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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 TRANSACTIONS:
2018 BUSINESS SERVICES AGREEMENT WITH CEC;
AND MAJOR AND CONTINUING CONNECTED TRANSACTIONS:
2018 FINANCIAL SERVICES AGREEMENT WITH CEC FINANCE**

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

ALTUS CAPITAL LIMITED

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 Thursday, 28 June 2018 at 4:00 p.m. is set out on pages 43 to 44 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 22, 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 20 to 21 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 22 to 34 of this circular.

8 June 2018

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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
“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
“Altus Capital”	Altus Capital Limited, a licensed corporation to conduct type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions 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

DEFINITIONS

“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
“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 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
“Latest Practicable Date”	1 June 2018, 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 2018 Business Services Agreement, the 2018 Financial Services Agreement and their respective proposed caps of the transactions 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:

Dong Haoran (*Chairman*)

Liu Jinmei

Executive Directors:

Jiang Juncheng (*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

8 June 2018

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS:
2018 BUSINESS SERVICES AGREEMENT WITH CEC;
AND MAJOR AND CONTINUING CONNECTED TRANSACTIONS:
2018 FINANCIAL SERVICES AGREEMENT WITH CEC FINANCE**

INTRODUCTION

Reference is made to the announcement of the Company dated 25 April 2018 in relation to, among others, the entering into of (a) the 2018 Business Services Agreement with CEC; and (b) the 2018 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 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions 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) information on the 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions 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 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.

LETTER FROM THE BOARD

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.

Internal control procedures for the 2018 Business Services Agreement

To ensure that the transactions under the 2018 Business Services Agreement are conducted on normal commercial terms, or on terms no less favourable to the Group than terms available to or 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 products processing, testing and assembling services by the CEC Group, and purchase of raw materials, modules, software and equipment 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 offered by independent third parties. Contract for provision of products processing, testing and assembling services, and purchase of raw materials, modules, software and equipment will be presented to the legal department and finance department for approval. The manager of the finance department will consider from an internal control

LETTER FROM THE BOARD

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 to the CEC Group, the sales center will refer to transactions with independent third parties in respect of similar products 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 of independent third parties. Contract for sale of products 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 2018 Business Services Agreement with reference to the internal 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.

Given the above, the Board considers that there are appropriate internal controls and procedures in place to ensure that the transactions under the 2018 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.

Since the 2018 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.

The Board considers that the Group does not rely solely 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. The Group will comply with the relevant internal control measures put in place and has been and will be obtaining quotations from independent third party suppliers.

LETTER FROM THE BOARD

The Group does not rely solely 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 other words, the reliance on the CEC Group is not extreme.

The Group will continue to adopt a market oriented approach with an aim to reduce the level of reliance and the potential risk associated with this type of reliance on the CEC Group. However, although the Group has the necessary skills, expertise and technique to break the reliance, it is not easy for the Group and is not in the interests of the Company and the Shareholders as a whole to change its suppliers for its existing products. For instance, as to wafer foundries, the Group's research and development team will have to carry out technical product development works on the process line of the wafer foundries for at least one year or longer period before commencement of mass production of smart card chip products. The Group will have to make arrangement at least one year in advance for any change in supplier of this type.

With referencing to the production schedule of the Group, the expected 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 as a percentage of the expected cost of sales of the Group (the "Expected Percentage") for the year ending 31 December 2018 will not be more than 60%. This is primarily because of the production schedule for the year ending 31 December 2018 has been fixed and may not be altered. It is expected that the Expected Percentage for the years ending 31 December 2019 and 31 December 2020 respectively will continue to gradually decrease such that the Expected Percentage for the years ending 31 December 2019 and 31 December 2020 will not be more than the Expected Percentage for the year ending 31 December 2018 since the management will closely monitor the level of reliance on the CEC Group and will actively seek other independent third party suppliers instead of the CEC Group to supply common products and services. As at the Latest Practicable Date, the management has actively sought other independent third party suppliers to supply common products and services. For example, for module assembling services, the management has obtained quotations from not less than 5 independent third party suppliers for module assembling services for the year ending 31 December 2018. The management will continue to actively seek other independent third party suppliers to supply common products and services for the forthcoming years in order to reduce the level of reliance on the CEC Group. The Expected Percentage for the year ending 31 December 2021 will be less than 50%.

