
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.

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CHINA ELECTRONICS HUADA TECHNOLOGY COMPANY LIMITED

中國電子華大科技有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 00085)

**CONTINUING CONNECTED TRANSACTION:
2024 BUSINESS SERVICES AGREEMENT;
AND
MAJOR AND CONTINUING CONNECTED TRANSACTION:
2024 FINANCIAL SERVICES AGREEMENT**

**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 Century Room II, Basement 2, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 28 June 2024 at 4:00 p.m. is set out on pages 53 to 54 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 19 to 20 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 21 to 45 of this circular.

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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 (supplemented by the First Supplemental 2021 Business Services Agreement)
“2021 Financial Services Agreement”	the financial services agreement dated 13 April 2021 and entered into between CEC Finance and the Company
“2024 Business Services Agreement”	the business services agreement dated 16 April 2024 and entered into between CEC and the Company
“2024 Financial Services Agreement”	the financial services agreement dated 16 April 2024 and entered into between CEC Finance 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 2024 Business Services Agreement and the 2024 Financial Services Agreement and their respective proposed 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 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 and a subsidiary of CEC

DEFINITIONS

“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 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
“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 2024 Business Services Agreement and the 2024 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than CEC and its associates
“Latest Practicable Date”	5 June 2024, 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)

DEFINITIONS

“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, to approve the 2024 Business Services Agreement and the 2024 Financial Services Agreement and their respective proposed 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:

Chang Feng (*Deputy Chairman and*

Managing Director)

Wang Jian

Independent non-executive Directors:

Chan Kay Cheung

Qiu Hongsheng

Chow Chan Lum

Huang Yaping

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

13 June 2024

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTION:
2024 BUSINESS SERVICES AGREEMENT;
AND
MAJOR AND CONTINUING CONNECTED TRANSACTION:
2024 FINANCIAL SERVICES AGREEMENT**

INTRODUCTION

Reference is made to the announcement of the Company dated 16 April 2024 in relation to, among others, the entering into of (a) the 2024 Business Services Agreement with CEC; and (b) the 2024 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 2024 Business Services Agreement and the 2024 Financial Services Agreement and their respective proposed 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 2024 Business Services Agreement and the 2024 Financial Services Agreement and their respective proposed 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 announcements of the Company dated 13 April 2021 and 9 September 2022 and the circulars of the Company dated 4 June 2021 and 30 September 2022 in relation to, among others, certain continuing connected transactions contemplated under the 2021 Business Services Agreement (supplemented by the First Supplemental 2021 Business Services Agreement) and the 2021 Financial Services Agreement (collectively, the “2021 Agreements”). The 2021 Agreements will expire on 30 June 2024. In light of the Group’s intention to continue entering into transactions of a similar nature from time to time after such expiry date, on 16 April 2024 (after trading hours), (i) the Company entered into the 2024 Business Services Agreement with CEC; and (ii) the Company entered into the 2024 Financial Services Agreement with CEC Finance.

Details of the 2024 Business Services Agreement and the 2024 Financial Services Agreement are set out below:

2024 BUSINESS SERVICES AGREEMENT

Date: 16 April 2024 (after trading hours)

Parties: CEC and the Company

Term: 1 July 2024 to 30 June 2027

Transaction nature

Details of the transactions contemplated under the 2024 Business Services Agreement are as follows:

- (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**

The CEC Group will provide technology development, processing, testing and assembling services to the Group for the production of products such as integrated circuit chips, modules and cards on a non-exclusive basis.

The Group will also purchase raw materials, integrated circuit modules, softwares, equipments and intellectual properties for research and development purposes from the CEC Group on a non-exclusive basis.

LETTER FROM THE BOARD

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

The Group will sell products such as integrated circuit chips, modules, cards and technological licenses, and provide technology development services to the CEC Group on a non-exclusive basis.

Members of the CEC Group shall enter into separate agreement with members of the Group, which shall set out specific terms and conditions pursuant to the principles and conditions provided in the 2024 Business Services Agreement.

Whilst certain products and services to be sold or provided between the Group and the CEC Group may appear to be similar in nature, these products and services are complementary instead of overlapping. As a fabless semiconductor group (a semiconductor group without a production line), the Group is principally engaged in the design of integrated circuit chips and sells products such as integrated circuit chips, modules, cards and technological licenses, and provides technology development services whereas CEC is a nationwide electronics and information technology conglomerate. The Group may need to purchase integrated circuit modules from certain members of the CEC Group for its research and development purposes and may sell products such as integrated circuit modules to the other members of the CEC Group. Similarly, the Group may need the provision of technology development services from certain members of the CEC Group for its production and may provide technology development services to the other members of the CEC Group.

Pricing basis

Pursuant to the 2024 Business Services Agreement, the consideration payable and receivable by the Group shall be subject to the provisions of the 2024 Business Services Agreement and the price as set out in the separate agreements to be entered into between members of the Group and members of the CEC Group, which shall be based on normal commercial terms and on terms that are fair and reasonable. The consideration payable and receivable by the Group shall be determined by a pricing mechanism with reference to the market price at the time of entering into of the separate agreements for same or similar products or services. The aforesaid “market price” represents the price at which same or similar product or service provided to or received from independent third parties in the same or nearby areas in the ordinary and usual course of business.

The consideration payable and receivable by the Group under the 2024 Business Services Agreement will be settled in cash and in accordance with the specific terms of the separate agreements to be entered into between members of the Group and members of the CEC Group.

LETTER FROM THE BOARD

Historical transaction amounts

Type of transaction	Year ended 31 December		Four months ended
	2022	2023	30 April
	(RMB'000)	(RMB'000)	2024 (RMB'000)
Provision of technology development, processing, testing and assembling services and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties			
– consideration payable by the Group	145,115	94,675	32,772
Sale of products and provision of technology development services			
– consideration receivable by the Group	155,750	270,340	91,434
Existing caps			
Type of transaction	Year ended 31 December		Six months ending
	2022	2023	30 June
	(RMB'000)	(RMB'000)	2024 (RMB'000)
Provision of technology development, processing, testing and assembling services and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties			
– consideration payable by the Group	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

LETTER FROM THE BOARD

Based on the historical transaction amounts and the existing caps (as revised by the First Supplemental 2021 Business Services Agreement), the utilisation rates of the existing caps were (i) 64.3% and 37.7% for the year ended 31 December 2022 and 2023 respectively for the purchase of products and services from the CEC Group; and (ii) 47.6% and 66.0% for the year ended 31 December 2022 and 2023 respectively for the sale of products and services to the CEC Group. The under-utilisation of the existing caps was due to the following reasons:

Provision of technology development, processing, testing and assembling services and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties

For the year ended 31 December 2022, demand in the global integrated circuits market grew steadily, whilst domestic production capacity remained insufficient. Although the Group has an established business relationship with the CEC Group and had been successful to secure certain production capacity from the CEC Group, the production output was still limited by the production capacity of upstream independent third party suppliers, which in turn, affected the purchase of products and services from the CEC Group for the year ended 31 December 2022.

For the year ended 31 December 2023, domestic supply and demand relationship began to reverse in the integrated circuit chips market with intensified industry competition and selling price of smart card chips began to gradually decline, the market demand dropped rapidly. Consequently, the Group adjusted its production, supply and marketing plan, and reduced the purchase of products and services from the CEC Group and further lowered the purchase of products and services from the CEC Group for the year ended 31 December 2023.

Sale of products and provision of technology development services

For the year ended 31 December 2022, although market demand was huge, insufficient availability of supply due to insufficient production capacity as mentioned above has resulted in only achieving a utilisation rate of 47.6%.

For the year ended 31 December 2023, domestic production capacity was sufficient, market competition has become more intense, and selling price of smart card chips has continued to decline. Faced with competitive pressure and challenges, the Group adjusted its sales strategies and actively explored potential markets. As a result, the Group achieved a utilisation rate of 66.0%.

