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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 TRANSACTIONS:
2018 BUSINESS SERVICES AGREEMENT WITH CEC
AND
2018 FINANCIAL SERVICES AGREEMENT WITH CEC FINANCE**

The Board announces that on 25 April 2018 (after trading hours), the Company entered into (a) the 2018 Business Services Agreement with CEC, pursuant to which the CEC Group will provide products processing, testing and assembling services to the Group and purchase integrated circuit cards and smart cards modules and chips from the Group and the Group will purchase raw materials, modules, software and equipment from the CEC Group, on a non-committed and non-exclusive basis; and (b) the 2018 Financial Services Agreement with CEC Finance, pursuant to which CEC Finance will provide a range of financial services to the Group and the Group will utilise such financial services on a non-exclusive basis.

The transactions contemplated under the 2018 Business Services Agreement and the 2018 Financial Services Agreement will constitute continuing connected transactions of the Company. Each of the 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The SGM will be convened to consider and, if thought fit, to approve the 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder. The vote of the Independent Shareholders at the SGM shall be taken by poll and CEC and its associates shall abstain from voting in respect of such resolutions.

A circular containing, among other things, information on the 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder, the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, the recommendation from the Independent Board Committee together with the notice of the SGM will be despatched to the Shareholders on or before 8 June 2018.

BACKGROUND

Reference is made to the announcement and the circular of the Company dated 28 June 2015 and 27 October 2015 respectively in relation to, among others, certain continuing connected transactions contemplated under the 2015-2018 Business Services Agreement and the 2015-2018 Financial Services Agreement (collectively, the “2015-2018 Agreements”). The 2015-2018 Agreements will expire on 30 June 2018.

On 25 April 2018, in order to continue the existing continuing connected transactions contemplated under the 2015-2018 Agreements, the Company entered into the 2018 Business Services Agreement with CEC and the 2018 Financial Services Agreement with CEC Finance to reflect the terms of the proposed continuing connected transactions and their respective proposed caps of the transactions thereunder for the six months ending 31 December 2018, each of the years ending 31 December 2019 and 2020 and the six months ending 30 June 2021.

THE 2018 BUSINESS SERVICES AGREEMENT

Date: 25 April 2018 (after trading hours)

Parties: (i) The Company
(ii) CEC

The 2018 Business Services Agreement covers (i) the provision of products processing, testing and assembling services by the CEC Group, and the purchase of raw materials, modules, software and equipment from the CEC Group; and (ii) the sale of integrated circuit cards and smart cards modules and chips to the CEC Group.

Details of the continuing connected transactions contemplated under the 2018 Business Services Agreement are as follows:

(a) Provision of products processing, testing and assembling services by the CEC Group, and the purchase of raw materials, modules, software and equipment from the CEC Group

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

The Group will also purchase raw materials, modules, software and equipment for the research and development of integrated circuit cards, smart cards and chips from the CEC Group, on a non-committed and non-exclusive basis.

(b) Sale of products to the CEC Group

The Group will also sell products including integrated circuit cards and smart cards modules and chips to the CEC Group, on a non-committed and non-exclusive basis.

Pursuant to the 2018 Business Services Agreement, the prices payable and receivable by the Group shall be subject to the provisions of the 2018 Business Services Agreement and the prices as set out in the supplemental 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 (or terms no less favourable to the Group than terms available to or from independent third parties), fair and reasonable, and the prices payable and receivable by the Group shall be determined by a pricing mechanism with reference to the prevailing market price for similar products or services.

The consideration payable and receivable by the Group under the 2018 Business Services Agreement will be settled in cash according to the terms upon which the services or products are provided.

For the purpose of the 2018 Business Services Agreement: “market prices” mean (a) the prices at which same or comparable type of products or services provided by independent third parties in the same area in the ordinary and usual course of business; or, in the absence of which, (b) the prices at which same or comparable type of products or services provided by independent third parties in the ordinary and usual course of business.

Subject to the approval of the Independent Shareholders, the 2018 Business Services Agreement will take effect from 1 July 2018 and will be valid until 30 June 2021. The agreement may be renewed for further terms of three years after its expiration if the parties so agree, subject to compliance with the requirements under the Listing Rules.

Historical transaction amounts

Set out below are the historical transaction amounts.