The industry landscape will depend on the product and service types. In respect of wafer foundries, there are less than ten suppliers in the PRC which can meet the requirements for processing smart card wafers while the Group will have no difficulty to find substitute suppliers for common products. Taking into consideration of the production capacity, the choice of wafer foundries in the PRC are limited. Such limitation together with the fact that the Group's research and development team will have to carry out extremely time-consuming technical product development works on the process line of the wafer foundries, will justify the needs for the entering into of the 2018 Business Services Agreement and the time for the Group to gradually reduce its reliance on the CEC Group. The 2018 Business Services Agreement is on a non-committed and non-exclusive basis and the Group can elect other independent third party suppliers in the case that terms available from them are more favourable to the Group.

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It is necessary to point out that the reliance is mutual and complementary between the Group and the CEC Group. The Group's purchases in 2017 from its major module assembling provider, which is also a member of the CEC Group, accounted for 50% to 60% of its sales and the Group's purchases in 2017 from its major wafer foundry, which is also a member of the CEC Group and one of the top three wafer foundry in the PRC, accounted for 13% to 15% of its sales. Purchases from wafer foundries constituted more than 70% of the total consideration payable by the Group to the CEC Group in 2017 under the 2015-2018 Business Services Agreement.

In light of the above, the Board considers that the reliance issue on the CEC Group is not extreme regarding the circumstances of the Group. There are appropriate internal controls and procedures in place to ensure purchase of products and services from the CEC Group will not be prejudicial to the interests of the Company and the Shareholders as a whole.

Taking into consideration of the growing trend as indicated by the growth rate of 57.1% and 44.0% 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 for the year ended 31 December 2017 and the three months ended 31 March 2018 respectively when demand for certain types of products had initially picked up in the second half of 2017, it is expected that there will still be strong production demands in the forthcoming few years and the growth is driven by the policy set out in the notice issued by the People's Bank of China in 2014 regarding the further implementation of integrated circuit chip bank cards. These factors justify the proposed caps for the continuing connected transactions contemplated under the 2018 Business Services Agreement.

Historical transaction amounts

Set out below are the historical transaction amounts.

Type of transaction	Year ended 31 December		Three months ended 31 March	
	2016 (RMB'000)	2017 (RMB'000)	2017 (RMB'000)	2018 (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

LETTER FROM THE BOARD

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 31 December 2018 <i>(RMB'000)</i>	Year ending 31 December 2019 2020 <i>(RMB'000)</i>	31 December 2020 <i>(RMB'000)</i>	Six months ending 30 June 2021 <i>(RMB'000)</i>
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 proposed 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 Board 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 proposed caps for the consideration receivable by the Group for the sale of products to the CEC Group, the Board 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.

In determining the proposed 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 and the consideration receivable by the Group for the sale of products to the CEC Group for the six months ending 31 December 2018, the Board had taken into consideration the growth in 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 and the consideration receivable by the Group for the sale of products to the CEC Group for the year ended 31 December 2017 and for the three months ended 31 March 2018. The proposed caps were derived by (i) annualising the respective amounts for the three months ended 31 March 2018; and (ii) incorporating a 20% buffer to cater for the fluctuation

LETTER FROM THE BOARD

for the year ending 31 December 2018, being less than half of the growth rate of 57% 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 for the year ended 31 December 2017 when demand for certain types of products had initially picked up.

The proposed 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 and the consideration receivable by the Group for the sale of products to the CEC Group for each of the years ending 31 December 2019 and 2020 and the six months ending 30 June 2021 are determined with reference to the proposed 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 and the consideration receivable by the Group for the sale of products to the CEC Group for the six months ending 31 December 2018, allowing for a year-on-year increase of 5% respectively, which is in line with the rate of growth in the gross domestic product (“GDP”) of the PRC in recent years. Given the absence of any impending change to the policy driving the demand for the Group’s products and any impending significant future revenue growth from the new business layout, it is expected that transaction amounts for each of the years ending 31 December 2019 and 2020 and the six months ending 30 June 2021 will remain relatively stable and increase in line with the rate of growth in the GDP of the PRC in recent years.

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.

LETTER FROM THE BOARD

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.

Internal control procedures for the 2018 Financial Services Agreement

To ensure that the transactions under the 2018 Financial Services Agreement are conducted on normal commercial terms, or on terms no less favourable to the Group than terms available to or 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 and 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 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 and 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 2018 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 under the 2018 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.

