii) the respective terms of the aforesaid agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the Proposed Caps have been fairly and reasonably arrived at and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the Resolutions approving the 2021 Business Services Agreement, the 2021 Financial Services Agreement and the Proposed Caps to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Altus Capital Limited

Jeanny Leung
Executive Director

Charlotte Khoo
Executive Director

Ms. Jeanny Leung ("Ms. Leung") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions.

Ms. Charlotte Khoo ("Ms. Khoo") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. Ms. Khoo has about 10 years of experience in corporate finance and advisory in Hong Kong, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions. Ms. Khoo is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR EACH OF THE YEARS ENDED 31 DECEMBER 2018, 2019 AND 2020

Financial information of the Group for each of the years ended 31 December 2018, 2019 and 2020 is disclosed on pages 86 to 183 of the annual report of the Company for the year ended 31 December 2018 published on 29 April 2019, pages 58 to 147 of the annual report of the Company for the year ended 31 December 2019 published on 15 May 2020, and pages 62 to 147 of the annual report of the Company for the year ended 31 December 2020 published on 29 April 2021 respectively, which are available on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.cecht.com.cn).

The links to the annual reports of the Company for each of the years ended 31 December 2018, 2019 and 2020 respectively, are set out below:

2018:

<http://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn20190429619.pdf>

2019:

<http://www1.hkexnews.hk/listedco/listconews/sehk/2020/0515/2020051500514.pdf>

2020:

<http://www1.hkexnews.hk/listedco/listconews/sehk/2021/0429/2021042900363.pdf>

INDEBTEDNESS**Borrowings**

At 30 April 2021, being the latest practicable date for the purpose of this statement of indebtedness prior to the date of this circular, the Group had outstanding bank and other borrowings of HK\$660.2 million. Among these borrowings, (i) HK\$588.2 million were borrowed from banks which were unsecured and guaranteed by CEC; and (ii) HK\$72.0 million were borrowed from CEC which were unsecured and unguaranteed.

Lease liabilities

The Group measures lease liabilities at the present value of the remaining lease payments to be made over the lease term. At 30 April 2021, the Group has lease liabilities of HK\$64.6 million which were unguaranteed. The Group has paid an aggregate amount of HK\$3.1 million as security deposit under the relevant leases.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any loan capital issued and outstanding or agreed to be issued, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, mortgages, charges, debentures, lease liabilities, obligations under hire purchase contracts or guarantees or other material contingent liabilities at 30 April 2021.

WORKING CAPITAL

Taking into account the financial resources available to the Group, including the internally generated funds, the available committed borrowing facilities and the financial support provided by the CEC Group, the Board is of the opinion that in the absence of unforeseeable circumstances, the Group has sufficient working capital available for its requirements, that is for at least the next 12 months from the date of this circular.

FINANCIAL AND TRADING PROSPECTS

Revenue of the Group for the year ended 31 December 2020 amounted to HK\$1,324.6 million, representing a decrease of 21.9% when comparing with last year. Loss attributable to owners of the Company amounted to HK\$1,013.3 million, as compared to a profit of HK\$155.2 million of last year. The loss for the year was primarily attributable to a one-off loss of HK\$1,080.9 million arising from the disposal of 33.67% of the issued share capital of China Electronics Optics Valley Union Holding Company Limited.

Looking ahead, it is expected that the impact of the COVID-19 pandemic on the overall integrated circuits market will be reduced in 2021 with gradual recovery of market demand. The integrated circuits industry in general is expected to maintain stable development, and the domestic integrated circuits design industry and market development will further gain momentum. With the further advancement of the application of domestic integrated circuits and the application of the state cryptographic algorithm, as well as the rapid development of the 5G and Internet of Things market boosting and raising the demand for information security, there will be market opportunities for the Group's business. Due to the tight production capacity of semiconductors around the world, it is expected that safeguarding production capacities will become a challenge for the Group's operation. In the face of both opportunities and challenges, the Group will continue to closely monitor domestic market demand, further strengthen close cooperation with suppliers, seize market opportunities and actively engage potential customers to ensure its leading position in the smart card chips sector.