Type of transaction	Year ended 31 December		Three months ended	
	2016	2017	31 March	2018
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Products processing, testing and assembling services and purchase of raw materials, modules, software and equipment – consideration payable by the Group	350,608	550,878	124,449	179,163
Sale of products – consideration receivable by the Group	135,173	145,400	34,490	42,048

Proposed caps for the 2018 Business Services Agreement

It is expected that for the six months ending 31 December 2018, each of the years ending 31 December 2019 and 2020 and the six months ending 30 June 2021, the consideration payable by the Group to the CEC Group and the consideration receivable by the Group from the CEC Group will not exceed the following respective amounts and such amounts have been set as the proposed caps for the relevant continuing connected transactions contemplated under the 2018 Business Services Agreement accordingly:

Type of transaction	Six months ending	Year ending 31 December		Six months ending
	31 December	2019	2020	30 June
	2018	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Products processing, testing and assembling services and purchase of raw materials, modules, software and equipment – consideration payable by the Group	430,000	903,000	948,000	498,000
Sale of products – consideration receivable by the Group	101,000	212,000	223,000	117,000

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

In arriving at the above caps for the consideration receivable by the Group for the sale of products to the CEC Group, the Company has referred to the historical sales, the expected demand of the Group's products by the CEC Group and the order status of the products.

The above is merely assumed for the purpose of determining the proposed caps and shall not be regarded as any indication directly or indirectly as to the Group's profitability or trading prospects.

THE 2018 FINANCIAL SERVICES AGREEMENT

Date: 25 April 2018 (after trading hours)

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

Pursuant to the 2018 Financial Services Agreement, CEC Finance will provide a range of financial services to the Group and the Group will utilise such financial services on a non-exclusive basis. The financial services to be provided by CEC Finance to the Group under the 2018 Financial Services Agreement include:

- (a) provision of financial assistance, including but not limited to, unsecured 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) provision of fee-based and commission-based financial services, including but not limited to, guarantee services, fund management, agency services and financial consultancy services.

The 2018 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.

The interest rates for the financial assistance provided by CEC Finance to the Group will be determined by reference to, and shall not be higher than, the rates offered to the Group by other domestic commercial banks for comparable financial assistance.

The interest rates for the Group's deposits with CEC Finance will be determined by reference to, and shall not be less than, the rates offered to the Group by other domestic commercial banks for comparable deposits.

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

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

Subject to the approval of the Independent Shareholders, the 2018 Financial Services Agreement will take effect from 1 July 2018 and will be valid until 30 June 2021. The agreement may be renewed for further terms of three years upon expiration if the parties so agree, subject to compliance with the requirements under the Listing Rules.

Historical transaction amounts

Set out below are the historical transaction amounts.

Type of transaction	Year ended 31 December	
	2016 (RMB'000)	2017 (RMB'000)
Provision of financial assistance		
Maximum daily balance of financial assistance provided to the Group	–	–
Provision of deposit services		
Maximum daily balance of deposits (together with interests accrued thereon) maintained by the Group	376,336	372,700
Provision of fee-based and commission-based financial services		
Fees and commissions payable by the Group	1,301	13

Proposed caps for the 2018 Financial Services Agreement

It is expected that for the six months ending 31 December 2018, each of the years ending 31 December 2019 and 2020 and the six months ending 30 June 2021, the maximum daily balance of the financial assistance and the deposits, and the fees and commissions for the fee-based and commission-based financial services payable by the 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 2018 Financial Services Agreement accordingly:

Type of transaction	Six months ending 31 December 2018	Year ending 31 December		Six months ending 30 June 2021
	(RMB'000)	2019 (RMB'000)	2020 (RMB'000)	(RMB'000)
Provision of financial assistance				
Maximum daily balance of financial assistance provided to the Group (Note)	820,000	820,000	820,000	820,000
Provision of deposit services				
Maximum daily balance of deposits (together with interests accrued thereon) maintained by the Group	820,000	820,000	820,000	820,000
Provision of fee-based and commission-based financial services				
Fees and commissions payable by the Group	5,000	10,000	10,000	5,000

Note: Apart from unsecured RMB loans, the Group may be required to provide security on normal commercial terms for certain types of financial assistance to be provided by CEC Finance.

As part of its treasury policy, CEC is prepared to provide financial assistance of the above amounts to the Group through CEC Finance. The proposed caps for the provision of financial assistance 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 secured financial assistance which it may provide to the Group. In return for the financial assistance provided by CEC Finance, the proposed caps for the deposits maintained by the Group with CEC Finance are set at a level which is the same as the limit of the financial assistance that could be provided.

The above caps for the fees and commissions payable for the provision of fee-based and commission-based financial services by CEC Finance have been determined based on the estimated demand of the fee-based and commission-based financial services provided by CEC Finance and the fees and commissions payable for such services.

The above is merely assumed for the purpose of determining the proposed caps and shall not be regarded as any indication directly or indirectly as to the Group's profitability or trading prospects.

REASONS FOR THE PROPOSED TRANSACTIONS

2018 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. Currently, our products are mainly used in sectors such as identity authentication, financial payment, government utilities, telecommunication and mobile payment. The CEC Group provides products processing, testing and assembling services for the production of the Group's products and supplies raw materials, modules, software and equipment to the Group for its research and development purposes. The CEC Group is also a customer of the Group. The transactions contemplated under the 2018 Business Services Agreement are, therefore, vital and integral to the business operations of the Group.