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

LETTER FROM THE BOARD

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 <i>(RMB'000)</i>	Year ending 31 December		Six months ending 30 June 2021 <i>(RMB'000)</i>
		2019 <i>(RMB'000)</i>	2020 <i>(RMB'000)</i>	
Provision of financial assistance				
Maximum daily balance of financial assistance provided to the Group <i>(Note)</i>	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 Board 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.

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The proposed caps 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 are set at a level which is the same as the approved cap for the six months ending 30 June 2018. The Board understands 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, CEC Finance is prepared to provide the Group with the same level of financial assistance as that of the approved cap for the six months ending 30 June 2018 based on its internal assessment. In return for the financial assistance provided by CEC Finance, the proposed caps for the daily balance of deposits maintained by the Group with CEC Finance 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 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

The 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, the Group's 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 is 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.

LETTER FROM THE BOARD

The 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 is 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.

LETTER FROM THE BOARD

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 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

As at the Latest Practicable Date, CEC and its associates are interested in 1,206,180,000 shares of the Company, representing approximately 59.42% of the issued share capital of the Company. 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.

As one of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the deposit services under the 2018 Financial Services Agreement exceeds 25%, the provision of the deposit services by CEC Finance to the Group constitutes a major transaction of the Company under Chapter 14 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.

LETTER FROM THE BOARD

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 Thursday, 28 June 2018 at 4:00 p.m. is set out on pages 43 to 44 of this circular. At the SGM, resolutions will be proposed to approve the 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions 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 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder. Pursuant to Rule 13.39(4) of the Listing Rules, all the above resolutions shall be taken by poll at the SGM.

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 22, 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.

BOOK CLOSURE PERIOD

Shareholders whose names appear on the register of members of the Company at the close of business on 25 June 2018 will be entitled to attend and vote at the SGM. The register of members of the Company will be closed from 25 June 2018 to 28 June 2018 (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, all share certificates with completed transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 22 June 2018.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 20 to 21 of this circular which contains its recommendation to 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. Your attention is also drawn to the letter from Altus Capital as set out on pages 22 to 34 of this circular which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder. The Board is of the view that the transactions contemplated under the 2018 Business Services Agreement and 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 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder are fair and reasonable and 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 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions 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

Dong Haoran

Chairman



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)

8 June 2018

To the Independent Shareholders

Dear Sirs or Madams,

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

We refer to the circular of the Company dated 8 June 2018 (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 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions 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 19 of the Circular which contains, among others, information about the terms of the 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder, the letter from Altus Capital as set out on pages 22 to 34 of the Circular which contains the advice from Altus Capital in respect of the terms of the 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder, and the information set out in the appendices thereto.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We, having considered the terms of the 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder and having taken into account the principal factors and reasons considered by Altus Capital as stated in its letter, consider that the terms of the 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder are fair and reasonable and 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 2018 Business Services Agreement and the 2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder, as detailed in the notice of SGM as set out on pages 43 to 44 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 2018 Business Services Agreement, the 2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder, which has been prepared for the purpose of incorporation in this circular.

ALTUS.

Altus Capital Limited
21 Wing Wo Street
Central, Hong Kong

8 June 2018

*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 TRANSACTIONS

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 2018 Business Services Agreement, the 2018 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 2018 Business Services Agreement, the 2018 Financial Services Agreement and the Continuing Connected Transactions are set out in the “Letter from the Board” contained in the circular dated 8 June 2018 (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 25 April 2018. 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.

LETTER FROM ALTUS CAPITAL

As at the Latest Practicable Date, CEC, which was interested in approximately 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. As such, the transactions contemplated under the 2018 Business Services Agreement and 2018 Financial Services Agreement 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 (i) each of the 2018 Business Services Agreement and the 2018 Financial Services Agreement are more than 5%; and (ii) under the 2018 Financial Services Agreement the Group may be required to provide security for certain types of financial assistance to be provided by CEC Finance, each of the 2018 Business Services Agreement and the 2018 Financial Services Agreement and the Proposed Caps are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors namely Chan Kay Cheung, Qiu Hongsheng and Chow Chan Lum, has been established to consider the terms of the 2018 Business Services Agreement, the 2018 Financial Services Agreement and the Continuing Connected Transactions, and to advise the Independent Shareholders as to (i) whether the terms of the 2018 Business Services Agreement and the 2018 Financial Services Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole; (ii) whether the Continuing Connected Transactions are on normal commercial terms and in the ordinary and usual course of business of the Group; (iii) whether the Proposed Caps are fair and reasonable; and (iv) how to vote in respect of the ordinary resolutions to be proposed at the SGM approving the 2018 Business Services Agreement and the 2018 Financial Services Agreement (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 terms of the 2018 Business Services Agreement and the 2018 Financial Services Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole; (ii) whether the Continuing Connected Transactions are on normal commercial terms and in the ordinary and usual course of business of the Group; (iii) whether the Proposed Caps are fair and reasonable; and (iv) our recommendation as to how the Independent Shareholders should vote in respect of the Resolutions.