LETTER FROM THE BOARD

Proposed caps

It is expected that for the six months ending 31 December 2024, each of the years ending 31 December 2025 and 2026 and the six months ending 30 June 2027, 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 such amounts have been set as the proposed caps for the relevant continuing connected transactions contemplated under the 2024 Business Services Agreement.

Type of transaction	Six months ending 31 December 2024 (RMB'000)	Year ending 31 December		Six months ending 30 June 2027 (RMB'000)
		2025 (RMB'000)	2026 (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	107,000	239,000	269,000	155,000
Sale of products and provision of technology development services				
– consideration receivable by the Group	168,000	402,000	478,000	264,000

The above 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; (ii) the expected 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 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; (v) the expected market price for such raw materials, integrated circuit modules, softwares, equipments and intellectual properties in the forthcoming years; and (vi) the expectation on the Group's overall business development.

The above 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 and their increasing trend; (ii) the expected demand of the Group's products and technology development services by the CEC Group in the forthcoming years; (iii) the expected market price or rate for such products and technology development services in the forthcoming years; and (iv) the expectation on the Group's overall business development.

LETTER FROM THE BOARD

The Board believes that in view of the extensive application demand in Mainland China's integrated circuit chips market, coupled with the rising demand for secure element chips in industries such as intelligent connected vehicles and smart manufacturing, the demand for secure element chips in some innovative sectors will increase, bringing growth opportunities for the Group's secure element chip business. With the relevant support of macro governmental direction/policy, it is expected that such direction/policy will be able to sustain the demand and the continued growth for more quality and innovative integrated circuit products to support the application areas such as Internet of Things and intelligent connected vehicles in Mainland China.

INTERNAL CONTROL MEASURES FOR DETERMINING THE PRICE AND THE TERMS OF THE TRANSACTIONS CONTEMPLATED UNDER THE 2024 BUSINESS SERVICES AGREEMENT

To ensure that the transactions contemplated under the 2024 Business Services Agreement are conducted on normal commercial terms and on terms that are fair and reasonable, in addition to the annual review by the independent non-executive Directors pursuant to Chapter 14A of the Listing Rules and the annual review by the independent auditor (the "Auditor") of the Company, the Group has adopted the following measures to determine the price and the terms of these transactions.

Before confirming the price 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 purchase department will refer to contemporaneous transactions in similar quantities with two independent third parties of comparable size to determine if the price and the terms offered by the CEC Group are on normal commercial terms and fair and reasonable.

Before confirming the price 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 price and the terms offered to the CEC Group are on normal commercial terms and fair and reasonable.

Given the above, the Board considers that there are appropriate internal controls measures in place to ensure that the transactions contemplated under the 2024 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.

2024 FINANCIAL SERVICES AGREEMENT

Date: 16 April 2024 (after trading hours)

Parties: CEC Finance and the Company

Term: 1 July 2024 to 30 June 2027

LETTER FROM THE BOARD

Transaction nature

Pursuant to the 2024 Financial Services Agreement, the financial services to be provided by CEC Finance to the Group include:

- (a) financial assistances, including but not limited to loans, non-financing letter of guarantee, acceptance and discounting of commercial bills of exchange and factoring of account receivables;
- (b) deposit services, including but not limited to time deposits, call deposits and negotiable deposits; and
- (c) fee-based or commission-based financial services, including but not limited to fund management, agency services and financial consultancy services.

The 2024 Financial Services Agreement does not create any obligation on the part of the Group to utilise any particular services of CEC Finance. The Group may obtain financial services available from any other financial institutions in addition to, or instead of, CEC Finance, as it deems fit. 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 shall enter into separate agreements with members of the Group, which shall set out specific terms and conditions pursuant to the principles and conditions provided in the 2024 Financial Services Agreement.

Pricing basis

Pursuant to the 2024 Financial Services Agreement, the interest payable and receivable by the Group and the consideration payable by the Group for the fee-based or commission-based financial services shall be subject to the provisions of the 2024 Financial Services Agreement and the rate, fee or commission as set out in the separate agreements to be entered into between members of the Group and CEC Finance, which shall be based on normal commercial terms and on terms that are fair and reasonable, and shall be subject to compliance with the relevant rules and regulations of the People's Bank of China and the National Financial Regulatory Administration.

- (i) the interest rate for the financial assistance provided by CEC Finance to the Group will be determined by reference to, and shall not be higher than, the rate offered to the Group by other domestic commercial banks for same type of financial assistance;
- (ii) the interest rate for the deposit placed by the Group with CEC Finance will be determined by reference to, and shall not be less than, the rate offered to the Group by other domestic commercial banks for same type of deposit; and
- (iii) the fee or commission for the fee-based or commission-based financial service provided by CEC Finance to the Group will be determined by reference to, and shall not be higher than, the fee or commission charged by other domestic commercial banks or financial institutions for the same type of financial service.

LETTER FROM THE BOARD

The interest payable on the financial assistances, the interest receivable on the deposits, and the fees and commissions payable for the fee-based or commission-based financial services under the 2024 Financial Services Agreement will be settled in cash and in accordance with the specific terms of the separate agreements to be entered into between members of the Group and CEC Finance.

Historical transaction amounts

Type of transaction	Year ended 31 December		Four months ended
	2022	2023	30 April
	(RMB'000)	(RMB'000)	2024 (RMB'000)
Financial assistances			
– maximum daily balance of financial assistances provided to the Group	97,364	114,655	29,005
Deposit services			
– maximum daily balance of deposits (together with interests accrued thereon) placed by the Group	696,501	690,135	673,494
Fee-based or commission-based financial services			
– consideration payable by the Group	137	122	44

Existing caps

Type of transaction	Year ended 31 December		Six months ending
	2022	2023	30 June
	(RMB'000)	(RMB'000)	2024 (RMB'000)
Financial assistances			
– maximum daily balance of financial assistances provided to the Group	700,000	700,000	700,000
Deposit services			
– maximum daily balance of deposits (together with interests accrued thereon) placed by the Group	700,000	700,000	700,000
Fee-based or commission-based financial services			
– consideration payable by the Group	3,500	3,500	2,000

LETTER FROM THE BOARD

Proposed caps

It is expected that for the six months ending 31 December 2024, each of the years ending 31 December 2025 and 2026 and the six months ending 30 June 2027, the maximum daily balance of the financial assistances and the deposits, and the maximum consideration payable by the Group for the fee-based or commission-based financial services 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 2024 Financial Services Agreement.

Type of transaction	Six months ending 31 December 2024 (RMB'000)	Year ending 31 December		Six months ending 30 June 2027 (RMB'000)
		2025 (RMB'000)	2026 (RMB'000)	
Financial assistances				
– maximum daily balance of financial assistances provided to the Group	700,000	700,000	700,000	700,000
Deposit services				
– maximum daily balance of deposits (together with interests accrued thereon) placed by the Group	700,000	700,000	700,000	700,000
Fee-based or commission-based financial services				
– consideration payable by the Group	1,500	2,500	2,500	1,500

As part of its treasury policy, CEC is prepared to provide financial assistances of the above amounts to the Group through CEC Finance. The proposed caps for the provision of financial assistances by CEC Finance have been determined with reference to the estimated capital and operational needs of the Group, which the Company understands to be the limit proposed by CEC Finance based on its internal assessment on the maximum amount of financial assistances which it may provide to the Group. For any borrower to obtain any financial assistance from any commercial banks or financial institutions, the borrower will usually need to provide securities or collateral with value not less than that of the financial assistance granted. As part of CEC's treasury policy, in return for the financial assistances provided by CEC Finance, the proposed caps for the deposits placed by the Group with CEC Finance are set at a level which is the same as the limit of the financial assistances that could be provided, instead of providing any counter security with value not less than that of the financial assistance to be granted by CEC Finance over the assets of the Group. However, the possibility that financial assistances provided by CEC Finance will need to provide securities or collateral with value not less than that of the financial assistance granted cannot be eliminated.

