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CHINA ELECTRONICS CORPORATION HOLDINGS COMPANY LIMITED
中國電子集團控股有限公司*

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

(Stock Code: 00085)

**MAJOR TRANSACTION AND CONNECTED TRANSACTION
IN RELATION TO
THE ACQUISITION OF A CONTROLLING INTEREST
IN HUAHONG**

**CONTINUING CONNECTED TRANSACTIONS
2015-2018 BUSINESS SERVICES AGREEMENT WITH CEC
AND
2015-2018 FINANCIAL SERVICES AGREEMENT WITH
CEC FINANCE**

The Board is pleased to announce that on 26 June 2015 after trading hours, Huada Electronics has entered into the Huada Semiconductor Agreement, the Individual Vendor Agreement(s) and the Huahong Group Agreement in respect of the Huada Semiconductor Acquisition, the Individual Vendor Acquisition and the Huahong Group Acquisition, respectively.

* For identification purpose only

Incidental to the Huada Semiconductor Acquisition, the Company entered into:

- (a) the 2015-2018 Business Services Agreement with CEC, pursuant to which the CEC Group will provide products processing, testing and assembling services to the Group and purchase integrated circuit cards and smart cards modules and chips from the Group and the Group will purchase raw materials, modules, software and equipment from the CEC Group, on a non-committed and non-exclusive basis. The 2015-2018 Business Services Agreement will, upon taking effect, supersede the 2013-2016 Business Services Agreement.
- (b) the 2015-2018 Financial Services Agreement with CEC Finance, pursuant to which CEC Finance will provide a range of financial services to the Group and the Group will utilise such financial services on a non-exclusive basis. The 2015-2018 Financial Services Agreement will, upon taking effect, supersede the 2013 Financial Services Agreements.

The Acquisition constitutes a major transaction and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules respectively and is subject to the reporting, announcement and independent shareholders' approval requirements.

Upon the completion of the Huada Semiconductor Acquisition, each of the 2015-2018 Business Services Agreement and the 2015-2018 Financial Services Agreement and its respective transactions thereunder will constitute continuing connected transactions of the Company. Each of the 2015-2018 Business Services Agreement and the 2015-2018 Financial Services Agreement and their respective proposed caps for the transactions thereunder are therefore subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors have a material interest in the Acquisition, the Huahong Group Acquisition, the 2015-2018 Business Services Agreement and the 2015-2018 Financial Services Agreement. Accordingly, no Director was required to abstain from voting on the relevant board resolutions.

The SGM will be convened to consider and, if thought fit, to approve (a) the Acquisition and the Huahong Group Acquisition and (b) the 2015-2018 Business Services Agreement and the 2015-2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder. The vote of the Independent Shareholders at the SGM shall be taken by poll and CEC and its associates shall abstain from voting in respect of such ordinary resolutions.

A circular containing, among other things, information on (a) the Acquisition and the Huahong Group Acquisition and (b) the 2015-2018 Business Services Agreement and the 2015-2018 Financial Services Agreement and their respective proposed caps for the transactions thereunder, the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, the recommendation from the Independent Board Committee together with the notice of the SGM will be published and issued by the Company and despatched to the Shareholders.

As at the date of this announcement, given that (i) the parties under the Huahong Group Agreement are still negotiating certain terms for the Huahong Group Acquisition and a supplemental acquisition agreement may be entered into between the parties at a later date; (ii) Huada Electronics may enter into further acquisition agreement(s) to acquire all or some of the Remaining Equity Interest by 31 July 2015 and (iii) the Company would require sufficient time to compile relevant information on Huahong, the Company proposes to despatch the circular on or before 30 September 2015.

The Board is pleased to announce that on 26 June 2015 after trading hours, Huada Electronics has entered into the Huada Semiconductor Agreement, the Individual Vendor Agreement(s) and the Huahong Group Agreement in respect of the Huada Semiconductor Acquisition, the Individual Vendor Acquisition and the Huahong Group Acquisition, respectively.

