
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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.

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

**CHINA ELECTRONICS HUADA TECHNOLOGY COMPANY LIMITED****中國電子華大科技有限公司***(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)***(Stock Code: 00085)****CONTINUING CONNECTED TRANSACTION:
REVISION OF THE EXISTING CAPS FOR THE TRANSACTIONS
CONTEMPLATED UNDER THE 2021 BUSINESS SERVICES AGREEMENT****Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders****ALTUS CAPITAL LIMITED**

To safeguard the health and safety of the shareholders of the Company and to prevent the spread of coronavirus, no refreshment or drink will be served at the special general meeting of the Company.

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 Tuesday, 25 October 2022 at 4:00 p.m. is set out on pages 36 to 37 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 17th floor, Far East Finance Centre, 16 Harcourt Road, 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 and in such event, the form of proxy shall be deemed to be revoked.

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 14 to 15 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 16 to 31 of this circular.

30 September 2022

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	3
Letter from the Independent Board Committee	14
Letter from Altus Capital	16
Appendix – General Information	32
Notice of SGM	36

DEFINITIONS

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

“2021 Business Services Agreement”	the business services agreement dated 13 April 2021 and entered into between CEC and the Company
“Altus Capital”	Altus Capital Limited, a corporation licensed to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, and the independent financial adviser appointed by the Board to advise the Independent Board Committee and the Independent Shareholders on the terms of the First Supplemental 2021 Business Services Agreement and the proposed revised caps of the transactions contemplated 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 Group”	CEC and its subsidiaries and associates (other than the Group)
“Company”	China Electronics Huada Technology Company Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability
“connected person(s)”	has the meaning ascribed to this term under the Listing Rules
“Director(s)”	director(s) of the Company
“First Supplemental 2021 Business Services Agreement”	the conditional supplemental agreement to the 2021 Business Services Agreement dated 9 September 2022 and entered into between CEC and the Company
“Group”	the Company and its subsidiaries

DEFINITIONS

“Independent Board Committee”	a committee of Directors consisting of only independent non-executive Directors formed to advise the Independent Shareholders on the terms of the First Supplemental 2021 Business Services Agreement and the proposed revised caps of the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than CEC and its associates
“Latest Practicable Date”	21 September 2022, 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 First Supplemental 2021 Business Services Agreement and the proposed revised caps of the transactions contemplated thereunder
“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:

Xu Haidong (*Chairman*)

Liu Jinmei

Executive Directors:

Liu Hongzhou (*Deputy Chairman and Managing Director*)

Chang Feng

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

30 September 2022

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTION: REVISION OF THE EXISTING CAPS FOR THE TRANSACTIONS CONTEMPLATED UNDER THE 2021 BUSINESS SERVICES AGREEMENT

INTRODUCTION

Reference is made to the announcement of the Company dated 9 September 2022 in relation to, among others, the entering into of the First Supplemental 2021 Business Services Agreement with CEC.

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

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

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

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

FIRST SUPPLEMENTAL 2021 BUSINESS SERVICES AGREEMENT

Date: 9 September 2022 (after trading hours)

Parties: (i) The Company
(ii) CEC

LETTER FROM THE BOARD

Subject matter

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

Existing caps

Pursuant to the 2021 Business Services Agreement, it was expected that for each of the years ending 31 December 2022 and 2023 and the six months ending 30 June 2024, the maximum consideration payable by the Group to the CEC Group and the maximum consideration receivable by the Group from the CEC Group would not exceed the following respective amounts for the relevant continuing connected transactions contemplated under the 2021 Business Services Agreement.

Type of transaction	Year ending 31 December		Six months ending
	2022	2023	30 June 2024
	(RMB'000)	(RMB'000)	(RMB'000)
Provision of technology development, processing, testing and assembling services and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties			
– consideration payable			
by the Group	178,400	196,200	107,900
Sale of products and provision of technology development services			
– consideration receivable			
by the Group	177,700	195,500	107,600

LETTER FROM THE BOARD

Revised caps

Pursuant to the First Supplemental 2021 Business Services Agreement, it is expected that for each of the years ending 31 December 2022 and 2023 and the six months ending 30 June 2024, the maximum consideration payable by the Group to the CEC Group and the maximum consideration receivable by the Group from the CEC Group will not exceed the following respective amounts and the existing caps for the relevant continuing connected transactions contemplated under the 2021 Business Services Agreement are revised as follows.

Type of transaction	Year ending 31 December		Six months ending 30 June 2024
	2022	2023	2024
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Provision of technology development, processing, testing and assembling services and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties			
– consideration payable			
by the Group	225,812	251,084	146,650
Sale of products and provision of technology development services			
– consideration receivable			
by the Group	327,281	409,587	225,558

The above revised caps for the consideration payable by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group is determined based on (i) the historical transaction amounts, especially the transaction amount for the seven months ended 31 July 2022; (ii) the expected growing demand of the Group for the provision of technology development, processing, testing and assembling services by the CEC Group in the forthcoming years; (iii) the expected growing demand of the Group for the raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group in the forthcoming years; (iv) the expected market rate for such technology development, processing, testing and assembling services in the forthcoming years; and (v) the expected market price for such raw materials, integrated circuit modules, softwares, equipments and intellectual properties in the forthcoming years.