On the other hand, leveraging on security chips design and application technologies accumulated over the years, the Group will continue to strengthen product development in security chips for the Internet of Things sector, and promote products application in the industry with a market-oriented approach. The Group will continue to build up its core competitiveness in the Internet of Things market by increasing its expansion in industries such as Internet of Vehicles, smart cities and smart home as well as maintaining its market leadership in innovation and products.

RESPONSIBILITY STATEMENT

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

DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, Ms. Liu Jinmei, a non-executive Director, had personal interest (long position) in 197,250 ordinary shares of the Company. Save as disclosed herein, 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 notify 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 notify the Company and the Stock Exchange.

Mr. Xu Haidong, a non-executive Director and the Chairman of the Board, is the chief accountant of Huada Semiconductor Co., Ltd (“Huada Semiconductor”). Mr. Yu Jian, an executive Director and the Deputy Chairman of the Board, is a director of China Electronics Corporation (BVI) Holdings Company Limited (“CEC (BVI)”). Ms. Liu Jinmei, a non-executive Director, is the deputy general manageress of Huada Semiconductor. Details of the shareholdings of Huada Semiconductor and CEC (BVI) in the Company are set out in the section headed “Substantial Shareholders” in this appendix. Save as disclosed herein, none of the Directors is a director or employee of a company which has, or is deemed to have, an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

Since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date, none of the Directors 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.

SUBSTANTIAL SHAREHOLDERS

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

Name of Shareholder	Number or attributable number of shares of the Company interested	Percentage or attributable percentage of issued share capital of the Company
CEC (BVI)	812,500,000	40.03%
Huada Semiconductor (<i>Note 1</i>)	1,206,180,000	59.42%
CEC (<i>Note 2</i>)	1,206,180,000	59.42%

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

Notes:

- (1) Huada Semiconductor holds 100% equity interest in CEC (BVI). Pursuant to the SFO, Huada Semiconductor is deemed to be interested in the 812,500,000 shares of the Company held by CEC (BVI).
- (2) CEC holds 100% equity interest in Huada Semiconductor. Pursuant to the SFO, CEC is deemed to be interested in the shares of the Company held by Huada Semiconductor.

Save as disclosed above, there is no person known to the Board or the chief executive of the Company who, as at the Latest Practicable Date, had, or was deemed to have, an interest or short position in the shares or the underlying shares of the Company, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% 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.

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 any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

EXPERT AND CONSENT

The following sets out the qualifications of the expert who has given opinions or advices in this circular:

Name	Qualification
Altus Capital	A corporation licensed to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

Altus Capital (“Expert”) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of, where applicable, its letter(s) of opinions or advices and references to its name in the form and context in which it appears.

The Expert was not beneficially interested in the share capital of any member of the Group and did 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 as at the Latest Practicable Date.

Since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date, the Expert did not have 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.

COMPETING INTERESTS

As at the Latest Practicable Date, Mr. Yu Jian, an executive Director and the Deputy Chairman of the Board, is the chairman of the supervisory committee of Shanghai Belling Corp., Ltd (“Shanghai Belling”). Ms. Liu Jinmei, a non-executive Director, is a director of Shanghai Belling. Currently, Shanghai Belling have subsidiaries or associates engaging in integrated circuits related businesses which compete or are likely to compete, either directly or indirectly, with the business of the Group.

The abovementioned competing businesses are operated and managed by independent management and administration. The Board exercises independent judgment and is always acting in 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.

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

LITIGATION

So far as the Board is aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Board to be pending or threatened against any member of the Group.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Board confirmed that there was no material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up.

MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Ng Kui Kwan. Mr. Ng is a member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company in Hong Kong is at Room 3403, 34th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.
- (c) Tricor Abacus Limited, the Company's branch share registrar and transfer office in Hong Kong, is at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The English text of this circular and form of proxy shall prevail over its Chinese text.

