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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)

**VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION
IN RELATION TO THE DISPOSAL OF
33.67% OF THE ISSUED SHARE CAPITAL OF
CHINA ELECTRONICS OPTICS VALLEY UNION HOLDING
COMPANY LIMITED**

Financial Adviser to the Company



The Board announces that on 30 July 2020 (after trading hours), the Seller, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Purchaser. Pursuant to the Sale and Purchase Agreement, the Seller has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Transfer Shares, being ordinary shares of HK\$0.10 each in the share capital of CEOVU representing 33.67% of the issued share capital of CEOVU at a consideration of HK\$1,785.00 million. CEOVU is an associate company of the Group and the results and assets and liabilities of the CEOVU Group have been accounted for in the financial statements of the Group under equity method of accounting. Upon the Completion, CEOVU will cease to be an associate company of the Group.

The Purchaser is a wholly-owned subsidiary of CEC, which is the ultimate controlling shareholder of the Company indirectly holding 59.42% of the issued share capital of the Company. The Purchaser is therefore a connected person of the Company under the Listing Rules. The Sale and Purchase Agreement and the transactions contemplated thereunder constitutes a connected transaction 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 Sale and Purchase Agreement and the transactions contemplated thereunder exceed 75%, the Sale and Purchase Agreement and the transactions contemplated thereunder constitute a very substantial disposal and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules respectively and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under the Listing Rules.

The SGM will be convened to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. The votes of the Independent Shareholders at the SGM shall be taken by poll and CEC and its associates shall abstain from voting in respect of such resolution.

A circular containing, among other information, details of the Disposal, 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 30 September 2020 in order to allow for sufficient time for preparation of the relevant information for inclusion in the circular.

As the Completion is subject to the fulfilment of the conditions precedent in the Sale and Purchase Agreement, the Disposal may or may not be completed. Shareholders and potential investors should exercise caution when dealing in the Shares.

THE DISPOSAL

The Board announces that on 30 July 2020 (after trading hours), the Seller, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Purchaser. Pursuant to the Sale and Purchase Agreement, the Seller has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Transfer Shares at a consideration of HK\$1,785.00 million.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are set forth below.

Date: 30 July 2020

Parties:

- (i) The Seller; and
- (ii) The Purchaser

Assets to be disposed

Pursuant to the Sale and Purchase Agreement, the Seller has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire the Transfer Shares, being ordinary shares of HK\$0.10 each in the share capital of CEOVU representing 33.67% of the issued share capital of CEOVU. CEOVU is an associate company of the Group and the results and assets and liabilities of the CEOVU Group have been accounted for in the financial statements of the Group under equity method of accounting. Upon the Completion, CEOVU will cease to be an associate company of the Group.

Consideration

Pursuant to the Sale and Purchase Agreement, the consideration for the Disposal is HK\$1,785.00 million and shall be paid by the Purchaser to the Seller on the Completion which will take place within 30 Business Days after all conditions precedent have been satisfied (unless otherwise waived by the Seller or the Purchaser if applicable and as the case may be).

The consideration for the Disposal was agreed between the Seller and the Purchaser after arm's length negotiations and having taken into account the historical business performance, financial position and net asset value of the CEOVU Group, the prevailing market price of the Transfer Share and the factors set out in the section headed "Reasons for and benefits of the Disposal" below.

Use of proceeds

The gross proceeds from the Disposal are expected to be HK\$1,785.00 million and the net proceeds (after deduction of related transaction expenses) are expected to be HK\$1,780.00 million. The Company intends to use all the net proceeds for the repayment of its short-term bank borrowings.