LETTER FROM THE BOARD

The above caps for the consideration payable by the Group for the provision of fee-based or commission-based financial services by CEC Finance is determined based on (i) the expected demand of the Group for the fee-based or commission-based financial services to be provided by CEC Finance in the forthcoming years; and (ii) the expected market rate for such fee-based or commission-based financial services in the forthcoming years. The above caps for the consideration payable by the Group for the provision of fee-based or commission-based financial services by CEC Finance is arrived at by the aggregation of annual guarantee fee of RMB2,000,000 (0.5% per annum on a RMB400 million loan) and other fee-based or commission-based financial services fee of RMB500,000. The Group recognised a relatively low transaction amounts for each of the years ended 31 December 2022 and 2023 primarily due to the facts that no guarantee services was required from CEC Finance and the scale of other fee-based or commission-based financial services provided was small.

INTERNAL CONTROL MEASURES FOR DETERMINING THE PRICE AND THE TERMS OF TRANSACTIONS CONTEMPLATED UNDER THE 2024 FINANCIAL SERVICES AGREEMENT

To ensure that the transactions contemplated under the 2024 Financial Services Agreement are conducted on normal commercial terms and on terms that are fair and reasonable, in addition to the annual review by the independent non-executive Directors pursuant to Chapter 14A of the Listing Rules and the annual review by the Auditor, the Group has adopted the following measures to determine the price and the terms of these transactions.

Before making a deposit with, seeking financial assistance from or using fee-based or commission-based financial services of 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, and the standard or reference rates and/or fees/commissions (as appropriate) promulgated by the People's Bank of China to determine if the price and the terms offered by CEC Finance are on normal commercial terms and fair and reasonable.

Given the above, the Board considers that there are appropriate internal controls measures in place to ensure that the transactions contemplated under the 2024 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.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2024 BUSINESS SERVICES AGREEMENT AND THE 2024 FINANCIAL SERVICES AGREEMENT

2024 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 smart cards and secure element 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 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. Under the 2021 Business Services Agreement, 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 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 2024 Business Services Agreement are, therefore, vital and integral to the business operations of the Group and meet the requirements of the Group's business layout and overall development. 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.

2024 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 among CEC and its subsidiaries and associates and for improving the fund utilisation efficiency of CEC and its subsidiaries and associates as a whole. CEC Finance is permitted to provide various financial services such as loan services, deposit services and financial consultancy services to CEC and its subsidiaries and associates.

The main reasons and advantages for utilising the financial services provided by CEC Finance are as follows:

- (i) the interest rate on financial assistance and deposit offered by CEC Finance to the Group will be no less favourable than those offered by other domestic commercial banks. The fee or commission for the fee-based or commission-based financial service 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 National Financial Regulatory Administration and provides its services in accordance and in compliance with the rules and operational requirements of these regulatory authorities;

LETTER FROM THE BOARD

- (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 a better and more efficient communication with the Group as compared with other domestic commercial banks or financial institutions; and
- (iv) the 2024 Financial Services Agreement will provide the Group with the right and flexibility, which it may choose from different kinds of financial assistances provided by CEC Finance and secure additional and stable financing for the Group's overall development.

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, semiconductor and software sectors in the PRC. CEC is the ultimate controlling shareholder of the Company and is indirectly holding 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 National Financial Regulatory Administration. CEC Finance was established for the purpose of enhancing the centralised management of funds among CEC and its subsidiaries and associates and for improving the fund utilisation efficiency of CEC and its subsidiaries and associates as a whole. CEC Finance is a subsidiary of CEC.

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. CEC Finance is a subsidiary of CEC and is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under each of the 2024 Business Services Agreement and the 2024 Financial Services Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the proposed caps of the transactions contemplated under each of the 2024 Business Services Agreement and the 2024 Financial Services Agreement exceed 5%, the entering into of the 2024 Business Services Agreement and the 2024 Financial Services Agreement and the transactions contemplated thereunder are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the proposed caps of the deposit services contemplated under the 2024 Financial Services Agreement exceed 25%, the provision of the deposit services by CEC Finance to the Group will constitute a major transaction of the Company under Chapter 14 of the Listing Rules.

None of the Directors have a material interest in the 2024 Business Services Agreement and/or the 2024 Financial 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.

Whilst certain Directors also hold certain positions in China Electronics Corporation (BVI) Holdings Company Limited ("CEC (BVI)") and Huada Semiconductor Co., Ltd ("Huada Semiconductor"), subsidiaries of CEC, it is noted that these Directors and their respective associates are not parties to the 2024 Business Services Agreement and/or the 2024 Financial Services Agreement and have no personal interests in and will not receive any individual benefits from the 2024 Business Services Agreement and/or the 2024 Financial Services Agreement. As such, these Directors have no material interests in the 2024 Business Services Agreement and/or the 2024 Financial Services Agreement and hence they were not required to abstain from voting on the Board resolutions for considering and approving the same in accordance with the Company's amended and restated bye-laws.

SGM

A notice convening the SGM to be held at Century Room II, Basement 2, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 28 June 2024 at 4:00 p.m. is set out on pages 53 to 54 of this circular. At the SGM, resolutions will be proposed to approve the 2024 Business Services Agreement and the 2024 Financial Services Agreement and their respective proposed 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 resolutions approving the 2024 Business Services Agreement and the 2024 Financial Services Agreement and their respective proposed 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. As at the Latest Practicable Date, CEC is the ultimate controlling shareholder of the Company and CEC and its associates are holding 1,206,180,000 ordinary shares of the Company, representing 59.42% of the issued share capital of the Company.

LETTER FROM THE BOARD

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.

BOOK CLOSURE PERIOD

Shareholders whose names appear on the register of members of the Company at the close of business on 28 June 2024 will be entitled to attend and vote at the SGM. The register of members of the Company will be closed from 25 June 2024 to 28 June 2024 (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 24 June 2024.

RECOMMENDATION

Based on the relevant information disclosed herein, the Board is of the view that (i) the entering into of the 2024 Business Services Agreement and the 2024 Financial 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 2024 Business Services Agreement and the 2024 Financial Services Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable, and (iii) the proposed caps of the transactions contemplated under the 2024 Business Services Agreement and the 2024 Financial Services Agreement are 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 resolutions approving the 2024 Business Services Agreement and the 2024 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder at the SGM.

OTHER 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

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)

13 June 2024

To the Independent Shareholders

Dear Sirs or Madams,

**CONTINUING CONNECTED TRANSACTION:
2024 BUSINESS SERVICES AGREEMENT;
AND
MAJOR AND CONTINUING CONNECTED TRANSACTION:
2024 FINANCIAL SERVICES AGREEMENT**

We refer to the circular of the Company dated 13 June 2024 (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 2024 Business Services Agreement and the 2024 Financial Services Agreement and their respective proposed 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 4 to 18 of the Circular which contains, among others, details of the terms of the 2024 Business Services Agreement and the 2024 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder, the letter from Altus Capital as set out on pages 21 to 45 of the Circular which contains the advice from Altus Capital in respect of the terms of the 2024 Business Services Agreement and the 2024 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder, and the information set out in the appendices thereto.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We, having considered the terms of the 2024 Business Services Agreement and the 2024 Financial Services Agreement and their respective proposed 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 2024 Business Services Agreement and the 2024 Financial 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 2024 Business Services Agreement and the 2024 Financial Services Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable, and (iii) the proposed caps of the transactions contemplated under the 2024 Business Services Agreement and the 2024 Financial Services Agreement are 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 resolutions to be proposed at the SGM in relation to the 2024 Business Services Agreement and the 2024 Financial Services Agreement and their respective proposed caps of the transactions contemplated thereunder, as detailed in the notice of SGM as set out on pages 53 to 54 of the Circular.

Yours faithfully,

Independent Board Committee

Chan Kay Cheung Qiu Hongsheng Chow Chan Lum Huang Yaping

Independent non-executive Directors

LETTER FROM ALTUS CAPITAL

The following is the text of a letter of advice from Altus Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, in respect of the 2024 Business Services Agreement, the 2024 Financial Services Agreement and the respective proposed caps, which has been prepared for the purpose of incorporation in the Circular.