We have not acted as financial adviser in relation to any transactions of the Company 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 2018 Business Services Agreement and the 2018 Financial Services Agreement 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.

LETTER FROM ALTUS CAPITAL

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others (i) the 2018 Business Services Agreement and the 2018 Financial Services Agreement; and (ii) the Company's announcement dated 25 April 2018. 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 for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the Management were reasonably made after due and careful enquiry and were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular. We have no reason to believe that any such statements, information, opinions or representations are untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render them 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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background

a. Principal businesses of the Group and the CEC Group

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

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 mainly engages in communications, consumer electronics products, semi-conductor and software sectors in the PRC.

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.

LETTER FROM ALTUS CAPITAL

b. The 2015-2018 Business Services Agreement and 2015-2018 Financial Services Agreement

On 26 June 2015, the Company entered into the 2015-2018 Business Services Agreement, pursuant to which the CEC Group would provide products processing, testing and assembling services to the Group and would purchase integrated circuit cards and smart cards modules and chips from the Group and the Group would purchase raw materials, modules, software and equipment from the CEC Group. On the same day, the Company entered the 2015-2018 Financial Services Agreement, pursuant to which CEC Finance would provide a range of financial services to the Group and the Group would utilise such financial services. Both 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 Business Services Agreement and 2015-2018 Financial Services Agreement, the Company entered into the 2018 Business Services Agreement with CEC and the 2018 Financial Services Agreement with CEC Finance. Both agreements will take effect from 1 July 2018 and be valid until 30 June 2021.

2. The 2018 Business Services Agreement

The services to be provided under the 2018 Business Services Agreement are substantially the same as those provided under the 2015-2018 Business Services Agreement. To assess the fairness and reasonableness of the terms of the 2018 Business Services Agreement, we have considered the following:

a. Terms of the 2018 Business Services Agreement

- (i) The transactions thereunder shall be based on normal commercial terms, fair and reasonable, and on terms no more or no less favourable to the Group than terms available to or from 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 (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.
- (iii) The transactions thereunder shall be on a non-committed and non-exclusive basis.

As the transactions will be carried out on normal commercial terms; in line with market practice; and with reference to the prevailing market price, we consider that the terms of the 2018 Business Services Agreement are fair and reasonable. As the transactions will be on a non-committed and non-exclusive basis, the Company will not become reliant on the CEC Group as a result of entering into the 2018 Business Services Agreement, which we consider beneficial to the Company and its Shareholders as a whole.

LETTER FROM ALTUS CAPITAL

b. Internal controls

We have reviewed two internal audit reports of the Company covering continuing connected transactions under the 2015-2018 Business Services Agreement for the years ended 31 December 2016 and 2017, respectively, which are substantially the same as those contemplated under the 2018 Business Services Agreement, and set out below our understanding from the Management of the Company's relevant internal controls.

Before confirming the pricing of provision of products processing, testing and assembling services by the CEC Group, and purchase of raw materials, modules, software and equipment 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 offered by independent third parties. Contract for provision of products processing, testing and assembling services, and purchase of raw materials, modules, software and equipment 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 to the CEC Group, the sales center will refer to previous transactions with independent third parties in respect of similar products 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 of independent third parties. Contract for sale of products 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 2018 Business Services Agreement with reference to the internal 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 ALTUS CAPITAL

We have reviewed (i) the top 5 transactions of each of the sale of products and the purchase of services for each of the years ended 31 December 2016 and 2017; and (ii) an additional 5 randomly selected transactions in the same financial years of each of the sale of products and the purchase of services and noted that the transactions with the CEC Group were on terms no less favourable to the Group than terms available to and from independent third parties.

c. Reasons for and benefits of the 2018 Business Services Agreement

As stated in the paragraph headed “Principal businesses of the Group, the CEC Group and CEC Finance”, the Group is principally engaged in the business of design and sale of integrated circuit chips. Given that the 2018 Business Services Agreement contemplates 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 the sale of the Group’s products to the CEC Group, we consider the transactions contemplated under the 2018 Business Services Agreement 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.