Conditions precedent

The Completion is conditional upon the following conditions precedent having been satisfied or waived (if applicable and as the case may be):

- (a) the Purchaser having obtained the GO Waiver from the Executive and the GO Waiver not having been cancelled or revoked;
- (b) the Company having obtained the approval from the Independent Shareholders pursuant to the Listing Rules in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (c) the continued listing of CEOVU and trading of its shares on the Stock Exchange at the time of the Completion (save and except any suspension of trading of its shares for any period not exceeding 7 Business Days or any suspension of trading of its shares by reason of the Sale and Purchase Agreement and the transactions contemplated thereunder);
- (d) there being no indication or notice from the Stock Exchange or the SFC with respect to cancellation or withdrawal of the listing status of CEOVU;
- (e) all necessary authorisations, consents or approvals by any third parties or applicable regulatory authorities in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained by the Seller and the same remaining in full force and effect at the time of the Completion;
- (f) all necessary authorisations, consents or approvals by any third parties or applicable regulatory authorities including without limitation to the consents and approvals of the relevant PRC regulatory authorities in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained by the Purchaser and the same remaining in full force and effect at the time of the Completion;
- (g) all representations and warranties given by the Seller under the Sale and Purchase Agreement remaining true, accurate and not misleading in all material respects by reference to the facts and circumstances then existing, and there being no material breach of the Seller's obligations under the Sale and Purchase Agreement at the time of the Completion; and
- (h) all representations and warranties given by the Purchaser under the Sale and Purchase Agreement remaining true, accurate and not misleading in all material respects by reference to the facts and circumstances then existing, and there being no material breach of the Purchaser's obligations under the Sale and Purchase Agreement at the time of the Completion.

Neither the Company, the Seller nor the Purchaser shall have the right to waive the conditions set out in paragraphs (a) to (f) above, while the Seller may waive condition under paragraph (h) and the Purchaser may waive condition under paragraph (g) above. If all the conditions precedent have not been satisfied (unless otherwise waived by the Seller or the Purchaser if applicable and as the case may be) on or before the Long Stop Date, the Sale and Purchase Agreement shall be terminated and in such case, all rights and obligations of the Seller and the Purchaser thereunder shall terminate and no party shall have any claim or action against the other without prejudice to any accrued rights and obligations of the parties prior to such termination.

If proceed to the Completion, acquisition of the Transfer Shares will trigger the mandatory general offer obligation on the part of the Purchaser under the Takeovers Code, and in this respect, the Company has been informed by the Purchaser that the Executive has granted the GO Waiver to the Purchaser.

The Completion

The Completion shall take place within 30 Business Days after all the above conditions precedent have been satisfied (unless otherwise waived by the Seller or the Purchaser if applicable and as the case may be) and the consideration for the Disposal in the amount of HK\$1,785.00 million shall be paid by the Purchaser to the Seller and the Seller shall complete transfer of the Transfer Shares to the Purchaser.

INFORMATION OF THE CEOVU GROUP

CEOVU is a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Main Board of the Stock Exchange. CEOVU is an investment holding company. The CEOVU Group is committed to construct the leading platform for sharing industrial resources in the PRC, providing appropriate and overall solutions covering technology industrial park investment, development, business solicitation and operation, as well as providing ideal office, research, production sites and services to various kind of innovative enterprises, using entire life cycle of park zone intelligence management system as a foundation. It mainly includes:

- i) Rental and sales of industrial parks: including sale and leasing of industrial park space;
- ii) Industrial park operation services: including design and construction services, property management service, energy services, intelligent park services, incubator and office sharing services, financial services in parks, group catering and hotel services, real estate marketing and agency, apartment leasing as well as recreation and entertainment; and
- iii) Industrial investment: any equity investment business relevant to industrial thematic park.

As of 31 December 2019, the CEOVU Group developed or operated various industrial parks in 30 cities, including Wuhan, Qingdao, Hefei, Shenyang, Xi'an, Chengdu, Shanghai, Tianjin, Shenzhen, Chongqing, Wenzhou, Ezhou, Huangshi, Huanggang, Chengmai (Hainan), Dongying, Luoyang, Changsha and Xianyang.

Set out below is the audited consolidated financial information of the CEOVU Group for the two financial years ended 31 December 2018 and 2019 extracted from the 2018 annual report and 2019 annual report of CEOVU.

	For the year ended 31 December 2019 <i>(RMB'000)</i>	For the year ended 31 December 2018 <i>(RMB'000)</i>
Profit before taxation	956,735	903,693
Profit after taxation	594,183	590,916

The audited consolidated net assets of the CEOVU Group were RMB7,592.29 million as at 31 December 2019.

