

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

**(1) TERMINATION OF THE TRANSFER AGREEMENT AND THE
SUPPLEMENTAL AGREEMENT
AND
(2) REVISION OF ANNUAL CAPS FOR THE CONTINUING
CONNECTED TRANSACTIONS CONTEMPLATED
UNDER THE 2018 SECOND MASTER LEASE AGREEMENT**

**1. TERMINATION OF THE TRANSFER AGREEMENT AND THE
SUPPLEMENTAL AGREEMENT**

Reference is made to (1) the 2013 Announcement, and (2) the circular of the Company dated 20 December 2013 in relation to, among other things, the entering into of the Transfer Agreement between Huada Electronics and CIS Research Institute in respect of the acquisition of the Property Transfer Right, and (3) the 2016 Announcement in relation to, among other things, the entering into of an agreement to supplement the terms of the Transfer Agreement (the “**Supplemental Agreement**”) (collectively, the “**Announcements**”). Unless otherwise defined in this announcement or the context otherwise requires, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

As disclosed in the 2016 Announcement, pursuant to the terms of the Transfer Agreement and the Supplemental Agreement, in the event CIS Research Institute fails to complete the transfer of the legal title of the Property free from any encumbrances to Huada Electronics by 9 January 2019 (the “**Transfer Date**”), CIS Research Institute shall, among other things, fully refund the Consideration to Huada Electronics, whereas Huada Electronics shall, among other things, relinquish the Property Transfer Right and its right to use the Property to CIS Research Institute.

As disclosed in the 2016 Announcement, although CIS Research Institute is in possession of a proper legal title to the Property under the relevant PRC laws and regulations, CIS Research Institute has to be registered as the owner of the Property (the “**Registration**”) before it can legally transfer the ownership of the Property to Huada Electronics. Huada Electronics was informed by CIS Research Institute that CIS Research Institute, for reasons beyond its control, is unable to complete the Registration by the Transfer Date and in the foreseeable future, and therefore, CIS Research Institute would not be able to complete the transfer of the legal title of the Property free from any encumbrances to Huada Electronics (the “**Non-completion**”).

The Board announces that, due to the Non-completion, the Transfer Agreement and the Supplemental Agreement were terminated in accordance with their terms and conditions on 9 January 2019 (the “**Termination**”).

Under the Termination and in accordance with the Transfer Agreement and the Supplemental Agreement, CIS Research Institute shall refund RMB258,407,601 (an amount representing the Consideration of RMB296,374,000 paid by Huada Electronics, plus the interest calculated in accordance with the then prevailing benchmark deposit rate of Renminbi of RMB46,670,785 payable to Huada Electronics by CIS Research Institute, and minus the rental calculated at RMB78 per square meter per month for using the Property up to 9 January 2019 (net of property tax and use of land tax) of RMB84,637,184 payable by Huada Electronics to CIS Research Institute) to Huada Electronics (the “**Refund**”), whereupon Huada Electronics shall relinquish its right to use the Property and its right to earn a profit from the Property to CIS Research Institute. Huada Electronics expects that the Refund will be made by CIS Research Institute in five business days after the Termination.

2. REVISION OF ANNUAL CAPS FOR THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED UNDER THE 2018 SECOND MASTER LEASE AGREEMENT

Reference is made to the 2017 Announcement in relation to, among other things, the 2018 Second Master Lease Agreement. Pursuant to the 2018 Second Master Lease Agreement, the Group shall from time to time rent properties located within the PRC and owned by the CEC Group from the CEC Group during the term of the 2018 Second Master Lease Agreement.