We understand from the Management that demand for the Group’s products has grown, such as the demand for domestic financial payment chips driven by the policy on the issuance of state cryptographic algorithm powered bank cards. As such, we concur with the Management that it would be beneficial to the Company and its Shareholders as a whole to enter into the 2018 Business Services Agreement and thereunder have the options to (i) purchase the services, materials and tools to meet such growing demand and engage in the research and development that may enable the Group to compete effectively; and (ii) retain the CEC Group as a customer.

LETTER FROM ALTUS CAPITAL

d. Proposed caps for the 2018 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 2015-2018 Business Services Agreement; (ii) the existing cap approved for the 2015-2018 Business Services Agreement; and (iii) the historical amount of charges recorded for each of the years ended 31 December 2016 and 2017 and each of the three months ended 31 March 2017 and 2018.

Types of transaction	Existing caps/historical amount recorded			
	Year ended 31 December		Three months ended 31 March	
	2016	2017	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Products processing, testing and assembling services and purchase of raw materials and modules				
Historical amount	350,608	550,878	124,449	179,163
Approved cap	780,000	1,000,000	–	650,000 <i>(Note)</i>
Percentage	44.9%	55.1%	–	27.6%
Sale of products				
Historical amount	135,173	145,400	34,490	42,048
Approved cap	290,000	370,000	–	240,000 <i>(Note)</i>
Percentage	46.6%	39.3%	–	74.4%

Note: For the six months ending 30 June 2018.

We refer to the circular of the Company dated 27 October 2015 relating to the 2015-2018 Business Services Agreement, amongst other matters. The Company had in arriving at the approved caps taken into account the expected demand of the products of the Group and the production plan of the Group with reference to the industry's expectation at the time that the demand for integrated circuit chip bank cards driven by the policy set out in the notice issued by the People's Bank of China in 2014 regarding the further implementation of integrated circuit chip bank cards may reach hundreds of millions in the coming years. We

LETTER FROM ALTUS CAPITAL

are advised by the Management that such demand picked up in 2017 and that it continues to grow. The revenue from the sale of integrated circuit products increased by approximately 6.9% year-on-year for the year ended 31 December 2017. The historical amount for the products processing, testing and assembling services and purchase of raw materials and modules increased by 57.1% year-on-year in the same financial year and approximately 44.0% for the three months ended 31 March 2018 as compared with the corresponding period of the preceding year.

(ii) *Proposed caps*

Types of transaction

	For the six months ending 31 December 2018 <i>RMB'000</i>	For the year ending 31 December 2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	For the six months ending 30 June 2021 <i>RMB'000</i>
Products processing, testing and assembling services and purchase of raw materials and modules				
Proposed cap	430,000	903,000	948,000	498,000
Sale of products				
Proposed cap	101,000	212,000	223,000	117,000

In determining the proposed caps for the purchases and sales for the six months ending 31 December 2018, we understand from the Management that the Company had taken into consideration the growth in the purchases and sales in the year ended 31 December 2017 and the three months ended 31 March 2018 (as described in the paragraph headed “Existing caps and historical variances” above). The caps were derived by (i) annualising the respective amounts for the three months ended 31 March 2018; and (ii) incorporating 20% buffer to cater for any fluctuation in the year ending 31 December 2018, being approximately half the growth rate in the Group’s purchases for the year ended 31 December 2017 when demand for certain types of products had initially picked up. Given that the assumed growth rate is lower than that for the previous financial year and that according to the Management, the Group will strive to become a world leading supplier of smart cards and security chips for Internet of Things, we consider the proposed annual caps fair and reasonable.

LETTER FROM ALTUS CAPITAL

The proposed caps for the purchases and sales for the years ending 31 December 2019 and 2020 and the six months ending 30 June 2021 were determined with reference to the proposed caps for the purchases and sales for the six months ending 31 December 2018, allowing for an increase of approximately 5% per year in line with GDP growth in the PRC. Given the absence of any impending change to the policy driving the demand for the Group's products, we consider the Management's expectation that transaction amounts will remain relatively stable and increase in line with the GDP growth, and as such, the proposed annual caps, fair and reasonable.

Taking into accounts the above factors and reasons, we are of the view that the Proposed Caps with regard to the transactions contemplated under the 2018 Business Services Agreement 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 are fair and reasonable.