REASONS FOR AND BENEFITS OF THE DISPOSAL

In 2014, the Company acquired 100% of the equity interest in China Electronics Technology Development Co., Ltd. from CEC for a cash consideration of RMB600.00 million (equivalent to HK\$753.95 million). In 2016, the Company transferred 100% of the equity interest in China Electronics Technology Development Co., Ltd. to CEOVU for a consideration of RMB699,854,600 (equivalent to HK\$846.82 million), which was satisfied by the allotment of 1,058,530,083 new ordinary shares of HK\$0.10 each in the share capital of CEOVU and at the same time, the Company also subscribed in cash for 1,491,469,917 new ordinary shares of HK\$0.10 each in the share capital of CEOVU for HK\$1,193.18 million resulting in the Group holding the Transfer Shares at a total acquisition cost, on a cash basis, of HK\$1,947.13 million.

The Group's investment in the Transfer Shares is accounted for as an investment in associate in the Group's consolidated statement of financial position. As the acquisition of the Transfer Shares has been substantially financed by borrowings, the Group has been paying interest on these borrowings, which amounted to HK\$143.17 million, HK\$92.59 million and HK\$95.89 million and accounted for 47.90%, 1,071.40% and 43.23% of the Group's cash flows generated from operations for the financial year ended 31 December 2017, 2018 and 2019, respectively. This financing cost had exerted significant pressure on the Group's operating cash flows and restricted the cash available for operations and development of the Group's principal activities. Given that the respective principal activities of the CEOVU Group and the Group are basically in different sectors and the synergetic effects generated between them are limited, investors consider that the Group's business positioning is not clear and have reservations about participating in the Group's fund raising plan, as a result of which the Group's financing ability has been affected to a certain extent. In this regard, the Board intends to repay a

substantial portion of the short-term bank borrowings by the proceeds arising out of disposing the Transfer Shares held by the Group, which will significantly reduce interest expenses in the future and improve the Group's gearing ratio and net current liabilities position. This will allow the Group to focus its resources on its core business areas. However, the Group has been unsuccessful in identifying any third party with an interest in acquiring the Transfer Shares. The Purchaser, a wholly-owned subsidiary of CEC, after arm's length negotiations with the Group, agreed to acquire the Transfer Shares held by the Group at the price of HK\$0.70 per Transfer Share for a consideration of HK\$1,785.00 million. The price of HK\$0.70 per Transfer Share represents a premium of 41.41% over the closing price of HK\$0.495 per Transfer Share as quoted on the Stock Exchange on the Last Trading Day. The Disposal will lay an important foundation for the Group's business reorganisation and will be beneficial to the Group's business and development in the future.

Having considered the factors set out above, the Directors consider that it is a good opportunity to realise the Group's investment in the Transfer Shares because:

- (i) the price per Transfer Share represents a significant premium over the market price of the Transfer Share;
- (ii) the Disposal will allow the Group to focus its resources on its core business areas;
- (iii) the financial resources realised by the Disposal will strengthen the financial position of the Group; and
- (iv) although the Disposal will result in an estimated accounting loss of HK\$903.27 million to the Group, the cash loss will only be limited to HK\$162.13 million calculated as the consideration for the Disposal of HK\$1,785.00 million less the total acquisition cost, on a cash basis, for the Transfer Shares of HK\$1,947.13 million.

The Board (other than the independent non-executive Directors who will express their views after considering the advice of the independent financial adviser) is of the view that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

FINANCIAL EFFECTS OF THE DISPOSAL

As at 31 December 2019, the audited carrying value of the Group's investment in the Transfer Shares in the Group's consolidated statement of financial position is HK\$2,693.92 million. Following the Completion, CEOVU will cease to be an associate company of the Group. After taking into account the consideration for the Disposal of HK\$1,785.00 million, the carrying value of the Group's investment in the Transfer Shares as at 31 December 2019, the related transaction costs and taxes, it is estimated that a loss of HK\$903.27 million will be recorded. The actual loss on the Disposal, which will be calculated based on the carrying value of the Group's investment in the Transfer Shares as at the date of the Completion, may be different and is subject to determination.