LETTER FROM THE BOARD

The above revised caps for the consideration receivable by the Group for the sale of products and provision of technology development services to the CEC Group is determined based on (i) the historical transaction amounts, especially the transaction amount for the seven months ended 31 July 2022; (ii) the expected growing demand of the Group's products and technology development services by the CEC Group in the forthcoming years; and (iii) the expected market price or rate for such products and technology development services in the forthcoming years.

Historical transaction amounts

Type of transaction	Year ended 31 December		Seven months ended
	2020	2021	31 July 2022
	(RMB'000)	(RMB'000)	(RMB'000)
Provision of technology development, processing, testing and assembling services and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties			
– consideration payable by the Group	102,919	107,603	117,000
Sale of products and provision of technology development services			
– consideration receivable by the Group	76,352	85,342	146,119

Condition

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

LETTER FROM THE BOARD

REASONS FOR ENTERING INTO THE FIRST SUPPLEMENTAL 2021 BUSINESS SERVICES AGREEMENT

As stated in the announcement of the Company dated 13 April 2021, the Group is principally engaged in the business of design and sale of integrated circuit chips. The Group's integrated circuits design operation comprises the design of smart cards and security chips and the development of application system. The Group does not involve in the direct manufacturing of the integrated circuit chips itself. Currently, the Group's products are mainly used in the sectors of identity authentication, financial payment, government utilities, telecommunications, Internet of Things and intelligent connected vehicles. The Group has been entering into various Business Services Transactions of a similar nature with the CEC Group since 2008 under various business services agreements including the 2021 Business Services Agreement. For years, the CEC Group has been providing technology development, processing, testing and assembling services for the production of the Group's products and supplying raw materials, integrated circuit modules, softwares, equipments and intellectual properties to the Group for its research and development purposes, and the Group has also been selling products and providing technology development services to the CEC Group. The transactions contemplated under the 2021 Business Services Agreement are, therefore, vital and integral to the business operations of the Group. In view of past operational convenience and benefits brought to the Group, the Board considers it beneficial to maintain such friendly business cooperative relationship with the CEC Group, taking into consideration that CEC is one of the key state-owned nationwide electronics and information technology conglomerates focusing on communications, consumer electronics products, semi-conductor and software sectors in the PRC.

The consideration payable by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group for the seven months ended 31 July 2022 was RMB117,000,000, representing 65.6% of the existing cap of RMB178,400,000 for the transactions contemplated under the 2021 Business Services Agreement for the year ending 31 December 2022. Following the signing of the 2021 Business Services Agreement, as a result of (i) a upsurge in the market rates for the provision of technology development, processing, testing and assembling services and market prices for the raw materials, integrated circuit modules, softwares, equipments and intellectual properties due to the tight integrated circuits production capacity caused by the rapid development of the 5G and Internet of Things markets and it is expected that these market rates and market prices will remain high in the near term given the continuing shortage of integrated circuits production capacity; and (ii) the expected significant increase in the market demand for the Group's secure element chips and secure microcontroller unit chips, demand for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group will also increase significantly. In light of the continuing shortage of integrated circuits production capacity, the Group intends to strengthen cooperation with the CEC Group on the related production in the next few years to obtain more production capacity support, resulting the need to revise the existing caps for the consideration payable by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group under the 2021 Business Services Agreement for each of the years ending 31 December 2022 and 2023 and the six months ending 30 June 2024 in order to meet the business needs of the Group.

LETTER FROM THE BOARD

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

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

LETTER FROM THE BOARD

INTERNAL CONTROL PROCEDURES FOR THE 2021 BUSINESS SERVICES AGREEMENT (SUPPLEMENTED BY THE FIRST SUPPLEMENTAL 2021 BUSINESS SERVICES AGREEMENT)

To ensure that the transactions contemplated under the First Supplemental 2021 Business Services Agreement are conducted on normal commercial terms, terms that are fair and reasonable, and no less favourable terms than those available 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 technology development, processing, testing and assembling services by the CEC Group, and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties 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 available from independent third parties. Contract for provision of technology development, processing, testing and assembling services, and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties 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 and provision of technology development services to the CEC Group, the sales center will refer to transactions with independent third parties in respect of similar product 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 available to independent third parties. Contract for sale of products and provision of technology development services 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 2021 Business Services Agreement with reference to the 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 THE BOARD

Given the above, the Board considers that there are appropriate internal controls and procedures in place to ensure that the transactions contemplated under the First Supplemental 2021 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.

INFORMATION OF THE PARTIES

The Company

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

CEC

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

LISTING RULES IMPLICATIONS

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

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

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

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 Tuesday, 25 October 2022 at 4:00 p.m. is set out on pages 36 to 37 of this circular. At the SGM, a resolution will be proposed to approve the First Supplemental 2021 Business Services Agreement and the proposed revised caps of the transactions contemplated 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 resolution approving the First Supplemental 2021 Business Services Agreement and the proposed revised caps of the transactions contemplated thereunder. Pursuant to Rule 13.39(4) of the Listing Rules, the vote of the Independent Shareholders at the SGM will be taken by poll.

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 17th floor, Far East Finance Centre, 16 Harcourt Road, 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 and in such event, the form of proxy shall be deemed to be revoked.