3. The 2018 Financial Services Agreement

a. Terms of the 2018 Financial Services Agreement

The services to be provided under the 2018 Financial Services Agreement are substantially the same as those prescribed in the 2015-2018 Financial Services Agreement. To assess the fair and reasonableness of the 2018 Financial Services Agreement, we have considered the following:

- (i) 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;
- (ii) 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;
- (iii) 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; and
- (iv) 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.

LETTER FROM ALTUS CAPITAL

As the transactions will be carried out in line with market practice; and with reference to the prices in the market; and at prices that are no less favourable to the Group than available in the market, we consider that the terms of the 2018 Business Services Agreement are fair and reasonable and normal commercial terms. 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 Company will not become reliant on CEC Finance as a result of entering into the 2018 Financial Services Agreement, which we consider beneficial to the Company and its Shareholders as a whole.

b. Internal controls

We have reviewed two internal audit reports of the Company covering continuing connected transactions under the 2015-2018 Financial Services Agreement for the years ended 31 December 2016 and 2017, respectively, which are substantially the same as those contemplated under the 2018 Financial Services Agreement, and set out below our understanding from the Management of the Company's relevant internal controls.

Before making a deposit with, seeking financial assistance from or using fee-based and 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 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 and 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.

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 2018 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.

We have reviewed 20 samples of depository services in the years ended 31 December 2016 and 2017; 6 samples of financial assistance in the years ended 31 December 2016 and 2017; and 9 samples of procedural fees paid in the year ended 31 December 2016 and noted that the transactions with CEC Finance were on terms no less favourable to the Group than those of transactions with independent third parties.

LETTER FROM ALTUS CAPITAL

Taking into account the aforesaid factors, we consider the transactions contemplated under the 2018 Financial Service Agreement to be on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

c. Reasons for and benefits of the 2018 Financial Services Agreement

As stated in the paragraph headed “Principal businesses of the Group, the CEC Group 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 Company to have the option to utilise the financial services provided by CEC Finance, as:

- (i) 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;
- (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 2018 Financial Services Agreement will provide the Group with the flexibility to choose amongst different kinds of financial assistance provided by CEC Finance and independent third parties to secure additional and stable financing for its operations.

We have also considered that given the competitive market environment, it would be beneficial for the Group to have access to the services contemplated under the 2018 Financial Services Agreement and that given that the Group had obtained such services, to continue to have such access to enhance the Group’s financial stability.

LETTER FROM ALTUS CAPITAL

d. Proposed caps for the 2018 Financial Services Agreement

Types of transaction	Proposed caps			
	For the six months ending	For the year ending		For the six months ending
	31 December	31 December		30 June
	2018	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Provision of financial assistance				
Maximum daily balance of financial assistance provided to the Group	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

Provision of deposits 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 secured financial assistance which it may provide to the Group. The maximum daily balance of deposits (together with interests accrued thereon) maintained by the Group was determined with reference to the maximum daily balance of financial assistance provided to the Group by CEC Finance.

Provision of fee-based and commission-based financial services

We are advised by the Management that the fees and commissions payable for fee-based and commission-based financial services provided by CEC Finance were determined based on the estimated fee-based and commission-based financial services to be provided by CEC Finance and the fees and commissions payable for such services, being approximately 0.2% per annum of the principal amount for handling of entrusted loans and approximately 0.5% per annum of the principal amount for guarantee services.

LETTER FROM ALTUS CAPITAL

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 relating to the transactions under the 2015-2018 Financial Services Agreement relevant to our assessment of the fairness and reasonableness of the proposed caps.

RECOMMENDATIONS

Having considered the above principal factors, we are of the view at the date hereof that (i) the 2018 Business Services Agreement, the 2018 Financial Services Agreement, the Continuing Connected Transactions and the Proposed Caps 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 and the Continuing Connected Transactions 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. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions approving the 2018 Business Services Agreement, the 2018 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

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 about 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.

AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR EACH OF THE YEARS ENDED 31 DECEMBER 2015, 2016 AND 2017

Financial information of the Group for each of the years ended 31 December 2015, 2016 and 2017 is disclosed on pages 59 to 154 of the annual report of the Company for the year ended 31 December 2015 published on 27 April 2016, pages 89 to 186 of the annual report of the Company for the year ended 31 December 2016 published on 27 April 2017 and pages 85 to 175 of the annual report of the Company for the year ended 31 December 2017 published on 26 April 2018, 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 2015, 2016 and 2017, respectively, are set out below:

2015:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0427/LTN20160427140.pdf>

2016:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0427/LTN201704271822.pdf>

2017:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0426/LTN201804262086.pdf>

INDEBTEDNESS

As at 30 April 2018, being the latest practicable date for the purpose of this indebtedness statement prior to the date of this circular, the Group had outstanding bank and other borrowings of HK\$2,439.7 million.