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 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.

The Seller

The Seller is a company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of the Company. It is an investment holding company primarily engaged in investment.

The Purchaser

The Purchaser is a company established under the laws of the PRC with limited liability and is a wholly-owned subsidiary of CEC. It is an investment holding company primarily engaged in investment.

LISTING RULES IMPLICATIONS

The Purchaser is a wholly-owned subsidiary of CEC, which is the ultimate controlling shareholder of the Company indirectly holding 59.42% of the issued share capital of the Company. The Purchaser is therefore a connected person of the Company under the Listing Rules. The Sale and Purchase Agreement and the transactions contemplated thereunder constitutes a connected transaction 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 Sale and Purchase Agreement and the transactions contemplated thereunder exceed 75%, the Sale and Purchase Agreement and the transactions contemplated thereunder constitute a very substantial disposal and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules respectively and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under the Listing Rules.

None of the Directors have a material interest in the Disposal. Accordingly, no Director was required to abstain from voting on the relevant board resolution.

SGM

The SGM will be convened to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. The votes of the Independent Shareholders at the SGM shall be taken by poll and CEC and its associates shall abstain from voting in respect of such resolution.

DESPATCH OF CIRCULAR

A circular containing, among other information, details of the Disposal, 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 30 September 2020 in order to allow for sufficient time for preparation of the relevant information for inclusion in the circular.

As the Completion is subject to the fulfilment of the conditions precedent in the Sale and Purchase Agreement, the Disposal may or may not be completed. Shareholders and potential investors should exercise caution when dealing in the Shares.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or Sunday or public holiday in Hong Kong or any day on which a black rainstorm warning signal or a tropical cyclone warning no. 8 or above is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks are open for business in Hong Kong
“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
“CEOVU”	China Electronics Optics Valley Union Holding Company Limited (中電光谷聯合控股有限公司), a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 798)
“CEOVU Group”	CEOVU and its subsidiaries

“Company”	China Electronics Huada Technology Company Limited (中國電子華大科技有限公司), a company incorporated in the Cayman Islands and continued in Bermuda with limited liability
“Completion”	completion of the Disposal in accordance with the terms of the Sale and Purchase Agreement
“connected person”	has the meaning ascribed to this term under the Listing Rules
“controlling shareholder”	has the meaning ascribed to this term under the Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Transfer Shares by the Seller to the Purchaser pursuant to the Sale and Purchase Agreement
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“GO Waiver”	a waiver from the Executive pursuant to the Takeovers Code to dispense the Purchaser (and parties acting in concert with it) from the obligation of making a mandatory general offer in respect of all the issued ordinary shares of HK\$0.10 each in the share capital of CEOVU otherwise than those owned or acquired by the Purchaser (and parties acting in concert with it)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a committee of the Directors consisting of only the independent non-executive Directors formed to advise the Independent Shareholders on the terms of the Sale and Purchase Agreement

“Independent Shareholders”	Shareholders other than CEC and its associates
“Last Trading Day”	29 July 2020, being the trading day for the Transfer Shares immediately before the entering into of the Sale and Purchase Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	31 December 2020, or such later date as the parties to the Sale and Purchase Agreement may agree in writing from time to time
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Purchaser”	China Electronics Information Service Company Limited (中國中電國際信息服務有限公司), a company established under the laws of the PRC with limited liability and is a wholly-owned subsidiary of CEC
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	The Securities and Futures Commission of Hong Kong
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder
“Sale and Purchase Agreement”	the agreement dated 30 July 2020 entered into between the Seller and the Purchaser in relation to the Disposal
“Seller”	CEC Media Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers issued by the SFC
“Transfer Share(s)”	2,550,000,000 ordinary shares of HK\$0.10 each in the share capital of CEOVU and a “Transfer Share” shall be construed accordingly
“%”	per cent.

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

Hong Kong, 30 July 2020

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. Yu Jian (Deputy Chairman) and Mr. Liu Hongzhou (Managing Director), and three Independent Non-executive Directors, namely Mr. Chan Kay Cheung, Mr. Qiu Hongsheng and Mr. Chow Chan Lum.