The Board (other than the independent non-executive Directors who will express their views after considering the advice of the independent financial adviser) are of the view that the transactions contemplated under the 2018 Business Services Agreement will be conducted on normal commercial terms (or terms no less favourable to the Group than terms available to or from independent third parties) and in the ordinary and usual course of business of the Group and that the terms of the 2018 Business Services Agreement and the proposed caps of the transactions thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

2018 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 the CEC Group.

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

- (i) The interest rates on financial assistance and deposits offered by CEC Finance to the Group will be no less favourable than those offered by other domestic commercial banks. The fees and commissions for the fee-based and commission-based financial services provided by CEC Finance will not be higher than those charged by other domestic commercial banks or financial institutions.

- (ii) CEC Finance is regulated by 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.
- (iv) The 2018 Financial Services Agreement will provide the Group with the right and flexibility, which it may choose from different kinds of financial assistance provided by CEC Finance and secure additional and stable financing for its operations.

The Board (other than the independent non-executive Directors who will express their views after considering the advice of the independent financial adviser) are of the view that the transactions contemplated under the 2018 Financial Services Agreement will be conducted on normal commercial terms (or terms no less favourable to the Group than terms available to or from independent third parties) and in the ordinary and usual course of business of the Group and that the terms of the 2018 Financial Services Agreement and the proposed caps of the transactions thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON 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, semi-conductor and software sectors in the PRC. CEC is the ultimate controlling shareholder of the Company and is interested in approximately 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

CEC is the ultimate controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. The 2018 Business Services Agreement and the transactions thereunder will constitute continuing connected transactions of the Company. As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the 2018 Business Services Agreement are more than 5%, the 2018 Business Services Agreement and the proposed caps of the transactions thereunder are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CEC Finance is a subsidiary of CEC and is therefore a connected person of the Company under the Listing Rules. The 2018 Financial Services Agreement and the transactions thereunder will constitute continuing connected transactions of the Company. As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the 2018 Financial Services Agreement are more than 5% and that the Group may be required to provide security for certain types of financial assistance to be provided by CEC Finance, the 2018 Financial Services Agreement and the proposed caps of the transactions thereunder are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors have a material interest in the 2018 Business Services Agreement and the 2018 Financial Services Agreement. Accordingly, no Director was required to abstain from voting on the relevant board resolutions.

SGM

The SGM will be convened to consider and, if thought fit, to approve the 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder. The vote of the Independent Shareholders at the SGM shall be taken by poll and CEC and its associates shall abstain from voting in respect of such resolutions.

DESPATCH OF CIRCULAR

A circular containing, among other things, information on the 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder, the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, the recommendation from the Independent Board Committee together with the notice of the SGM will be despatched to the Shareholders. As additional time is required for preparing and finalising the circular, the Company proposes to despatch the circular on or before 8 June 2018.

DEFINITIONS

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

“2018 Business Services Agreement”	the business services agreement dated 25 April 2018 and entered into between CEC and the Company
“2018 Financial Services Agreement”	the comprehensive financial services agreement dated 25 April 2018 and entered into between CEC Finance and the Company
“2015-2018 Business Services Agreement”	the business services agreement dated 26 June 2015 and entered into between CEC and the Company
“2015-2018 Financial Services Agreement”	the comprehensive financial services agreement dated 26 June 2015 and entered into between CEC Finance and the Company
“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“CEC”	China Electronics Corporation Limited (中國電子信息產業集團有限公司), a state-owned enterprise established under the laws of the PRC and the ultimate controlling shareholder of the Company
“CEC Finance”	China Electronics Financial Co., Ltd (中國電子財務有限責任公司), a company established under the laws of the PRC

“CEC Group”	in respect of the 2018 Business Services Agreement, CEC and its subsidiaries and associates (other than the Group) and in respect of the 2018 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
“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 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder
“Independent Shareholders”	Shareholders other than CEC and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, to approve the 2018 Business Services Agreement, the 2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder
“Shareholder(s)”	shareholder(s) of the Company

“%”

per cent.

By order of the Board
China Electronics Huada Technology Company Limited
Dong Haoran
Chairman

Hong Kong, 25 April 2018

As at the date of this announcement, the Board comprises two non-executive Directors, namely Mr. Dong Haoran (Chairman) and Ms. Liu Jinmei, two executive Directors, namely Mr. Jiang Juncheng (Deputy Chairman) and Mr. Liu Hongzhou (Managing Director), and three independent non-executive Directors, namely Mr. Chan Kay Cheung, Mr. Qiu Hongsheng and Mr. Chow Chan Lum.