In light of the continuing risks posed by the coronavirus, the Company strongly advises Shareholders NOT to attend the SGM in person, and recommends Shareholders to appoint the chairman of the SGM as his/her/its proxy to vote according to his/her/its indicated voting instructions instead.

BOOK CLOSURE PERIOD

Shareholders whose names appear on the register of members of the Company at the close of business on 25 October 2022 will be entitled to attend and vote at the SGM. The register of members of the Company will be closed from 20 October 2022 to 25 October 2022 (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, completed transfer form with relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at 17th floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 19 October 2022.

LETTER FROM THE BOARD

RECOMMENDATION

Based on the relevant information disclosed herein, the Board is of the view that (i) the entering into of the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole, (ii) the terms of the First Supplemental 2021 Business Services Agreement are on normal commercial terms and are fair and reasonable, and (iii) the proposed revised caps of the transactions contemplated under the First Supplemental 2021 Business Services Agreement are also fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the relevant resolution approving the First Supplemental 2021 Business Services Agreement and the proposed revised caps of the transactions contemplated thereunder at the SGM.

FURTHER INFORMATION

Your attention is drawn to the information set out in the appendix to this circular.

Yours faithfully,

For and on behalf of the Board

China Electronics Huada Technology Company Limited

Xu Haidong

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

30 September 2022

To the Independent Shareholders

Dear Sirs or Madams,

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

We refer to the circular of the Company dated 30 September 2022 (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 First Supplemental 2021 Business Services Agreement and the proposed revised caps of the transactions contemplated 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 3 to 13 of the Circular which contains, among others, details of the terms of the First Supplemental 2021 Business Services Agreement and the proposed revised caps of the transactions contemplated thereunder, the letter from Altus Capital as set out on pages 16 to 31 of the Circular which contains the advice from Altus Capital in respect of the terms of the First Supplemental 2021 Business Services Agreement and the proposed revised caps of the transactions contemplated thereunder, and the information set out in the appendix thereto.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We, having considered the terms of the First Supplemental 2021 Business Services Agreement and the proposed revised caps of the transactions contemplated thereunder and having taken into account the principal factors and reasons considered by Altus Capital as stated in its letter, consider that (i) the entering into of the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole, (ii) the terms of the First Supplemental 2021 Business Services Agreement are on normal commercial terms and are fair and reasonable, and (iii) the proposed revised caps of the transactions contemplated under the First Supplemental 2021 Business Services Agreement are also fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM in relation to the First Supplemental 2021 Business Services Agreement and the proposed revised caps of the transactions contemplated thereunder, as detailed in the notice of SGM as set out on pages 36 to 37 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 Limited, the independent financial adviser, to the Independent Board Committee and the Independent Shareholders in respect of the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the proposed revised caps), which has been prepared for the purpose of incorporation in the Circular.

ALTUS

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

30 September 2022

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

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 First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the proposed revised caps), details of which are set out in the letter from the Board contained in the circular dated 30 September 2022 (the “**Circular**”), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

In light of the change in product mix of the Group with growing demand of products (such as eSIM chips, intelligent connected vehicle secure element chips and high-end SIM chips) to cater for the rapid development of the 5G and Internet of Things markets, and the upsurge in market prices of integrated circuit chips due to a surge in the market prices of raw materials and processing cost, coupled with a serious global “integrated circuit chips shortage”, on 9 September 2022, the Company and CEC entered into the First Supplemental 2021 Business Services Agreement to revise the existing caps for the transactions contemplated under the 2021 Business Services Agreement for the years ending 31 December 2022 and 2023 and the six months ending 30 June 2024. All other terms and conditions under the 2021 Business Services Agreement remain the same.

LETTER FROM ALTUS CAPITAL

As at the Latest Practicable Date, CEC is the ultimate controlling shareholder of the Company indirectly holding 59.42% of the issued share capital of the Company. CEC is therefore a connected person of the Company under the Listing Rules. Accordingly, as the Company proposes to revise the caps for continuing connected transactions contemplated under the 2021 Business Services Agreement, the Company is required to re-comply with the provisions of Chapter 14A of the Listing Rules in relation to the relevant continuing connected transactions.

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

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chan Kay Cheung, Mr. Qiu Hongsheng and Mr. Chow Chan Lum, has been established to advise the Independent Shareholders as to (i) whether the terms of the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the proposed revised caps) are on normal commercial terms and are fair and reasonable; (ii) whether the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the proposed revised caps) are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution to be proposed at the SGM, 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 First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the proposed revised caps) are on normal commercial terms and are fair and reasonable; (ii) whether the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the proposed revised caps) are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution to be proposed at the SGM.

LETTER FROM ALTUS CAPITAL

We have acted as the independent financial adviser to the Company regarding the continuing connected transactions contemplated under the 2021 Business Services Agreement and the 2021 Financial Services Agreement respectively (details of which were set out in a circular of the Company dated 4 June 2021). Save for the aforesaid transactions, we have not acted as an independent financial adviser or financial adviser for other transactions of the Group in the last two years from 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 First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the proposed revised caps) is at market level and not conditional upon successful passing of the resolution to be proposed at the SGM, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling shareholder or connected person(s).

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, among others (i) the 2021 Business Services Agreement; (ii) the First Supplemental 2021 Business Services Agreement; (iii) the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”); (iv) the interim report of the Company for the six months ended 30 June 2021; (v) the interim results announcement of the Company for the six months ended 30 June 2022 (the “**2022 Interim Results Announcement**”); and (vi) other information as set out in the Circular.