ALTUS 

Altus Capital Limited
21 Wing Wo Street
Central, Hong Kong

13 June 2024

*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:

2024 BUSINESS SERVICES AGREEMENT;

AND

MAJOR AND CONTINUING CONNECTED TRANSACTION:

2024 FINANCIAL 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 2024 Business Services Agreement, the 2024 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 2024 Business Services Agreement, the 2024 Financial Services Agreement, the Continuing Connected Transactions and the Proposed Caps are set out in the “Letter from the Board” contained in the circular dated 13 June 2024 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

LETTER FROM ALTUS CAPITAL

Reference is made to the announcement of the Company dated 16 April 2024. The Company entered into (a) the 2024 Business Services Agreement with CEC, pursuant to which the CEC Group will provide technology development, processing, testing and assembling services to the Group and purchase products such as integrated circuit chips, modules, cards and technological licenses from the Group, whilst the Group will purchase raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group and provide technology development services to the CEC Group, on a non-exclusive basis; and (b) the 2024 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.

As at the Latest Practicable Date, CEC is the ultimate controlling shareholder of the Company indirectly holding approximately 59.42% of the issued share capital of the Company. CEC is therefore a connected person of the Company under the Listing Rules.

As at the Latest Practicable Date, CEC Finance is a subsidiary of CEC and is therefore a connected person of the Company under the Listing Rules.

Accordingly, the transactions contemplated under each of the 2024 Business Services Agreement and the 2024 Financial 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 set out in Rule 14.07 of the Listing Rules in respect of the proposed caps of the transactions contemplated under the 2024 Business Services Agreement and the 2024 Financial Services Agreement exceed 5%, the entering into of the 2024 Business Services Agreement and the 2024 Financial Services Agreement and the transactions contemplated thereunder are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one of more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the proposed caps of the deposit services contemplated under the 2024 Financial Services Agreement exceed 25%, the provision of the deposit services by CEC Finance to the Group will constitute a major transaction of the Company under Chapter 14 of 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, Mr. Chow Chan Lum and Ms. Huang Yaping, has been established to consider the terms of the 2024 Business Services Agreement, the 2024 Financial Services Agreement and the Proposed Caps, and to advise the Independent Shareholders as to (i) whether the 2024 Business Services Agreement and the 2024 Financial Services Agreement and the Continuing Connected Transactions 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) whether the terms of the 2024 Business Services Agreement and the 2024 Financial Services Agreement and the transactions contemplated

LETTER FROM ALTUS CAPITAL

thereunder are on normal commercial terms and are fair and reasonable; (iii) whether the Proposed Caps are fair and reasonable; and (iv) how to vote in respect of the resolutions to be proposed at the SGM in relation to the 2024 Business Services Agreement, the 2024 Financial Services Agreement and the Proposed Caps (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 2024 Business Services Agreement and the 2024 Financial Services Agreement and the Continuing Connected Transactions 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) whether the terms of the 2024 Business Services Agreement, the 2024 Financial Services Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable; (iii) whether the Proposed Caps are fair and reasonable; and (iv) how the Independent Shareholders should vote in respect of the Resolutions in relation to the 2024 Business Services Agreement, the 2024 Financial Services Agreement and the Proposed Caps at the SGM.

We have acted as the independent financial adviser to the Company regarding the continuing connected transaction: revision of the existing caps for the transactions contemplated under the 2021 Business Services Agreement (details of which were set out in the circular of the Company dated 30 September 2022). Saved for the aforesaid transaction, we have not acted as independent financial adviser or financial adviser for the Company’s other transactions 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 2024 Business Services Agreement, the 2024 Financial Services Agreement and the Proposed Caps 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, its controlling shareholder or connected person(s).

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others (i) the 2024 Business Services Agreement and the 2024 Financial Services Agreement; (ii) the 2021 Business Services Agreement, the First Supplemental 2021 Business Services Agreement and the 2021 Financial Services Agreement; (iii) the annual reports of the Company for the years ended 31 December 2022 and 2023 (the “**2022 Annual Report**” and the “**2023 Annual Report**”); (iv) the internal audit reports of the Company for the years ended 31 December 2021, 2022 and 2023; and (v) other information as set out in the Circular.

LETTER FROM ALTUS CAPITAL

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 date of SGM. 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 Group. 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 statement 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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background

a. Principal businesses of the Group, CEC and CEC Finance

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 card and secure element 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 sectors of identity authentication, financial payment, government utilities, telecommunications, Internet of Things and intelligent connected vehicles.

LETTER FROM ALTUS CAPITAL

CEC, 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 electronic products, semiconductor and software sectors in the PRC.

CEC Finance is a non-banking financial institution approved and regulated by the People's Bank of China ("PBOC") and the National Financial Regulatory Administration ("NFRA"). CEC Finance was established for the purpose of enhancing the centralised management of funds among CEC and its subsidiaries and associates and for improving the fund utilisation efficiency of CEC and its subsidiaries and associates as a whole. CEC Finance is a subsidiary of CEC.

b. The previous business services agreements and previous financial services agreements

Due to the optimality of transactions between the Group and the CEC Group, and to enhance the competitiveness of the Group, the Company entered into business services agreements with CEC and financial services agreements with CEC Finance for over 10 years with consecutive renewals. The most recent agreements are the 2021 Business Services Agreement (supplemented by the First Supplemental 2021 Business Services Agreement) and the 2021 Financial Services Agreement.

As both agreements will expire on 30 June 2024, the Company entered into the 2024 Business Services Agreement with CEC and the 2024 Financial Services Agreement with CEC Finance on 16 April 2024. Subject to the approval by the Independent Shareholders at the SGM, the 2024 Business Services Agreement and the 2024 Financial Services Agreement are expected to take effect from 1 July 2024 until 30 June 2027.

2. The 2024 Business Services Agreement

The services to be provided under the 2024 Business Services Agreement are substantially the same as those prescribed in the 2021 Business Services Agreement.

Details of the transactions contemplated under the 2024 Business Services Agreement are as follows:

- (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

The CEC Group will provide technology development, processing, testing and assembling services to the Group for the production of products such as integrated circuit chips, modules and cards on a non-exclusive basis.

LETTER FROM ALTUS CAPITAL

The Group will also purchase raw materials, integrated circuit modules, softwares, equipments and intellectual properties for research and development purposes from the CEC Group on a non-exclusive basis.

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

The Group will sell products such as integrated circuit chips, modules, cards and technological licenses, and provide technology development services to the CEC Group on a non-exclusive basis.

To access the fairness and reasonableness of the 2024 Business Services Agreement, we have considered the followings:

a. Terms of the 2024 Business Services Agreement

- (i) The transactions thereunder shall be based on normal commercial terms and on terms that are fair and reasonable.
- (ii) The consideration payable and receivable by the Group shall be determined by a pricing mechanism with reference to the market price at the time of entering into of the separate agreements for same or similar products or services. The aforesaid “market price” represents the price at which same or similar product or service provided to or received from independent third parties in the same or nearby areas in the ordinary and usual course of business.

We understand that the Group has established certain internal control measures to monitor the implementation of pricing mechanism of the transactions contemplated under the 2024 Business Services Agreement including (i) making reference to relevant market information; and (ii) comparing the purchase prices and the selling prices with independent third parties to ensure the pricings and the terms offered by the CEC Group are fair and reasonable.

Having reviewed the Group’s internal control measures and samples of invoices randomly selected covering each of the sale and purchase of products and services throughout the period of the 2021 Business Services Agreement (as further elaborated in the paragraph headed “2b. Internal control measures for determining the price and the terms of the transactions contemplated thereunder” below), we noted the Group’s internal control measures have been adhered to. In addition, we have obtained and reviewed three internal audit reports of the Company covering continuing connected transactions under the 2021 Business Services Agreement, which concluded the Group’s internal control measures are sufficient and effective. For further details of the Group’s internal control measures, please refer to the paragraph headed “2b. Internal control measures for determining the price and the terms of the transactions contemplated thereunder” below. As such, we believe there exist measures to ensure transactions contemplated under the 2024 Business Services Agreement will be continuously carried out on normal commercial terms and with reference to the prevailing market price and accordingly, fair and reasonable.