As disclosed above in the section headed “1. TERMINATION OF THE TRANSFER AGREEMENT AND THE SUPPLEMENTAL AGREEMENT” of this announcement, under the Termination, Huada Electronics shall, among other things, relinquish the Property Transfer Right and its right to use the Property to CIS Research Institute. As Huada Electronics is currently using part of the Property as its office and research center, the Group considers that it would be in the interest of the Group to continue its occupation of the Property. As such, the Group expects that there will be an increase in the rental expenses to be paid by the Group to the CEC Group. Following a review on the Original Rental Annual Caps and the estimated rental expenses payable to the CEC Group, it is expected that the Original Rental Annual Caps for each of the year ending 31 December 2019 and 2020 will no longer be sufficient. Therefore, the Board considers it appropriate to revise the Original Rental Annual Caps to the Revised Rental Annual Caps as follows:

The Original Rental Annual Caps and the Revised Rental Annual Caps

| | Annual caps for the year ended/ending 31 December | | |
|---|--|---------------------------------|---------------------------------|
| | 2018 <i>(RMB'000)</i> | 2019 <i>(RMB'000)</i> | 2020 <i>(RMB'000)</i> |
| Rental payable by the Group to the CEC Group | | | |
| • Original Rental Annual Caps | 3,000 | 8,500 | 9,000 |
| • Revised Rental Annual Caps | Not Applicable | 28,000 | 29,400 |

Historical figures

The total amounts of the continuing connected transactions in connection with the rental paid by the Group to the CEC Group for each of the years ended 31 December 2015, 2016 and 2017 were RMB783,000, RMB1,210,000 and RMB1,131,000 respectively. The Board confirms that the annual transaction amount under the 2018 Second Master Lease Agreement for the year ended 31 December 2018 has not exceeded the relevant Original Rental Annual Cap.

The Revised Rental Annual Caps for each of the years ending 31 December 2019 and 2020 were determined based on (i) the historical rental paid by the Group to the CEC Group; (ii) the expected rental payable by the Group under the individual supplemental agreement(s) which may be entered into between the Group and the CEC Group under the 2018 Second Master Lease Agreement; and (iii) the expected market rental rate for premises that are comparable in terms of location, area and permitted uses in the forthcoming years.

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

Pursuant to the 2018 Second Master Lease Agreement, the rental payable by the Group and chargeable by the CEC Group shall be subject to the provisions of the 2018 Second Master Lease Agreement and the rental rate 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 on normal commercial terms, fair and reasonable, and no more or no less favourable than terms available to the Group from independent third parties, and the rental payable by the Group shall be determined by a pricing mechanism with reference to the prevailing market rental for premises that are comparable in terms of location, area and permitted uses. The consideration payable by the Group under the 2018 Second Master Lease Agreement shall be in cash.

The terms of the 2018 Second Master Lease Agreement were arrived at after arm's length negotiations between the relevant parties. The Board (including the independent non-executive Directors) has confirmed in the 2017 Announcement that the pricing mechanism of the rental payable by the Group contemplated under the 2018 Second Master Lease Agreement is fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

In order to safeguard the interests of the Company and the Shareholders as a whole, the Group has adopted the following guidelines and principles in monitoring the continuing connected transactions contemplated under the 2018 Second Master Lease Agreement:

1. Before confirming the pricing of rental chargeable by the CEC Group, the administration department or general department (as the case may be) will conduct market research on the rental price, or refer to prevailing market rental charged by two or three independent third parties for premises that are comparable in terms of location, area and permitted uses to determine if the pricings and terms offered by the CEC Group are no less favourable than those of independent third parties. Contract for leasing will be presented to the 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.

2. the independent non-executive Directors will conduct an annual review of the annual rental expenses under the 2018 Second Master Lease Agreement to ensure that such continuing connected transactions were conducted on normal commercial terms and were in accordance with the terms of the 2018 Second Master Lease Agreement that were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Other than the revision of the Original Rental Annual Caps, the terms and conditions of the 2018 Second Master Lease Agreement, and the Group's pricing policies relating to it, as disclosed in the 2017 Announcement, remain unchanged.

Reasons for and benefits of the revision of the Original Rental Annual Caps

As disclosed above, under the Termination, Huada Electronics shall, among other things, relinquish the Property Transfer Right and its right to use the Property to CIS Research Institute. As Huada Electronics is currently using part of the Property as its office and research center, the Group considers that it would be in the interest of the Group to continue its occupation of the Property by entering into a tenancy. In addition, in view of past operational convenience and benefits brought to the Group, the Group considers it beneficial to maintain a friendly business cooperative relationship with the CEC Group, taking into consideration that the Group is principally engaged in the business of design and sale of integrated circuit chips and the 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. For the aforementioned reasons, the Board (including the independent non-executive Directors) is of the view that the continuing connected transactions contemplated under the 2018 Second Master Lease Agreement were conducted in the ordinary and usual course of business of the Group, on normal commercial terms and that the terms of the 2018 Second Master Lease Agreement and the Revised Rental Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Listing Rules implications

Pursuant to the Listing Rules, if the Company proposes to revise the annual caps for a continuing connected transaction, it will be required to re-comply with the provisions of Chapter 14A of the Listing Rules in relation to the relevant continuing connected transaction.