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 contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and will continue to be so up to the Latest Practicable Date. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regards to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any representation in the Circular misleading.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us 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. The Company will notify the Shareholders of any material change after the Latest Practicable Date and after the despatch of the Circular.

LETTER FROM ALTUS CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background

(i) Principal businesses of the Group and CEC

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

The Group's integrated circuits design operation comprises the design of smart cards and security chips and the development of application system. The Group does not involve in the direct manufacturing of the integrated circuit chips itself. Currently, the Group's products are mainly used in the sectors of identity authentication, financial payment, government utilities, telecommunications, Internet of Things and intelligent connected vehicles.

CEC, a state-owned enterprise established under the laws of the PRC, was established in 1989 with the approval of the State Council of the PRC and is the ultimate controlling shareholder of the Company. CEC is a nationwide electronics and information technology conglomerate, which actively focuses on communications, consumer electronic products, semi-conductor and software sectors in the PRC.

For years, the CEC Group has been providing technology development, processing, testing and assembling services for the production of the Group's products and supplying raw materials, integrated circuit modules, softwares, equipments and intellectual properties to the Group for its research and development purposes, and the Group has also been selling products and providing technology development services to the CEC Group.

(ii) Prospects of the Group

As described in the 2022 Interim Results Announcement, the Management believes that there will be growing market opportunities for the Group's business due to (i) the continuous enhancement of domestic-made smart cards and security chips in terms of technology, products' performance and competitiveness helps to expand the market coverage of the domestic-made smart cards and security chips into the international market; and (ii) the continuous deepening of emerging applications in areas such as 5G, the intelligent connected vehicles and the Internet of Things raising the demand for security chips continuously.

LETTER FROM ALTUS CAPITAL

2. Reasons for and benefits of the First Supplemental 2021 Business Services Agreement

The consideration payable by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group for the seven months ended 31 July 2022 was RMB117,000,000, representing 65.6% of the existing cap for the transactions contemplated under the 2021 Business Services Agreement for the year ending 31 December 2022.

The consideration receivable by the Group for the sale of products and provision of technology development services to the CEC Group for the seven months ended 31 July 2022 was RMB146,119,000, representing 82.2% of the existing cap for the transactions contemplated under the 2021 Business Services Agreement for the year ending 31 December 2022.

Save for the revision of existing caps for the years ending 31 December 2022 and 2023 and six months ending 30 June 2024, the services to be provided under the First Supplemental 2021 Business Services Agreement are the same as those prescribed in the 2021 Business Services Agreement. All other terms and conditions under the 2021 Business Services Agreement remained the same.

In view of the reasons set out in the section headed “Reasons for entering into the First Supplemental 2021 Business Services Agreement” in the letter from the Board, the proposed revised caps as contemplated under the First Supplemental 2021 Business Services Agreement are to cater for the business needs and expansion of the Group.

Considering (i) the continuing business development of the Group’s business operations and the growing demand for more products in the integrated circuit chips industry; (ii) the long term satisfactory and mutual business relationship with the CEC Group; (iii) the products and services provided by the CEC Group are vital and integral to the business operations of the Group; (iv) the cooperation with the CEC Group generated a stable revenue stream to the Group; and (v) the fact that all terms and conditions under the 2021 Business Services Agreement remained the same (except for the revision of the existing caps), the Management believes and we concur that the terms of the First Supplemental 2021 Business Services Agreement are normal commercial terms and are fair and reasonable and the entering into of the First Supplemental 2021 Business Services Agreement is in the interests of the Company and the Shareholders as a whole.

LETTER FROM ALTUS CAPITAL

3. Existing caps and proposed revised caps

(i) *Existing caps and actual utilisation rate*

Below is a table setting out (i) each category of continuing connected transactions contemplated under the 2021 Business Services Agreement; (ii) the existing caps approved for the 2021 Business Services Agreement; and (iii) the utilisation rate of the existing caps for the year ended 31 December 2020, for the six months ended 31 December 2021, for the year ended 31 December 2021 and for the year ending 31 December 2022:

Types of transaction	Existing caps/historical transaction amount			
	For the			
	For the	six months	For the	For the
	year ended	ended	year ended	year ending
	31 December	31 December	31 December	31 December
	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Approximate</i>	<i>Approximate</i>	<i>Approximate</i>	<i>Approximate</i>
(a) Provision of technology development, processing, testing and assembling services by the CEC Group and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group				
Approved cap	948,000 ^a	81,100 ^b	579,100 ^c	178,400 ^b
Historical transaction amount	102,919	54,582 ^d	107,603	117,000 ^e
Utilisation rate	10.9%	67.3%	18.6%	65.6%
(b) Sale of products and provision of technology development services to the CEC Group				
Approved cap	223,000 ^a	80,800 ^b	197,800 ^f	177,700 ^b
Historical transaction amount	76,352	29,214 ^d	85,342	146,119 ^e
Utilisation rate	34.2%	36.2%	43.1%	82.2%

LETTER FROM ALTUS CAPITAL

Notes:

- (a) It was approved at the special general meeting of the Company held on 28 June 2018. Details were set out in the circular of the Company dated 8 June 2018.
- (b) It was approved at the special general meeting of the Company held on 29 June 2021. Details were set out in the circular of the Company dated 4 June 2021.
- (c) It was the combination of the approved cap of RMB498,000,000 for the six months ended 30 June 2021 as set out in the circular of the Company dated 8 June 2018 and the approved cap of RMB81,100,000 as set out in the circular of the Company dated 4 June 2021.
- (d) The actual amount for the six months ended 31 December 2021 was derived from the actual amount for the year ended 31 December 2021 as set out in the 2021 Annual Report minus the actual amount for the six months ended 30 June 2021 as set out in the interim report of the Company for the six months ended 30 June 2021.
- (e) Such figures represent the actual amount based on the management accounts of the Group for the seven months ended 31 July 2022.
- (f) It was the combination of the approved cap of RMB117,000,000 for the six months ended 30 June 2021 as set out in the circular of the Company dated 8 June 2018 and the approved cap of RMB80,800,000 as set out in the circular of the Company dated 4 June 2021.

As shown in the above table, the utilisation rates of annual caps for the year ended 31 December 2020 were (i) 10.9% for the purchase of products and services from the CEC Group; and (ii) 34.2% for the sale of products and services to the CEC Group. The low utilisation rate of the annual cap for 2020 was mainly due to the outbreak of COVID-19 pandemic. In early 2021, due to the continual impact of COVID-19 pandemic and the restrictions on resumption of work and production in various industries implemented during the pandemic, the Management then expected the business operation would gradually recover and therefore proposed to lower the cap for the six months ended 31 December 2021 to approximately RMB81 million as compared to the approved cap for the six months ended 30 June 2021 of approximately RMB498 million. Given that the global integrated circuits market was stable in 2021 and the domestic economic situation had been improving with industry boom rebounding and market demand recovering in 2021, the utilisation rates of the annual caps for the year ended 31 December 2021 were (i) 18.6% for the purchase of products and services from the CEC Group; and (ii) 43.1% for the sale of products and services to the CEC Group, and higher than the utilisation rates of the annual caps of the previous year.

LETTER FROM ALTUS CAPITAL

(a) Provision of technology development, processing, testing and assembling services by the CEC Group and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group

As shown in the above table, the historical consideration payable by the Group for the provision of services by the CEC Group and the purchase of materials from the CEC Group for the seven months ended 31 July 2022 amounted to RMB117,000,000, representing an utilisation rate of 65.6% of the existing cap for the consideration payable by the Group for the year ending 31 December 2022. Such amount already represents an increase of 8.7% as compared to the total consideration of RMB107,603,000 payable by the Group for the year ended 31 December 2021 due to the combined effect of (i) the successful promotion of the Group's products to the intelligent connected vehicle and Internet of Things security chips application markets resulting from the rapid development of the 5G and Internet of Things markets since the second half of 2021; and (ii) the upsurge in the market rates for the provision of technology development, processing, testing and assembling services and market prices for, among other things, raw materials, integrated circuits modules and softwares due to the tight integrated circuits production capacity caused by the rapid development of the 5G and Internet of Things markets.

We have discussed with the Management on the expected sales of products and provision of technology development services to the CEC Group for the second half of 2022 and going forward, and noted that (i) the continual growth in the application areas such as the 5G, intelligent connected vehicle and Internet of Things markets in the PRC, (ii) the market prices for smart cards and security chips as well as the market rates for services and market prices for raw materials and processing costs will remain high in the near term given the continuing shortage of integrated circuits production capacity, and (iii) the related government policy to enhance the semiconductor industry in the PRC (as described in paragraph headed "3(ii) Proposed revised caps - (b) Sale of products and provision of technology development services to the CEC Group" below), which in turn, will continue to boost the demand for more integrated circuit products. We also noted the Group intends to strengthen cooperation with the CEC Group on the related production in the next few years in order to obtain more production capacity support.

Based on the aforesaid information, the Management believes the amount of purchases from the CEC Group will continue to increase and, accordingly, we concur that the existing caps for the consideration payable by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group for the year ending 31 December 2022 and going forward will not be sufficient and will require to revise upward to cater for the growing needs of the Group.

LETTER FROM ALTUS CAPITAL

(b) Sale of products and provision of technology development services to the CEC Group

As shown in the above table, the historical consideration receivable by the Group for the sale of products and provision of technology development services to the CEC Group for the seven months ended 31 July 2022 amounted to RMB146,119,000, representing an utilisation rate of 82.2% of the existing cap for the year ending 31 December 2022. Such amount also represents an increase of 71.2% as compared to the total consideration of RMB85,342,000 receivable by the Group for the year ended 31 December 2021 due to (i) the upsurge of the market prices of the integrated circuit chips as a result of the shortage of integrated circuits production capacity and (ii) the enrichment of the products portfolio of the Group to cater for the rapid development of 5G and Internet of Things markets.