LETTER FROM ALTUS CAPITAL

- (iii) The transactions thereunder shall be conducted on a non-exclusive basis.

As the transactions will be conducted on a non-exclusive basis, the Management believes and we concur that the Group will have the flexibility to opt for other service providers if terms are more favourable than those offered by the CEC Group.

- (iv) The consideration payable and receivable by the Group will be settled in cash and in accordance with the specific terms of the separate agreements to be entered into between members of the Group and members of the CEC Group.

Such arrangement has been consistently applied since the business services agreement was first entered into.

In light of the above, we are of the view that the terms of the 2024 Business Services Agreement are fair and reasonable.

b. Internal control measures for determining the price and the terms of the transactions contemplated thereunder

We have reviewed three internal audit reports of the Company covering continuing connected transactions under the 2021 Business Services Agreement for the years ended 31 December 2021, 2022 and 2023, respectively, and set out below our understanding from the Management of the relevant internal control measures.

It is noted that prior to confirming the price 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 purchase department will refer to contemporaneous transactions in similar quantities with two independent third parties of comparable size to determine if the price and the terms offered by the CEC Group are fair and reasonable.

It is also noted that prior to confirming the price of sale of products and provision of technology development services to the CEC Group, the sales centre will refer to previous transactions with independent third parties in respect of comparable products and quantities within the previous three months, any market information available, and the general market price of such product in the current quarter to determine if the price and the terms offered to the CEC Group are on normal commercial terms and are fair and reasonable.

LETTER FROM ALTUS CAPITAL

In addition, the 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 2024 Business Services Agreement with reference to the audit department (the “**Internal Audit Department**”) of the Company’s conclusion on the review of such continuing connected transactions and the internal control measures, 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.

As mentioned in the paragraph headed “2a. Terms of the 2024 Business Services Agreement” above, we have obtained and reviewed (i) the relevant internal control policies; and (ii) a total of 60 samples of the Group’s transactions with the CEC Group under the 2021 Business Services Agreement, which are selected based on (a) top five transactions of each of the purchase and sale of products/services from/to the CEC Group for each of the years ended 31 December 2021, 2022 and 2023; and (b) an additional five randomly selected transactions from different intervals in the same financial years of each of the purchase and sale of products/services from/to the CEC Group respectively. Considering the samples obtained and reviewed cover the period of the 2021 Business Services Agreement, we believe (i) the pricing mechanism had been adhered to; and (ii) the terms of the transactions with the CEC Group were fair and reasonable.

c. Reasons for and benefits of entering into the 2024 Business Services Agreement

With reference to the paragraph headed “1a. Principal businesses of the Group, CEC and CEC Finance” in this letter, the Group is principally engaged in the business of design and sale of integrated circuit chips. In its ordinary and usual course of business, the Group has a demand for (i) raw materials, integrated circuit modules, softwares, equipments and intellectual properties for its research and development purpose; and (ii) technology development, processing, testing and assembling services for the production of the Group’s products whilst the CEC Group specialises in providing the aforesaid products and services. Meanwhile, the selling of the Group’s products such as integrated circuits chips and provision of technology development services are within the ordinary and usual course of business of the Group. Given that the 2024 Business Services Agreement contemplates 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 and the sale of the Group’s products and services to the CEC Group, we consider the transactions contemplated under the 2024 Business Services Agreement are 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.

LETTER FROM ALTUS CAPITAL

We understand from the Management that the raw materials and integrated circuit modules purchased by the Group typically require detailed communication between the Group and the seller. With the long-term business relationship and proven track record in business transactions between the Group and the CEC Group, the products and/or services provided by the CEC Group have been always of high quality with relatively competitive prices. Leveraging on the long-term harmonious business relationship with the CEC Group, by purchasing products and/or services from the CEC Group, the Group can benefit from less communication costs with higher efficiency compared to independent third parties. In addition, the Group's established business relationship with the CEC Group will be able to offer a higher degree of supply chain security for its production of integrated circuit chips in light of the challenging geo-political climate and the possible re-occurrence of the global semiconductor shortage. In view of the past operations convenience and benefits brought to the Group, the continuity of the business relationship with the CEC Group is beneficial to the long-term development of the Group. As such, the Management considers that the provision of products and services by the CEC Group contemplated under the 2024 Business Services Agreement is in the interests of the Company and the Shareholders as a whole.

The Group has been selling integrated circuit chips, modules, cards to the CEC Group for over a decade, during which the CEC Group has brought a stable revenue stream to the Group's revenue and demonstrated its credit-worthiness by settling the invoices of the Group in a timely manner. As the 2021 Business Services Agreement will expire on 30 June 2024, taking into consideration the satisfactory business relationship with the CEC Group, the Management considers that retaining the CEC Group as a customer in relation to the sale of products and services contemplated under the 2024 Business Services Agreement is in the interests of the Company and the Shareholders as a whole.

In view of the above, we concur with the Management's view that the entering into of the 2024 Business Services Agreement is in the interests of the Company and the Shareholders as a whole.

LETTER FROM ALTUS CAPITAL

d. Proposed caps for the 2024 Business Services Agreement

(i) Existing caps and utilisation rates

1. Below is a table setting out (i) each category of continuing connected transactions contemplated under the 2021 Business Services Agreement; (ii) the existing cap approved for the 2021 Business Services Agreement (supplemented by the First Supplemental 2021 Business Services Agreement); and (iii) the historical amount recorded for each of the years ended 31 December 2022 and 2023 respectively.

Type of transaction	Existing annual cap/historical amount recorded	
	Year ended 31 December	
	2022	2023
	RMB'000 <i>Revised (Note)</i>	RMB'000 <i>Revised (Note)</i>
Provision of technology development, processing, testing and assembling services and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties		
Approved cap	225,812	251,084
Consideration payable by the Group	145,115	94,675
Utilisation rate	64.3%	37.7%
Sale of products and provision of technology development services		
Approved cap	327,281	409,587
Consideration receivable by the Group	155,750	270,340
Utilisation rate	47.6%	66.0%

Note: At the special general meeting of the Company held on 25 October 2022, the revised annual caps under the 2021 Business Services Agreement had been approved by the then independent shareholders of the Company. Details of the revision of the annual caps for the transactions contemplated under the 2021 Business Services Agreement were set out in the circular of the Company dated 30 September 2022.

As shown in the above table, the utilisation rates of the existing annual caps were approximately (i) 64.3% and 37.7% for the years ended 31 December 2022 and 2023 respectively, for the purchase of products and services from the CEC Group; and (ii) 47.6% and 66.0% for the years ended 31 December 2022 and 2023 respectively, for the sale of products and services to the CEC Group.

LETTER FROM ALTUS CAPITAL

2. Reasons for the under-utilisation of the existing caps

(a) We have discussed with the Management and understood that the under-utilisation of the existing caps for the provision of technology development, processing, testing and assembling services and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group was due to the following reasons:

- For the year ended 31 December 2022, demand in the global integrated circuits market grew steadily, whilst domestic production capacity remained insufficient. Although the Group has an established business relationship with the CEC Group and had been successful to secure certain production capacity from the CEC Group, the production output was still limited by the production capacity of upstream independent third party suppliers, which in turn, affected the purchase of products and services from the CEC Group in 2022.
- For the year ended 31 December 2023, domestic supply and demand relationship began to reverse in the integrated circuit chips market with intensified industry competition and selling price of smart card chips began to gradually decline, the market demand dropped rapidly. Consequently, the Group adjusted its production, supply and marketing plan, and reduced the purchase of products and services from the CEC Group in 2023. As a result, further lowered the purchase of products and services from the CEC Group in 2023.

(b) We have also discussed with the Management and understood that the under-utilisation of the existing caps for the sale of products and provision of technology development services to the CEC Group was due to the following reasons:

- For the year ended 31 December 2022, although market demand was huge, insufficient availability of supply due to insufficient production capacity as mentioned above has resulted in only achieving a utilisation rate of 47.6%.
- For the year ended 31 December 2023, domestic production capacity was sufficient, market competition has become more intense, and selling prices of smart card chip have continued to decline. Faced with competitive pressure and challenges, the Group adjusted its sales strategies and actively explored potential markets. As a result, the Group achieved a utilisation rate of 66.0%.