MATERIAL CONTRACT

The following contract (not being contracts entered into in the ordinary course of business) has been entered into by a member of the Group within the two years immediately preceding the date of this circular, and is or may be material:

- (a) the sale and purchase agreement dated 30 July 2020 and entered into between CEC Media Holdings Limited (as seller), a wholly-owned subsidiary of the Company, and China Electronics Information Service Company Limited (中國中電國際信息服務有限公司) (as purchaser), a wholly-owned subsidiary of CEC, in relation to the disposal of 33.67% of the issued share capital of China Electronics Optics Valley Union Holding Company Limited for a consideration of HK\$1,785.0 million, the details of which are set out in the circular of the Company dated 30 September 2020.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Room 3403, 34th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong during normal business hours on any business day from the date of this circular and up to the holding of the SGM:

- (a) the 2021 Business Services Agreement and the 2021 Financial Services Agreement;
- (b) the 2018 Business Services Agreement and the 2018 Financial Services Agreement;
- (c) the bye-laws of the Company;
- (d) the letter from the Independent Board Committee, the text of which is set out on pages 18 to 19 of this circular;
- (e) the letter from Altus Capital, the text of which is set out on pages 20 to 37 of this circular;
- (f) the written consent referred to in the section headed “Expert and Consent” in this appendix;
- (g) the material contract referred to in the section headed “Material Contract” in this appendix;
- (h) the annual reports of the Company for the financial year ended 31 December 2019 and 31 December 2020; and
- (i) this circular.

NOTICE OF SGM



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)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “Meeting”) of China Electronics Huada Technology Company Limited (the “Company”) will be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 29 June 2021 at 4:00 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions:

1. **“THAT** the continuing connected transactions contemplated under the business services agreement dated 13 April 2021 and entered into between China Electronics Corporation Limited (中國電子信息產業集團有限公司) and the Company (the “2021 Business Services Agreement”), and the proposed caps of the transactions contemplated thereunder be and are hereby approved, and any one director of the Company be and is hereby authorised to do all such acts and things and execute all such documents for and on behalf of the Company which he considers necessary or expedient to give effect to the 2021 Business Services Agreement and the continuing connected transactions contemplated thereunder.”
2. **“THAT** the continuing connected transactions contemplated under the financial services agreement dated 13 April 2021 and entered into between the Company and China Electronics Financial Co., Ltd (中國電子財務有限責任公司) (the “2021 Financial Services Agreement”), and the proposed caps of the transactions contemplated thereunder be and are hereby approved, and any one director of the Company be and is hereby authorised to do all such acts and things and execute all such documents for and on behalf of the Company which he considers necessary or expedient to give effect to the 2021 Financial Services Agreement and the continuing connected transactions contemplated thereunder.”

By order of the Board

China Electronics Huada Technology Company Limited

Ng Kui Kwan

Company Secretary

Hong Kong, 4 June 2021

NOTICE OF SGM

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of

business in Hong Kong:
Room 3403, 34th Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Notes:

1. The register of members of the Company will be closed from 24 June 2021 to 29 June 2021, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be entitled to attend and vote at the Meeting, completed transfer form with relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 23 June 2021.
2. 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/her/its proxy to attend and vote on his/her/its behalf. A shareholder who is the holder of two or more shares may appoint more than one proxy to represent him/her/it and vote on his/her/its 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. In light of the continuing risks posed by the novel coronavirus, the Company strongly advises shareholders of the Company NOT to attend the Meeting in person, and recommends shareholders of the Company to appoint the chairman of the Meeting as his/her/its proxy to vote according to his/her/its indicated voting instructions as an alternative to attending the Meeting in person. To safeguard the health and safety of the shareholders of the Company and to prevent the spread of novel coronavirus, no refreshment or drink will be served at the Meeting. Any person who does not comply with the precautionary measures to be taken at the Meeting, or is subject to any HKSAR Government prescribed quarantine may be denied entry into the meeting venue.
3. 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 and transfer office in Hong Kong, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 48 hours before the time appointed for holding the Meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a shareholder from attending and voting in person at the Meeting or any adjournment thereof should he/she/it so wish.
4. In the case of joint registered holders of any shares, any one of such joint holders may vote at the Meeting, either personally or by proxy, in respect of such shares as if he/she/it was solely entitled thereto, but if more than one of such joint holders are present at the Meeting, either personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of the joint holding shall alone be entitled to vote in respect thereof.