The analysis of bank and other borrowings of the Group as at 30 April 2018 is as follows:

- bank borrowings of HK\$24.8 million were secured by the Company's short-term deposits of HK\$25.4 million;
- unsecured bank borrowings of HK\$2,340.6 million were guaranteed by CEC; and
- unsecured entrusted loans from related parties of HK\$74.3 million.

Save as disclosed above and apart from intra-group liabilities and normal trade payables, the Group did not have, as at 30 April 2018, any mortgages, charges, debentures, debt securities issued and outstanding, and authorised or otherwise created but unissued, outstanding borrowings or indebtedness in the nature of borrowings including term loans, bank overdrafts, liabilities under acceptances, acceptance credits, hire purchase and finance lease commitments or other similar indebtedness, or any guarantees or other material contingent liabilities.

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

For the year ended 31 December 2017, the Group achieved a sale revenue of HK\$1,453.0 million, representing an increase of 6.9% when comparing with the corresponding period of last year, the profit attributable to the Shareholders was HK\$220.1 million, representing a decrease of 79.3% when comparing with the corresponding period of last year. The decrease in profit was primarily attributable to (i) the recognition of an one-off gain of HK\$620.8 million arising from the disposal of China Electronics Technology Development Co., Ltd and the subscription of new shares in China Electronics Optics Valley Union Holding Company Limited (“CEOVU”) in 2016; and (ii) the recognition of an one-off accounting gain representing negative goodwill of HK\$409.4 million arising from the acquisition of 31.88% interest in CEOVU in 2016.

Looking into 2018, facing intensified competition across the domestic and overseas integrated circuits industry, a relatively large market capacity of domestic financial payment chips resulting from the implementation of national policies, and the impacts of the constraint of the domestic foundry manufacturers’ production capacities, the Group will closely act upon the national policies and track the market demands, seize the opportunity of the financial payment chips market, actively explore the domestic and overseas potential customers in industries and enterprises, strengthen the construction of sales channels and expand its scale of sales. In addition, the Group will capitalise on the trading relationship established with countries along the route of the “Belt and Road Initiative”, and step up its efforts in developing the international market through actively launching promotion of the Group’s security smart card chips to these countries, and emphasise on the new business layout that could drive our future revenue growth, strive to provide diversified and high quality products that meet the demands of customers and markets.

On the other hand, based on its independently developed security technology, smart card chips design technology and application technology accumulated over the years and a market orientated approach, the Group will strengthen its research in areas such as Internet of Things system technology, security technology, smart card chips technology, and production process technology, and take forward the development of products such as Internet of Things security chips and system solution, and Internet of Things secure operation and maintenance platforms, as well as applications for industries such as smart cities, smart manufacturing, smart transportation, smart home, and automotive electronics in a progressive manner, and continuously strive to enhance its core competitiveness in the industry and the market of Internet of Things. In addition, the Group will also actively strengthen its strategic co-operation with foundry manufacturers and optimise the processing flows of its supply chain to ensure its production capacity and lower its production cost, and strive to become a world leading supplier of smart cards and security chips for Internet of Things.