LETTER FROM ALTUS CAPITAL

(ii) Proposed caps

Type of transaction	For the six months ending 31 December 2024 <i>RMB'000</i>	For the year ending 31 December 2025 2026 <i>RMB'000 RMB'000</i>		For the six months ending 30 June 2027 <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	107,000	239,000	269,000	155,000
Sale of products and provision of technology development services				
Consideration receivable by the Group	168,000	402,000	478,000	264,000

In determining the above proposed caps for the consideration payable by the Group for the provision of technology development, processing, testing and assembling services and the purchases of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group, the Company had taken into consideration (i) the historical transaction amounts; (ii) the expected 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 demand of the Group for 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; (v) the expected market prices for such raw materials, integrated circuit modules, softwares, equipments and intellectual properties in the forthcoming years; and (vi) the expectation on the Group's overall business development.

LETTER FROM ALTUS CAPITAL

In determining the above proposed caps for the consideration receivable by the Group for the sale of products and provision of technology development services to the CEC Group, the Company had taken into consideration (i) the historical transaction amounts and their increasing trend; (ii) the expected demand of the Group's products and technology development services by the CEC Group in the forthcoming years; (iii) the expected market price or rate for such products and technology development services in the forthcoming years; and (iv) the expectation on the Group's overall business development.

To begin with our assessment on the fairness and reasonableness of the proposed caps, we have taken into account the Management's believe that in view of the extensive application demand in Mainland China's integrated circuit chips market, coupled with the rising demand for secure element chips in industries such as intelligent connected vehicles and smart manufacturing, the demand for secure element chips in some innovative sectors will increase, bringing growth opportunities for the Group's secure element chip business. In addition, we have to take into account the macro government direction/policy, namely:

- Premier Li Qiang emphasized in his report on the work of the government (delivered at the Second Session of the 14th National People's Congress of the PRC on 5 March 2024) that the government is striving to modernise the industrial system and develop new quality productive forces at a faster pace; and
- On 7 March 2024, the government announced a policy 《推動大規模設備更新和消費品以舊換新行動方案》¹ to boost consumption by encouraging the public to replace used automobiles, used home appliances and used household durable consumer goods (the estimated value of such goods amount to over RMB1,000 billion) with a goal to complete majority of the replacement by 2027.

In view of the above, we believe such government direction/policy (i) will be able to sustain the demand and the continued growth for more quality and innovative integrated circuit products to support the application areas such as Internet of Things and intelligent connected vehicles in Mainland China and (ii) further supports the Management's abovementioned believe.

¹ https://www.gov.cn/zhengce/content/202403/content_6939232.htm

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Specifically, to assess the fairness and reasonableness of the proposed 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 factors:

- (i) The proposed cap of RMB107 million for the six months ending 31 December 2024 represents a decrease of approximately 27.1% from the cap of RMB146.67 million for the six months ending 30 June 2024 (which was approved by the then independent Shareholders at the special general meeting of the Company held on 25 October 2022);
- (ii) We have reviewed the projections prepared by the Management and noted that among the proposed cap of RMB107 million for the six months ending 31 December 2024, RMB26 million is related to purchase of software licensing from the CEC Group and the balance of RMB81 million is related to provision of technology development, processing, testing and assembling services by the CEC Group;
 - With regards to the purchase of software licensing of RMB26 million from the CEC Group, we have obtained and reviewed the budget prepared by the Management and understood that such amount is estimated by reference to the demand for research and development purpose.
 - As to the provision of technology development, processing, testing and assembling services of RMB81 million by the CEC Group, we have obtained and reviewed the budget prepared by the Management and understood that such amount is estimated by reference to a combination of the following factors:
 - (aa) amount payable by the Group for 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 for the four months ended 30 April 2024 amounted to approximately RMB32.8 million; and

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- (bb) as certain of the existing smart cards and secure element chip products will be replaced by the new generation products, the expected demand for these products (one of the Group's major products) in 2024 will increase by approximately 20% as compared to 2022, which in turn, will give rise to a comparable percentage increase in demand for 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.

In relation to these expected demand, we have reviewed indications obtained from one major independent third party customer who has suggested that its potential plan to order in 2024 will be 20% higher than in 2022.

Based on the four months transaction amount of approximately RMB32.8 million as mentioned above, and a general growth trend supported by the abovementioned (i) government direction/policy and (ii) the expected increase in demand for certain existing smart cards and secure element chip products, the transaction amount of purchase of products and services is projected to be approximately RMB81 million.

In view of the aforesaid factors, we considered the proposed cap of RMB107 million for the six months ending 31 December 2024 to be fair and reasonable.

- (iii) We have reviewed the projections prepared by the Management and noted that:
- The proposed cap of RMB239 million for the year ending 31 December 2025, representing an increase of approximately 11.7% over the amount of RMB214 million (being the annualised amount of the proposed cap of RMB107 million for the six months ending 31 December 2024);
 - The proposed cap of RMB269 million for the year ending 31 December 2026, representing an increase of approximately 12.6% over the proposed cap of RMB239 million for the year ending 31 December 2025; and
 - The proposed cap of RMB155 million for the six months ending 30 June 2027, representing an increase of approximately 15.2% over the half of the proposed cap of RMB269 million for the year ending 31 December 2026.

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In view of the support given by the abovementioned government direction/policy, the purchase of software licensing from the CEC Group and the expected increase in demand for certain existing smart cards and secure element chip products due to replacement purpose by the new generation products, we are of the view that the proposed caps for the consideration payable to the CEC Group for the six months ending 31 December 2024 of RMB107 million, for the years ending 31 December 2025 and 2026 of RMB239 million and RMB269 million and for the six months ending 30 June 2027 of RMB155 million respectively to be fair and reasonable.

Separately, to assess the fairness and reasonableness of the proposed caps for the consideration receivable by the Group in relation to the sale of products and provision of technology development services to the CEC Group, we have considered the following factors:

- (i) The consideration received or receivable from the CEC Group for the sale of products and provision of technology development services by the Group for the years ended 31 December 2022 and 2023 respectively;
- (ii) The consideration received or receivable from the CEC Group for the sale of products and provision of technology development services by the Group for the four months ended 30 April 2024 of approximately RMB91.4 million;
- (iii) Based on the abovementioned consideration received or receivable of approximately RMB91.4 million and a general growth trend supported by the abovementioned (i) government direction/policy and (ii) a year-on-year 21.6% growth trend of the Group's business (based the Group's revenue of approximately HK\$3,019 million for the year ended 31 December 2023 as compared to approximately HK\$2,483 million for the year ended 31 December 2022), we are of the view that the proposed cap of RMB168 million for the six months ending 31 December 2024 to be fair and reasonable;
- (iv) by way of the same token, we consider the proposed cap:
 - (aa) of RMB402 million for the year ending 31 December 2025, representing an increase of approximately 19.6% (which is within the abovementioned year-on-year growth trend of the Group's business) over the amount of RMB336 million (being the annualised amount of the proposed cap of RMB168 million for the six months ending 31 December 2024);
 - (bb) of RMB478 million for the year ending 31 December 2026, representing an increase of approximately 18.9% (which is within the abovementioned year-on-year growth trend of the Group's business) over the proposed cap of RMB402 million for the year ending 31 December 2025; and

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(cc) of RMB264 million for the six months ending 30 June 2027, representing an increase of approximately 10.5% (which is within the abovementioned year-on-year growth trend of the Group's business) over the half of the proposed cap of RMB478 million for the year ending 31 December 2026,

to be fair and reasonable.

In summary, taking into account the above, we are of the view that the proposed caps for the consideration receivable by the Group for the six months ending 31 December 2024 of RMB168 million, for the years ending 31 December 2025 and 2026 of RMB402 million and RMB478 million and for the six months ending 30 June 2027 of RMB264 million respectively to be fair and reasonable.

