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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:
REVISION OF THE EXISTING CAPS FOR THE TRANSACTIONS
CONTEMPLATED UNDER THE 2021 BUSINESS SERVICES
AGREEMENT**

Reference is made to the announcement and the circular of the Company dated 13 April 2021 and 4 June 2021 respectively in relation to, among others, the 2021 Business Services Agreement entered into between the Company and CEC. The transactions contemplated under the 2021 Business Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Independent Shareholders' approval for the 2021 Business Services Agreement has been obtained at the special general meeting of the Company held on 29 June 2021.

In light of the reasons set out in the section headed "Reasons for entering into the First Supplemental 2021 Business Services Agreement" of this announcement, on 9 September 2022, the Company and CEC entered into the First Supplemental 2021 Business Services Agreement to revise the existing caps for the transactions contemplated under the 2021 Business Services Agreement for each of the years ending 31 December 2022 and 2023 and the six months ending 30 June 2024. All other terms and conditions under the 2021 Business Services Agreement remain the same.

The entering into of the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder are 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 First Supplemental 2021 Business Services Agreement and the proposed revised caps of the transactions contemplated thereunder. The votes of the Independent Shareholders at the SGM shall be taken by poll and CEC and its associates shall abstain from voting in respect of such resolution.

A circular containing, among other information, details of the First Supplemental 2021 Business Services Agreement and the proposed revised caps of the transactions contemplated thereunder, the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, the recommendation from the Independent Board Committee, together with the notice of the SGM will be despatched to the Shareholders on or before 21 October 2022.

Reference is made to the announcement and the circular of the Company dated 13 April 2021 and 4 June 2021 respectively in relation to, among others, certain continuing connected transactions contemplated under the 2021 Business Services Agreement. Pursuant to the 2021 Business Services Agreement, the CEC Group has provided and will provide technology development, processing, testing and assembling services to the Group and has purchased and will purchase products such as integrated circuit chips, modules and cards from the Group, the Group has purchased and will purchase raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group and has provided and will provide technology development services to the CEC Group (the “Business Services Transactions”), on a non-committed and non-exclusive basis, for a term of three years commencing from 1 July 2021 and ending on 30 June 2024. For details of the terms of the 2021 Business Services Agreement, please refer to the announcement of the Company dated 13 April 2021.

The transactions contemplated under the 2021 Business Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Independent Shareholders’ approval for the 2021 Business Services Agreement and the proposed caps of the transactions contemplated thereunder has been obtained at the special general meeting of the Company held on 29 June 2021.

In light of the reasons set out in the section headed “Reasons for entering into the First Supplemental 2021 Business Services Agreement” below, on 9 September 2022, the Company and CEC entered into the First Supplemental 2021 Business Services Agreement to revise the existing caps for the transactions contemplated under the 2021 Business Services Agreement for each of the years ending 31 December 2022 and 2023 and the six months ending 30 June 2024. All other terms and conditions under the 2021 Business Services Agreement remain the same.

Details of the First Supplemental 2021 Business Services Agreement are set out below:

FIRST SUPPLEMENTAL 2021 BUSINESS SERVICES AGREEMENT

Date: 9 September 2022 (after trading hours)

Parties: (i) The Company

(ii) CEC

Subject matter

The purpose of the First Supplemental 2021 Business Services Agreement is to revise the existing caps for the transactions contemplated under the 2021 Business Services Agreement for each of the years ending 31 December 2022 and 2023 and the six months ending 30 June 2024. All other terms and conditions under the 2021 Business Services Agreement remain the same.

Existing caps

Pursuant to the 2021 Business Services Agreement, it was expected that for 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 would not exceed the following respective amounts for the relevant continuing connected transactions contemplated under the 2021 Business Services Agreement.

Type of transaction	Year ending 31 December		Six months
	2022	2023	ending
	(RMB'000)	(RMB'000)	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			
– consideration payable			
by the Group	178,400	196,200	107,900
Sale of products and provision of technology development services			
– consideration receivable			
by the Group	177,700	195,500	107,600

Revised caps

Pursuant to the First Supplemental 2021 Business Services Agreement, it is expected that for 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 the existing caps for the relevant continuing connected transactions contemplated under the 2021 Business Services Agreement are revised as follows.

Type of transaction	Year ending 31 December		Six months ending
	2022	2023	30 June 2024
	(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	225,812	251,084	146,650
Sale of products and provision of technology development services			
– consideration receivable by the Group	327,281	409,587	225,558

The above revised 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 seven months ended 31 July 2022; (ii) the expected growing 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 growing 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; and (v) the expected market price for such raw materials, integrated circuit modules, softwares, equipments and intellectual properties in the forthcoming years.

The above revised 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 seven months ended 31 July 2022; (ii) the expected growing demand of the Group's products and technology development services by the CEC Group in the forthcoming years; and (iii) the expected market price or rate for such products and technology development services in the forthcoming years.

Historical transaction amounts

Type of transaction	Year ended 31 December		Seven months ended
	2020 (RMB'000)	2021 (RMB'000)	31 July 2022 (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	102,919	107,603	117,000
Sale of products and provision of technology development services			
– consideration receivable by the Group	76,352	85,342	146,119

Condition

The First Supplemental 2021 Business Services Agreement shall be subject to the approval of the Independent Shareholders at the SGM.