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, (1) Mr. Dong Haoran, a non-executive Director and the Chairman of the Board, had personal interest (long position) in 4,672,420 shares of the Company; (2) Mr. Jiang Juncheng, an executive Director and the Deputy Chairman of the Board, had personal interest (long position) in 1,139,420 shares of the Company; and (3) Ms. Liu Jinmei, a non-executive Director, had personal interest (long position) in 197,250 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. Dong Haoran, a non-executive Director and the Chairman of the Board, is a director and the general manager of Huada Semiconductor Co., Ltd (“Huada Semiconductor”) and a director of China Electronics Corporation (BVI) Holdings Company Limited (“CEC (BVI)”). Mr. Jiang Juncheng, an executive Director and the Deputy Chairman of the Board, is the chief accountant of Huada Semiconductor. Mr. Liu Hongzhou, an executive Director and the Managing Director of the Company, is a director of CEC (BVI). Details of the shareholdings of Huada Semiconductor and CEC (BVI) in the Company are set out in the paragraph 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 2017 (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	Approximate 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 10% 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 licensed corporation to conduct 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 2017 (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. Dong Haoran, a non-executive Director and the Chairman of the Board, is a director of Huada Semiconductor, a director of CEC Chitsing Technology Co., Ltd and the chairman of Shanghai Belling Corp., Ltd (“Shanghai Belling”). Mr. Jiang Juncheng, an executive Director and the Deputy Chairman of the Board, is the chairman of the supervisory committee of Shanghai Belling. Ms. Liu Jinmei, a non-executive Director, is a director of Shanghai Belling. Currently, Huada Semiconductor, CEC Chitsing Technology Co., Ltd and 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, save and except for the lack of a non-recurring gain before taxation of HK\$102,510,000 arising from the disposal of a business for the year ended 31 December 2017 as announced on 3 March 2017 and 26 March 2018, the Board is not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, 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 22, 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 CONTRACTS

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

- (a) the subscription agreement dated 14 December 2016 entered into between Beijing Chipadvanced Technology Inc. ("Chipadvanced Technology") and CEC Huada Electronic Design Co., Ltd ("Huada Electronics"), a wholly-owned subsidiary of the Company, in relation to the subscription in cash of 1,125,000 new shares of Chipadvanced Technology at RMB4.00 per share by Huada Electronics, the details of which can be referred to in the announcement of the Company dated 14 December 2016;

- (b) the sale and purchase agreement dated 3 March 2017 entered into between Huada Electronics (as seller) and Shenzhen Huada Beidou Technology Company Limited (as purchaser) in relation to the disposal of navigation chips business in cash for a consideration of RMB100 million, the details of which can be referred to in the announcements of the Company dated 17 November 2016 and 3 March 2017;
- (c) (i) the agreement dated 19 December 2017 entered into between the Company and CEC in relation to the leasing arrangements between the Group (as landlord) and CEC and its subsidiaries and associates (other than the Group) (as tenant), with annual caps of RMB7,000,000, RMB9,500,000 and RMB10,000,000 for the rental receivable by the Group from CEC and its subsidiaries and associates (other than the Group) for each of the years ending 31 December 2018, 2019 and 2020 respectively, (ii) 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 CEC and its subsidiaries and associates (other than the Group) (as landlord), with annual caps of RMB3,000,000, RMB8,500,000 and RMB9,000,000 for the rental payable by the Group to CEC and its subsidiaries and associates (other than the Group) for each of the years ending 31 December 2018, 2019 and 2020 respectively, and (iii) the agreement dated 19 December 2017 entered into between the Company and CEC Rida Property Management Co., Ltd (“CEC Rida”) in relation to the provision of property management services by CEC Rida and its subsidiaries to the Group, with annual caps of RMB7,500,000, RMB8,500,000 and RMB9,000,000 for the property management fee payable by the Group to CEC Rida and its subsidiaries for each of the years ending 31 December 2018, 2019 and 2020 respectively, the details of which can be referred to in the announcement of the Company dated 19 December 2017; and
- (d) the 2018 Business Services Agreement and the 2018 Financial Services Agreement.

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 2018 Business Services Agreement and the 2018 Financial Services Agreement;
- (b) the 2015-2018 Business Services Agreement and the 2015-2018 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 20 to 21 of this circular;
- (e) the letter from Altus Capital, the text of which is set out on pages 22 to 34 of this circular;

- (f) the written consent referred to in the section headed “Expert and Consent” in this appendix;
- (g) the material contracts referred to in the section headed “Material Contracts” in this appendix;
- (h) the annual reports of the Company for the financial year ended 31 December 2016 and 31 December 2017; 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 Thursday, 28 June 2018 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 25 April 2018 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 “2018 Business Services Agreement”), and the proposed caps of the transactions 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 2018 Business Services Agreement and the continuing connected transactions contemplated thereunder.”
2. **“THAT** the continuing connected transactions contemplated under the comprehensive financial services agreement dated 25 April 2018 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 “2018 Financial Services Agreement”), and the proposed caps of the transactions 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 2018 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, 8 June 2018

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 25 June 2018 to 28 June 2018, 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, all share certificates with completed transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 22 June 2018.
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 proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his 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.
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 22, 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 so wish and in such event, the form of proxy shall be deemed to be revoked.
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 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.