In view of (i) the continuing shortage of integrated circuits production capacity, it is expected the market prices of integrated circuit chips will remain high in the near term; (ii) the related government policy to enhance the semiconductor industry in the PRC, which will in turn, give rise to more applications for the 5G and Internet of Things sector and the continual growing demand for the Group's products (such as secure element chips and secure microcontroller unit chips for the Internet of Things market); (iii) the CEC Group has long been engaged in the integrated circuits industry, and due to the rapid development of the industry, it is expected that there will be increase in demand for the abovementioned products (such as secure element chips and secure microcontroller unit chips for the Internet of Things market) by the CEC Group as well; and (iv) some of the existing smart cards and security chips products will be replaced by the new generation products, the performance of the new generation products will be improved and the cost of production will increase, resulting in a significant increase in the expected market price of the new generation products when comparing with the existing products, the Management believes and we concur that the existing caps for the consideration receivable by the Group for the sale of products and provision of technology development services to the CEC Group for the year ending 31 December 2022 and going forward will not be sufficient and require to revise upward to cater for the growing demand of the Group's products.

LETTER FROM ALTUS CAPITAL

(ii) *Proposed revised caps*

Types of transaction	Proposed revised caps		
	For the year ending		For the
	31 December		six months
	2022	2023	ending
	RMB'000	RMB'000	30 June
			2024
			RMB'000
(a) Provision of technology development, processing, testing and assembling services and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties			
Proposed cap	225,812	251,084	146,650
(b) Sale of products and provision of technology development services			
Proposed cap	327,281	409,587	225,558
(a) <i>Provision of technology development, processing, testing and assembling services by the CEC Group and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group</i>			

According to the Management, the above proposed revised caps for the consideration payable by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group are determined based on (i) the historical transaction amounts, especially the transaction amount for the seven months ended 31 July 2022; (ii) the expected growing demand of the Group for the provision of technology development, processing, testing and assembling services by the CEC Group in the forthcoming years; (iii) the expected growing demand of the Group for the raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group in the forthcoming years; (iv) the expected market rate for such technology development, processing, testing and assembling services in the forthcoming years; and (v) the expected market price for such raw materials, integrated circuit modules, softwares, equipments and intellectual properties in the forthcoming years.

LETTER FROM ALTUS CAPITAL

In assessing the fairness and reasonableness of the proposed revised caps for the consideration payable by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group, we have considered the following:

- (i) the actual consideration payable by the Group for the seven months ended 31 July 2022;
- (ii) the expected amount to be required by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group by reference to the expected sales of products and provision of technology development services of the Group for the six months ending 31 December 2022;
- (iii) the expected amount to be required by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group by reference to the expected sales of products and provision of technology development services of the Group for the year ending 31 December 2023; and
- (iv) the expected amount to be required by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group by reference to the expected sales of products and provision of technology development services of the Group for the six months ending 30 June 2024.

Separately, we noted that the average unit market rates and market prices of services or raw materials and processing costs payable by the Group to the CEC Group had increased by 30% (partly due to the upsurge in the market prices or rates for raw materials and processing costs of integrated circuit chips arising from the shortage of integrated circuits production capacity and partly due to the complexity of the products) on a year-on-year basis between 2021 and 2022 and is expected to remain high in the near term.

LETTER FROM ALTUS CAPITAL

We also noted that (i) the proposed revised cap of RMB225,812,000 for the year ending 31 December 2022 representing an increase of approximately 12.9% as compared to the annualised consideration payable by the Group of approximately RMB200 million for the year ending 31 December 2022, calculated by reference to the actual consideration payable by the Group for the seven months ended 31 July 2022; (ii) the proposed revised cap of RMB251,084,000 for the year ending 31 December 2023, representing an increase of 11.2% as compared to the proposed revised cap of RMB225,812,000 for the year ending 31 December 2022; and (iii) the annualised consideration payable by the Group for the year ending 31 December 2024, calculated by reference to the proposed revised cap payable by the Group for the six months ending 30 June 2024 of RMB146,650,000, representing an increase of 16.8% as compared to the proposed revised cap for the consideration payable to the CEC Group for the year ending 31 December 2023.

As the Group does not involve in the direct manufacturing of the integrated circuit chips itself and the CEC Group has been providing technology development, processing, testing and assembling services for the production of the Group's products and supplying raw materials, integrated circuit modules, softwares, equipments and intellectual properties to the Group for its research and development purposes, the Group intends to strengthen cooperation with the CEC Group on the related production in the next few years to obtain more production capacity support. Hence, we believe the expected sales of the Group as described in the paragraph headed "3(ii) Proposed revised caps - (b) Sale of products and provision of technology development services to the CEC Group" below will provide a fair and reasonable ground for the Group to derive the expected amount to be required by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group.

We further noted that the abovementioned percentage increase of the proposed revised caps for the provision of services by the CEC Group also correlates with the percentage increase of the expected sales of products and provision of technology development services by the Group as described in the paragraph headed "3(ii) Proposed revised caps - (b) Sales of products and provision of technology development services to the CEC Group" below.

Taking into account the above, we are of the view that the proposed revised caps for the consideration payable to the CEC Group for the years ending 31 December 2022 and 2023 of RMB225,812,000 and RMB251,084,000 and for the six months ending 30 June 2024 of RMB146,650,000 respectively are fair and reasonable.

LETTER FROM ALTUS CAPITAL

(b) Sale of products and provision of technology development services to the CEC Group

As discussed with the Management, the proposed revised caps for the consideration receivable by the Group for the sale of products and provision of technology development services to the CEC Group is determined based on (i) the historical transaction amounts, especially the transaction amount for the seven months ended 31 July 2022; (ii) the expected growing demand of the Group's products and technology development services by the CEC Group in the forthcoming years; and (iii) the expected market price or rate for such products and technology development services in the forthcoming years.