REASONS FOR ENTERING INTO THE FIRST SUPPLEMENTAL 2021 BUSINESS SERVICES AGREEMENT

As stated in the announcement of the Company dated 13 April 2021, 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 smart cards and security chips and the development of application system. The Group does not involve in the direct production of the integrated circuit chips itself. Currently, the Group's products are mainly used in the sectors of identity authentication, financial payment, government utilities, telecommunications, Internet of Things and intelligent connected vehicles. 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 2021 Business Services Agreement. For years, the CEC Group has been providing technology development, processing, testing and assembling services for the production of the Group's products and supplying raw materials, integrated circuit modules, softwares, equipments and intellectual properties to the Group for its research and development purposes, and the Group has also been selling products and providing technology development services 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.

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 for the seven months ended 31 July 2022 was RMB117,000,000, representing 65.6% of the existing cap of RMB178,400,000 for the transactions contemplated under the 2021 Business Services Agreement for the year ending 31 December 2022. Following the signing of the 2021 Business Services Agreement, as a result of (1) a upsurge in the market rates for the provision of technology development, processing, testing and assembling services and market prices for the raw materials, integrated circuit modules, softwares, equipments and intellectual properties due to the tight integrated circuits production capacity caused by the rapid development of the 5G and Internet of Things markets and it is expected that these market rates and market prices will remain high in the near term given the continuing shortage of integrated circuits production capacity; and (2) the expected significant increase in the market demand for the Group's secure element chips and secure microcontroller unit chips, demand 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 will also increase significantly. In light of the continuing shortage of integrated circuits

production capacity, the Group intends to strengthen cooperation with the CEC Group on the related production in the next few years to obtain more production capacity support, resulting the need to revise the existing 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 under the 2021 Business Services Agreement for each of the years ending 31 December 2022 and 2023 and the six months ending 30 June 2024 in order to meet the business needs of the Group.

The consideration receivable by the Group for the sale of products and provision of technology development services to the CEC Group for the seven months ended 31 July 2022 was RMB146,119,000, representing 82.2% of the existing cap of RMB177,700,000 for the transactions contemplated under the 2021 Business Services Agreement for the year ending 31 December 2022. Following the signing of the 2021 Business Services Agreement, as a result of (1) a upsurge in the market prices of integrated circuit chips due to a surge in the market price of raw materials and processing costs for the production of integrated circuit chips caused by the rapid development of the 5G and Internet of Things markets which has led to a shortage of integrated circuits production capacity, coupled with a serious global “integrated circuit chips shortage”. Given the continuing shortage of integrated circuits production capacity, it is expected that the market prices of integrated circuit chips will remain high in the near term; (2) the expected significant increase in the market demand for the Group’s secure element chips and secure microcontroller unit chips for the Internet of Things market resulting from the rapid development of the 5G and Internet of Things markets. As these emerging applications for the 5G and Internet of Things sector are expected to be on the rise, the market demand for these types of products will continue to grow in the near term. The CEC Group has long been engaged in the integrated circuits industry, and due to the rapid development of the industry, it is expected that there will be increase in demand for these types of products of the Group by the CEC Group as well; and (3) some of the existing smart cards and security chips products will be replaced by the new generation products, the performance of the new generation products will be improved and the cost of production will increase, resulting in a significant increase in the expected market price of the new generation products when comparing with the existing products, there is a need to revise the existing caps for the consideration receivable by the Group for the sale of products and provision of technology development services to the CEC Group under the 2021 Business Services Agreement for each of the years ending 31 December 2022 and 2023 and the six months ending 30 June 2024 in order to meet the business needs of the Group.

The purpose of the entering into of the First Supplemental 2021 Business Services Agreement is to revise these existing caps so as to ensure that the Group and the CEC Group can continue the Business Services Transactions which shall be in the benefits of the Group.

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

INFORMATION OF THE PARTIES

The Company

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

CEC

CEC is a state-owned enterprise established under the laws of the PRC. Established in 1989 with the approval of the State Council of the PRC, CEC is a nationwide electronics and information technology conglomerate directly administered by the PRC government. CEC actively focuses on communications, consumer electronics products, semi-conductor and software sectors in the PRC. CEC is the ultimate controlling shareholder of the Company and is interested in 59.42% of the issued share capital of the Company.

LISTING RULES IMPLICATIONS

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

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

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

SGM

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

DESPATCH OF CIRCULAR

A circular containing, among other information, details of the First Supplemental 2021 Business Services Agreement and the proposed revised caps of the transactions contemplated thereunder, the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, the recommendation from the Independent Board Committee, together with the notice of the SGM will be despatched to the Shareholders. As additional time is required for preparing the circular, the Company proposes to despatch the circular on or before 21 October 2022.

DEFINITIONS

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

“2021 Business Services Agreement”	the business services agreement dated 13 April 2021 and entered into between CEC 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 Group”	CEC and its subsidiaries and associates (other than the Group)
“Company”	China Electronics Huada Technology Company Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability
“connected person”	has the meaning ascribed to this term under the Listing Rules

“Director(s)”	the director(s) of the Company
“First Supplemental 2021 Business Services Agreement”	the conditional supplemental agreement to the 2021 Business Services Agreement dated 9 September 2022 and entered into between CEC and the Company
“Group”	the Company and its subsidiaries
“Independent Board Committee”	a committee of Directors consisting of only independent non-executive Directors formed to advise the Independent Shareholders on the terms of the First Supplemental 2021 Business Services Agreement and the proposed revised caps of the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than CEC and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, to approve the First Supplemental 2021 Business Services Agreement and the proposed revised caps of the transactions contemplated thereunder
“Shareholders”	shareholders of the Company
“%”	per cent

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

Hong Kong, 9 September 2022

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