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 has remained stable recently. Given the recent domestic integrated circuits production capacity is sufficient, the Management expects and we concur 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 to remain stable going forward.

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 2024 Business Services Agreement are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

3. The 2024 Financial Services Agreement

a. Terms of the 2024 Financial Services Agreement

The services to be provided under the 2024 Financial Services Agreement are substantially the same as those prescribed in the 2021 Financial Services Agreement, which include (i) financial assistances, including but not limited to, loans, non-financing letter of guarantee, acceptance and discounting of commercial bills of exchange and factoring of account receivables; (ii) deposit services, including but not limited to, time deposits, call deposits and negotiable deposits; and (iii) fee-based or commission-based financial services, including but not limited to, fund management, agency services and financial consultancy services.

Pursuant to the 2024 Financial Services Agreement, the interest payable and receivable by the Group and the consideration payable by the Group for the fee-based or commission-based financial services shall be subject to the provisions of the 2024 Financial Services Agreement and the rate, fee or commission as set out in the separate agreements to be entered into between members of the Group and CEC Finance, which shall be based on normal commercial terms and on terms that are fair and reasonable, and shall be subject to compliance with the relevant rules and regulations of the PBOC and the NFRA.

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To access the fairness and reasonableness of the 2024 Financial Services Agreement, we have considered the followings:

- (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 same type of financial assistance;
- (ii) The interest rates for the deposit placed by the Group with CEC Finance will be determined by reference to, and shall not be less than, the rate offered to the Group by other domestic commercial banks for same type of deposit;
- (iii) The fees or commissions for the fee-based or 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 or commissions charged by other domestic commercial banks or financial institutions for same type of financial service;

We understand that the Group has established internal control measures to ensure the pricings and the terms offered by CEC Finance are fair, reasonable and no less favourable than those offered by independent third parties. Having reviewed the Group's internal control measures and samples of invoices randomly selected covering each of the provision of (i) financial assistance; (ii) deposit services; and (iii) fee-based or commission-based financial services throughout the period of the 2021 Financial Services Agreement (as further elaborated in the paragraph headed "3b. Internal control measures for determining the price and the terms of the transactions contemplated thereunder" below), we noted the Group's internal control measures have been adhered to. In addition, we have obtained and reviewed three internal audit reports of the Company covering continuing connected transactions under the 2021 Financial Services Agreement, which concluded the Group's internal control measures are sufficient and effective. For further details of the Group's internal control measures, please refer to the paragraph headed "3b. Internal control measures for determining the price and the terms of the transactions contemplated thereunder" below. As such, we believe there exist measures to ensure the transactions contemplated under the 2024 Financial Services Agreement will be continuously carried out on normal commercial terms and with reference to the prevailing market price or rate and accordingly, fair and reasonable.

- (iv) The 2024 Financial Services Agreement does not create any obligations 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.

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In light of the above, we consider the terms of the 2024 Financial Services Agreement are fair and reasonable.

b. Internal control measures for determining the price and the terms of the transactions contemplated thereunder

We have reviewed three internal audit reports of the Company covering continuing connected transactions under the 2021 Financial Services Agreement for the years ended 31 December 2021, 2022 and 2023, respectively, and set out below our understanding from the Management of the relevant internal control measures.

It is noted that prior to making a deposit with, seeking financial assistance from or using fee-based or 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 PBOC to determine if the price and the terms offered by CEC Finance are on normal commercial terms and fair and reasonable.

In addition, the 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 2024 Financial Services Agreement with reference to the Internal Audit Department's conclusion on the review of such continuing connected transactions and the internal control measures, and the Auditor's confirmation letter regarding these continuing connected transactions issued by the Auditor, and submit their views to the Board.

As mentioned in the paragraph headed "3a. Terms of the 2024 Financial Services Agreement" above, we have obtained and reviewed (i) 3 samples of deposit services, which are selected based on top daily deposit balance for each of the years ended 31 December 2021, 2022 and 2023 respectively; (ii) 3 samples of financial assistance, which are selected based on top daily financial assistance balance for each of the years ended 31 December 2021, 2022 and 2023 respectively; and (iii) 2 samples of fee-based or commission-based financial services for each of the years ended 31 December 2021, 2022 and 2023 respectively. Considering the samples obtained and reviewed cover the period of the 2021 Financial Services Agreement, we believe (i) the pricing mechanism had been adhered to; and (ii) the terms of the transactions with CEC Finance were fair and reasonable.

Taking into account the aforesaid factors, we consider the transactions contemplated under the 2024 Financial Services Agreement will continue be conducted on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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c. Reasons for and benefits of entering into the 2024 Financial Services Agreement

As stated in the paragraph headed “1a. Principal businesses of the Group, CEC and CEC Finance” in this letter, CEC Finance was established for the purpose of enhancing the centralised management of funds among CEC and its subsidiaries and associates and for improving the fund utilisation efficiency of CEC and its subsidiaries and associates 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 provides its services in accordance and in compliance with the rules and operational requirements of PBOC and NFRA, where other commercial banks are also governed by the same regulations. This illustrates that making a deposit with and seeking financial assistance from CEC Finance will not impose extra risks to the Group;
- (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 a better and more efficient communication with the Group as compared with other domestic commercial banks or financial institutions; and
- (iii) The 2024 Financial Services Agreement will enable the Group to flexibly select different kinds of financial assistance provided by CEC Finance and independent third parties to secure additional and stable financing for its overall development. The 2024 Financial Services Agreement will only serve as an additional option for the Group on a non-exclusive basis. The internal control measures of the Group will ensure that the financial services provided by CEC Finance will only be employed when the terms are no less favourable to the Group than that provided by independent third parties.

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 2024 Financial Services Agreement, which provides flexibility to support the Group’s financing and in turn business activities. Given that the Group had obtained such services in the past, to continue to have such access to enhance the Group’s financial stability, we are of the view that such arrangement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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d. Proposed caps for the 2024 Financial Services Agreement

(i) Existing caps and utilisation rates

Below is a table setting out (i) each category of continuing connected transactions contemplated under the 2021 Financial Services Agreement; (ii) the existing cap approved for the 2021 Financial Services Agreement; and (iii) the historical amount recorded for each of the years ended 31 December 2022 and 2023 respectively.

Type of transaction	Existing annual cap/historical amount recorded	
	Year ended 31 December	
	2022 RMB'000	2023 RMB'000
Financial assistance		
Maximum daily balance of financial assistance provided to the Group		
Approved cap	700,000	700,000
Maximum daily balance of financial assistance provided to the Group	97,364	114,655
Utilisation rate	13.9%	16.4%
Deposit services		
Maximum daily balance of deposits (together with interests accrued thereon) placed by the Group		
Approved cap	700,000	700,000
Maximum daily balance of deposits (together with interests accrued thereon) placed by the Group	696,501	690,135
Utilisation rate	99.5%	98.6%
Fee-based or commission-based financial services		
Consideration payable by the Group		
Approved cap	3,500	3,500
Consideration payable by the Group	137	122
Utilisation rate	3.9%	3.5%

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As shown in the above table, in relation to the financial assistance provided by CEC Finance, the Group recorded relatively low utilisation rates of approximately 13.9% and 16.4% for the years ended 31 December 2022 and 2023 respectively. In relation to deposit services provided by CEC Finance, the Group had utilised approximately 99.5% and 98.6% of the existing caps for the years ended 31 December 2022 and 2023 respectively. In relation to the fee-based or commission-based financial services provided by CEC Finance, the consideration payable by the Group to CEC Finance were RMB137,000 and RMB122,000 for the years ended 31 December 2022 and 2023 respectively, representing utilisation rates of approximately 3.9% and 3.5% respectively. In addition, we noted under the section headed “Historical transaction amounts” in the “Letter from the Board”, for the four months ended 30 April 2024, the maximum daily balance of financial assistances provided to the Group was RMB29.0 million (representing a utilisation rate of approximately 4.1% of the existing cap for the six months ending 30 June 2024), the maximum daily balance of deposits (together with interests accrued thereon) placed by the Group was RMB673.5 million (representing a utilisation rate of approximately 96.2% of the existing cap for the six months ending 30 June 2024) and the consideration payable by the Group to CEC Finance in relation to the fee-based or commission-based financial services provided by CEC Finance was RMB44,000 (representing a utilisation rate of approximately 2.2% of the existing cap for the six months ending 30 June 2024).