In assessing the fairness and reasonableness of the proposed revised caps for the consideration receivable by the Group for the sale of products and provision of technology development services to the CEC Group, we have considered the following:

- (i) the actual consideration receivable by the Group for the seven months ended 31 July 2022;
- (ii) the expected sales of products and provision of technology development services of the Group to the CEC Group for the six months ending 31 December 2022; and
- (iii) the historical transactions amount of the customers of the Group.

We observed from the historical transactions of the Group that (i) it had been successful in expanding its customers base and enriching its product portfolio; and (ii) the actual consideration receivable by the Group for the seven months ended 31 July 2022 already represented an increase of 71.2% as compared to the total consideration receivable by the Group of RMB85,342,000 for the year ended 31 December 2021 due to (i) the upsurge of the market prices of the integrated circuit chips as a result of the shortage of integrated circuits production capacity and (ii) the enrichment of the products portfolio of the Group to cater for the rapid development of 5G and Internet of Things markets.

Separately, we have randomly selected 3 major connected customers of the Group (the aggregate transaction amount accounted for approximately 90% of the total sales of products and provision of technology development services to connected customers for the six months ended 30 June 2022) and reviewed their projected orders for the six months ending 31 December 2022 and the six months ending 30 June 2023 of the Group. As the aggregate transaction amount of the abovementioned major connected customers of the Group accounted for the majority of the total sales of products and provision of technology development services to connected customers for the six months ended 30 June 2022, we believe their historical transaction amount forms a fair and reasonable ground to project the expected sales of products and provision of technology development services for the year ending 31 December 2022.

LETTER FROM ALTUS CAPITAL

We noted that the projected orders (in terms of quantity) from these 3 major connected customers have either maintained or increased by 15% to 50% on a period-on-period basis between the six months ending 31 December 2022 and the six months ending 30 June 2023 due to the successful enrichment of the products portfolio of the Group (in particular, in areas such as, secure element chips and secure microcontroller unit chips for the Internet of Things market). As the expected sales of products and provision of technology development services to the CEC Group for the six months ending 31 December 2022 and the year ending 31 December 2023 are determined by reference to the historical transaction amounts as well as supported by certain customers' non-binding indicative orders for the six months ending 31 December 2022 and for the six months ending 30 June 2023 respectively, we believe that the information gathered is sufficient to enable the Group to form a fair and reasonable ground to project the expected sales of products and provision of technology development services for the six months ending 31 December 2022 and the year ending 31 December 2023 respectively.

We also noted that of the proposed revised cap of RMB327,281,000 for the year ending 31 December 2022, 82.2% of the existing cap of RMB177,700,000 for the year ending 31 December 2022 had already been utilised in the first seven months ended 31 July 2022, and the majority of the incremental amount of approximately RMB150 million (i.e. the difference between the proposed revised cap of RMB327,281,000 for the year ending 31 December 2022 and the existing cap of RMB177,700,000 for the year ending 31 December 2022) is supported by the projected sales of products and provision of technology development services to the abovementioned 3 major connected customers for the six months ending 31 December 2022, which in turn is reasonable.

Taking into account the above, we are of the view that the proposed revised cap for the projected sales of products and provision of technology development services to the CEC Group for the year ending 31 December 2022 of RMB327,281,000 is fair and reasonable.

In addition, we noted that there is growing demand of sales and purchases of products and services in relation to semiconductor industry due to:

- (i) further advancement of the application of domestic-made integrated circuits and the application of the state cryptographic algorithm, as well as the rapid development of the 5G and Internet of Things in the PRC¹; and

¹This is supported by the PRC's "14th Five-Year Plan" for the integrated circuit chips market development, which amongst others, encouraged the development of domestic production of integrated circuit chips and to accelerate the development and implementation of 5G network and new infrastructure in the PRC.

LETTER FROM ALTUS CAPITAL

- (ii) several favourable government policy, including but not limited to, the 《新時期促進集成電路產業和軟件產業高質量發展的若干政策》 (Several Policies to Promote the High-quality Development of the IC Industry and the Software Industry in the New Era), 《關於做好2022年享受稅收優惠政策的集成電路企業或項目、軟件企業清單制定工作有關要求的通知》 (Notice on the Requirements for the Preparation of List of Integrated Circuit Enterprises or Projects and Software Enterprises Eligible for Preferential Tax Policies) published by the State Council of the PRC to facilitate the growth of the integrated circuit industry; and
- (iii) other complementary government policy, including but not limited to, the 《物聯網新型基礎設施建設三年行動計劃 (2021-2023年) 》 (Three-Year Action Plan (2021-2023) for the Construction of New Types of Infrastructure for the Internet of Things), 《5G應用“揚帆”行動計劃 (2021-2023年) 》 (“Set Sail” Action Plan for 5G Applications (2021-2023)) published by the State Council of the PRC to facilitate the growth of 5G network and Internet of Things in the PRC.