As at the date of this announcement, CEC is the ultimate controlling shareholder of the Company and thus a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the 2018 Second Master Lease Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) (other than the profits ratio) in respect of the Revised Rental Annual Caps are higher than 0.1% but less than 5% and the transactions have an annual consideration of more than HK\$3,000,000, the revision of the Original Rental Annual Caps to the Revised Rental Annual Caps is subject to the reporting, announcement and annual review requirements under the Listing Rules but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

None of the Directors have material interests in the revision of the Original Rental Annual Caps to the Revised Rental Annual Caps. Accordingly, none of the Directors were required to abstain from voting on the Board resolutions considering and approving the same.

3. GENERAL

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 interested in approximately 59.42% of the issued share capital of the Company.

4. DEFINITIONS

Unless the context requires otherwise, the terms used in this announcement shall have the following meanings:

| | |
|---------------------|---|
| “2013 Announcement” | the announcement of the Company dated 1 November 2013 in relation to, among other things, the entering into of the Transfer Agreement between Huada Electronics and CIS Research Institute in respect of the acquisition of the Property Transfer Right |
| “2016 Announcement” | the announcement of the Company dated 4 February 2016 in relation to, among other things, the entering into of an agreement to supplement the terms of the Transfer Agreement |

| | |
|--------------------------------------|--|
| “2017 Announcement” | the announcement of the Company dated 19 December 2017 in relation to, among other things, the 2018 Second Master Lease Agreement |
| “2018 Second Master Lease Agreement” | the agreement dated 19 December 2017 entered into between the Company and CEC in respect of the leasing arrangements between the Group as tenant and the CEC Group as landlord |
| “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 Group” | CEC and its subsidiaries and associates (for the purpose of this announcement, excluding the Group) |
| “CIS Research Institute” | China Information Security Research Institute Co., Ltd (中國信息安全研究院有限公司), a company established under the laws of the PRC and is a subsidiary of CEC |
| “Company” | China Electronics Huada Technology Company Limited |
| “connected person” | has the meaning ascribed to this term under the Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “Group” | the Company and its subsidiaries |
| “Huada Electronics” | CEC Huada Electronic Design Co., Ltd (北京中電華大電子設計有限責任公司), a company established under the laws of the PRC and is a wholly-owned subsidiary of the Company |

| | |
|---------------------------------|---|
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| “Original Rental Annual Cap(s)” | the annual cap amounts of rental payable by the Group to the CEC Group in accordance with the terms and conditions of the 2018 Second Master Lease Agreement, details of which are set out in the 2017 Announcement |
| “PRC” | the People’s Republic of China (for the purpose of this announcement, excluding the Macau Special Administrative Region and Taiwan Region) |
| “Property” | Block C of China Electronics Information Security Technology Research and Development Foundation, which is located in the Future Science Park, Changping District, Beijing, the PRC |
| “Property Transfer Right” | the property transfer right granted by CIS Research Institute to Huada Electronics, which Huada Electronics required CIS Research Institute to transfer the legal title of the Property free from any encumbrances to Huada Electronics, subject to the terms and conditions of the Transfer Agreement, details of which are set out in the 2013 Announcement |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Revised Rental Annual Cap(s)” | the revised annual cap amounts of rental payable by the Group to the CEC Group in accordance with the terms and conditions of the 2018 Second Master Lease Agreement, details of which are set out in this announcement |
| “Shareholder(s)” | shareholder(s) of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Transfer Agreement” | the agreement dated 1 November 2013 entered into between Huada Electronics and CIS Research Institute relating to the acquisition of the Property Transfer Right, details of which are set out in the 2013 Announcement |

“%”

per cent.

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

Hong Kong, 9 January 2019

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.