We noted from the Management that the relatively low utilisation rates in relation to the financial assistance and the fee-based or commission-based financial services provided by CEC Finance was mainly due to (i) the 2021 Financial Services Agreement does not create any obligations on the part of the Group to utilise any particular services of CEC Finance, which only serves as an additional option for the Group when required; and (ii) the fact that the Group has employed short-term financial assistance from a controlling shareholder on normal commercial terms and on an unsecured basis.

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(ii) Proposed caps

Types of transaction	For the six months ending 31 December 2024 <i>RMB'000</i>	For the year ending 31 December 2025 2026 <i>RMB'000 RMB'000</i>		For the six months ending 30 June 2027 <i>RMB'000</i>
Financial assistance				
Maximum daily balance of financial assistance provided to the Group	700,000	700,000	700,000	700,000
Deposit services				
Maximum daily balance of deposits (together with interests accrued thereon) placed by the Group	700,000	700,000	700,000	700,000
Fee-based or commission-based financial services				
Consideration payable by the Group	1,500	2,500	2,500	1,500

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 (e.g. the relatively low utilisation rates of the caps in relation to the financial assistance and the fee-based or commission-based financial services provided by CEC Finance as discussed above) relating to the transactions contemplated under the 2021 Financial Services Agreement relevant to our assessment of the fairness and reasonableness of the proposed caps under the 2024 Financial Services Agreement.

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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 with reference to the estimated capital and operational needs of the Group. We are further advised by the Management that in obtaining financial assistance from any commercial banks or financial institutions, the borrower will typically be required to provide securities or collateral with value not less than that of the financial assistance granted. As part of CEC's treasury policy, in return for the financial assistance provided by CEC Finance, the proposed caps for the deposits placed by the Group with CEC Finance are set at a level which is the same as the limit of financial assistance that could be provided, instead of providing any counter security with value not less than that of the financial assistance to be granted by CEC Finance over the assets of the Group. Given (i) the Group would benefit from the flexibility afforded by the availability of financial assistance and deposit services as mentioned above; (ii) that it is not obligated under the 2024 Financial Services Agreement to utilise such services; and (iii) there exists internal control measures to ensure the Group would only utilise such services when terms are no less favourable to the Group as compared to independent third parties, it is in the Company and the Independent Shareholders' interests to set the proposed caps at the maximum balance CEC Finance is willing to offer.

Fee-based or commission-based financial services

We are advised by the Management that the consideration payable for fee-based or commission-based financial services provided by CEC Finance were determined based on the expected demand of the Group for fee-based or commission-based financial services to be provided by CEC Finance and the expected market rate for such fee-based or commission-based financial services in the forthcoming years. Given the fee-based or commission-based financial services are provided on a non-committed basis, this provides the Group with flexibility and merely an additional option which is beneficial to the Group.

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 2024 Financial Services Agreement are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

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RECOMMENDATIONS

Having considered the above principal factors, we are of the view that (i) the 2024 Business Services Agreement, the 2024 Financial Services Agreement and the Continuing Connected Transactions 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 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 and are 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 Resolutions approving the 2024 Business Services Agreement, the 2024 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
Responsible Officer

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 advisory transactions.

AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR EACH OF THE YEARS ENDED 31 DECEMBER 2021, 2022 AND 2023

Financial information of the Group for each of the years ended 31 December 2021, 2022 and 2023 is disclosed on pages 60 to 143 of the annual report of the Company for the year ended 31 December 2021 published on 28 April 2022, pages 58 to 143 of the annual report of the Company for the year ended 31 December 2022 published on 28 April 2023, and pages 59 to 143 of the annual report of the Company for the year ended 31 December 2023 published on 29 April 2024 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 2021, 2022 and 2023 respectively, are set out below:

- <https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0428/2022042800984.pdf>
- <https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0428/2023042800809.pdf>
- <https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0429/2024042900509.pdf>

INDEBTEDNESS**Borrowings**

At 30 April 2024, being the latest practicable date for the purpose of this statement of indebtedness prior to the date of this circular, the Group had outstanding bank and other borrowings of HK\$495.6 million which were unsecured and unguaranteed. Among these borrowings, (i) HK\$429.5 million were borrowed from a shareholder; and (ii) HK\$66.1 million were borrowed from CEC.

Lease liabilities

The Group measures lease liabilities at the present value of the remaining lease payments to be made over the lease term. At 30 April 2024, the Group has lease liabilities of HK\$56.9 million which were unguaranteed. The Group has paid an aggregate amount of HK\$3.7 million as security deposit under the relevant leases.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any loan capital issued and outstanding or agreed to be issued, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, mortgages, charges, debentures, lease liabilities, obligations under hire purchase contracts or guarantees or other material contingent liabilities at 30 April 2024.

WORKING CAPITAL

Taking into account the financial resources available to the Group, including the internally generated funds and the available committed borrowing facilities, the Board is of the opinion that in the absence of unforeseeable circumstances, the Group has sufficient working capital available for its present requirements, that is for at least the next 12 months from the date of this circular.

The Company has contained the relevant confirmations as required under Rule 14.66(12) of the Listing Rules.

FINANCIAL AND TRADING PROSPECTS

Revenue of the Group for the year ended 31 December 2023 amounted to HK\$3,019.1 million, representing an increase of 21.6% when comparing with last year. Profit attributable to owners of the Company amounted to HK\$686.4 million, representing an increase of 29.2% when comparing with last year.

Looking ahead, global demand for smart cards will continue to be in a downward cycle. 2024 will bring challenges to the Group's operations as competition in the industry intensifies and the selling prices of smart cards and secure element chip products will be on a declining trend. The Group will closely monitor application trend changes in domestic and international markets and flexibly adjust production and sales strategies, so as to provide more diverse and competitive products to better satisfy customers' needs. The Group will also continue to consolidate its leading position in the smart cards sector and strengthen the secure element chips business expansion.

On the other hand, leveraging years of accumulated expertise in smart cards and secure element chips design and application technology, the Group will gradually strengthen its research and development in the sector of secure element chips for the Internet of Things and the intelligent connected vehicles with a market-orientated approach, taking into account the development pace of the Internet of Things and the intelligent connected vehicles applications, and optimise product mix with technological innovation to strive to meet the needs of customers, thereby creating a sustainable future.

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 Huada Semiconductor and CEC (BVI). Mr. Wang Jian, an executive Director, is a director of CEC (BVI) and the secretary to the board of directors, the administrative controller, the director of the board office and the director of the general department of Huada Semiconductor. Ms. Liu Jinmei, a non-executive Director, is the deputy general manageress of Huada Semiconductor. Mr. Chang Feng, an executive Director, is the non-executive deputy general manager 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 2023 (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 of the 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 2023 (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 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 was 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 2023, being the date to which the latest published audited consolidated 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.hkexnews.hk) and the Company's website (www.cecht.com.cn) for a period of 14 days from the date of this circular:

- (a) the 2024 Business Services Agreement;
- (b) the 2024 Financial Services Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 19 to 20 of this circular;
- (d) the letter from Altus Capital, the text of which is set out on pages 21 to 45 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 Century Room II, Basement 2, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 28 June 2024 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 16 April 2024 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 “2024 Business Services Agreement”), and the proposed caps of the transactions contemplated 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 2024 Business Services Agreement and the continuing connected transactions contemplated thereunder.”
2. **“THAT** the continuing connected transactions contemplated under the financial services agreement dated 16 April 2024 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 “2024 Financial Services Agreement”), and the proposed caps of the transactions contemplated 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 2024 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, 13 June 2024

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 2024 to 28 June 2024, 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 24 June 2024.
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 on his behalf. 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 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 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.