Taking into account (i) the proposed revised cap for the year ending 31 December 2022 of RMB327,281,000 (as the historical reference for the proposed revised cap for the year ending 31 December 2023); (ii) of the proposed revised cap for the year ending 31 December 2023 of RMB409,587,000, the majority of the incremental amount of approximately RMB80 million (i.e. the difference between the proposed revised cap for the year ending 31 December 2023 of RMB409,587,000 and the proposed revised cap for the year ending 31 December 2022 of RMB327,281,000) is supported by the projected sales of products and provision of technology development services to the abovementioned 3 major connected customers for the six months ending 30 June 2023, which is reasonable; and (iii) the abovementioned reasons for the continual growing demand of sales and purchases of products and services in relation to semiconductor industry (which the Group had been successful in enriching its product portfolio), we are of the view that the proposed revised cap for the projected sales of products and provision of technology development services to the CEC Group for the year ending 31 December 2023 of RMB409,587,000 is fair and reasonable.

Furthermore, (i) with reference to the proposed revised cap for the year ending 31 December 2023 of RMB409,587,000 (as the historical reference for the proposed revised cap for the six months ending 30 June 2024); (ii) with the emerging areas of applications for the 5G and Internet of Things sector are expected to be on the rise, the market demand for these type of products will continue to grow in the near term, the annualised consideration receivable by the Group for the year ending 31 December 2024 calculated by reference to the proposed revised cap receivable by the Group for the six months ending 30 June 2024 of RMB225,558,000, representing an increase of 10.1% as compared to the proposed revised cap receivable by the Group for the year ending 31 December 2023 of RMB409,587,000 is a prudent estimation. Accordingly, we believe the proposed revised cap for the projected sales of products and provision of technology development services to the CEC Group for the six months ending 30 June 2024 of RMB225,558,000 as fair and reasonable.

LETTER FROM ALTUS CAPITAL

Taking into account the above analysis, we are of the view that the proposed revised caps for (i) the provision of technology development, processing, testing and assembling services by the CEC Group and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group; and (ii) the sales of products and provision of technology development services to the CEC Group, for the years ending 31 December 2022 and 2023 and the six months ending 30 June 2024 with regard to the transactions contemplated under the First Supplemental 2021 Business Services Agreement are fair and reasonable.

RECOMMENDATIONS

Having considered the above principal factors and reasons, we are of the view that (i) the terms of the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the proposed revised caps) are on normal commercial terms and are fair and reasonable; (ii) the entering into the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the proposed revised caps) is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution approving the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the propose revised 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 over 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.

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, (i) Ms. Liu Jinmei, a non-executive Director, had personal interest (long position) in 197,250 ordinary shares of the Company; and (ii) Mr. Chang Feng, an executive Director, had personal interest (long position) in 28,000 ordinary 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. Xu Haidong, a non-executive Director and the Chairman of the Board, is a director of China Electronics Corporation (BVI) Holdings Company Limited (“CEC (BVI)”) and the chief accountant of Huada Semiconductor Co., Ltd (“Huada Semiconductor”). Ms. Liu Jinmei, a non-executive Director, is the deputy general manageress of Huada Semiconductor. Details of the shareholdings of Huada Semiconductor and CEC (BVI) in the Company are set out in the section 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 2021 (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	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 5% 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 corporation licensed to carry out 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 2021 (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, 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

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, the Board confirmed that there was no material adverse change in the financial or trading position of the Group since 31 December 2021, being 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 17th floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (d) The English text of this circular and form of proxy shall prevail over its Chinese text.

MATERIAL CONTRACT

No contract (not being contracts entered into in the ordinary course of business) has been entered into by a member of the Group within the two years immediately preceding the date of this circular, and is or may be material.

DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.cecht.com.cn) for 14 days from the date of this circular:

- (a) the First Supplemental 2021 Business Services Agreement;
- (b) the 2021 Business Services Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 14 to 15 of this circular;
- (d) the letter from Altus Capital, the text of which is set out on pages 16 to 31 of this circular;
- (e) the written consent referred to in the section headed "Expert and Consent" in this appendix;
and
- (f) 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 Tuesday, 25 October 2022 at 4:00 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as ordinary resolution:

“**THAT** the supplemental agreement dated 9 September 2022 (the “First Supplemental 2021 Business Services Agreement”) 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 continuing connected transactions contemplated thereunder, and the proposed revised caps of the transactions contemplated thereunder be and are hereby approved and confirmed, 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/she considers necessary or expedient to give effect to the First Supplemental 2021 Business 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, 30 September 2022

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

NOTICE OF SGM

Notes:

1. The register of members of the Company will be closed from 20 October 2022 to 25 October 2022, 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, completed transfer form with relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at 17th floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 19 October 2022.
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/her/its proxy to attend and vote on his/her/its behalf. A shareholder who is the holder of two or more shares may appoint more than one proxy to represent him/her/it and vote on his/her/its 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. In light of the continuing risks posed by the coronavirus, the Company strongly advises shareholders of the Company NOT to attend the Meeting in person, and recommends shareholders of the Company to appoint the chairman of the Meeting as his/her/its proxy to vote according to his/her/its indicated voting instructions instead. To safeguard the health and safety of the shareholders of the Company and to prevent the spread of coronavirus, no refreshment or drink will be served at the Meeting. Any person who does not comply with the precautionary measures to be taken at the Meeting, or is subject to any HKSAR Government prescribed quarantine may be denied entry into the meeting venue.
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 17th floor, Far East Finance Centre, 16 Harcourt Road, 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/she/it 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/she/it 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.