Incidental to the Huada Semiconductor Acquisition, the Company entered into:

- (a) the 2015-2018 Business Services Agreement with CEC, pursuant to which the CEC Group will provide products processing, testing and assembling services to the Group and purchase integrated circuit cards and smart cards modules and chips from the Group and the Group will purchase raw materials, modules, software and equipment from the CEC Group, on a non-committed and non-exclusive basis. The 2015-2018 Business Services Agreement will, upon taking effect, supersede the 2013-2016 Business Services Agreement.

- (b) the 2015-2018 Financial Services Agreement with CEC Finance, pursuant to which CEC Finance will provide a range of financial services to the Group and the Group will utilise such financial services on a non-exclusive basis. The 2015-2018 Financial Services Agreement will, upon taking effect, supersede the 2013 Financial Services Agreements.

THE ACQUISITION

(1) Huada Semiconductor Agreement

Date:	26 June 2015
Vendor:	Huada Semiconductor
Purchaser:	Huada Electronics
Subject asset:	73.43% of the equity interest of Huahong
Consideration:	RMB550.7 million

(2) Individual Vendor Agreement(s)

Date:	26 June 2015
Vendors:	Individual Vendors ¹
Purchaser:	Huada Electronics
Subject asset:	an aggregate of 9.95% of the equity interest of Huahong
Aggregate consideration:	RMB74.6 million

¹ Each of the Individual Vendors will enter into separate Individual Vendor Agreement with Huada Electronics for the sale of his/her respective equity interest in Huahong.

Consideration

The total aggregate consideration for the Acquisition of RMB625.3 million represents a price to 2014¹ earnings multiples of 13.4 and a price to 2014¹ sales multiples of 1.6 of Huahong, and was determined after arm's length negotiations between the parties to the Acquisition Agreements having regard to the following:

- (i) the price to earnings multiples and the price to sales multiples of companies listed on The Stock Exchange of Hong Kong Limited which are engaged in similar businesses as Huahong;
- (ii) the historical financial performance of Huahong;
- (iii) the business prospect of Huahong; and
- (iv) the potential benefits to the Group after the Completion.

The consideration shall be paid within five business days from the date of Completion.

The Company expects that the consideration will be satisfied in cash from internal resources and borrowing facilities of the Group.

Conditions precedents

The Acquisition Agreements shall not proceed to Completion unless the following conditions precedents have been satisfied or have been waived by Huada Electronics:

- (i) the Company having obtained approval from its Independent Shareholders pursuant to the Listing Rules in respect of the transactions contemplated by the Acquisition Agreements and any continuing connected transactions (as defined in the Listing Rules) arising thereof;
- (ii) the Huada Semiconductor Agreement and the Individual Vendor Agreement(s) having been duly signed by both parties thereto, respectively;

¹. Based on the unaudited financial results of Huahong for the year ended 31 December 2014.

- (iii) Huada Semiconductor and Huada Electronics having completed its internal approval procedures for the transfer of such equity interest and having obtained written internal approvals in relation thereto;
- (iv) the equity transfer having been approved at a shareholders' meeting by more than half of the shareholders of Huahong (excluding Huada Semiconductor and each of the Individual Vendors under the Huada Semiconductor Agreement and the relevant Individual Vendor Agreement(s) (as the case may be), respectively);
- (v) subject to the exercise of pre-emption rights by the Remaining Shareholders, and/or the Remaining Shareholders who have elected not to transfer all, or part of, their equity interests in Huahong, Huada Electronics having the ability to acquire not less than 50% of the equity interest in Huahong;
- (vi) such equity transfer under the Acquisition Agreements having been approved by the relevant department for the supervision and administration of state-owned assets and the filings for the evaluation of state-owned assets having been completed;
- (vii) all other necessary pre-examinations, pre-approvals or filing procedures having been completed in connection with the Acquisition Agreements in the PRC;
- (viii) the equity transfer having been registered with the relevant administration for industry and commerce, and a new business license having been obtained;
- (ix) all statements, representations and warranties being true, accurate and not misleading in any respect at the time of Completion; and
- (x) details of the bank account to which the consideration for the Acquisition shall be paid into having been provided to Huada Electronics.

Completion

Completion shall take place on the fifth business day after the above conditions precedents have been satisfied (or waived by Huada Electronics) and the relevant part(ies) shall ensure:

- (i) the delivery of relevant documents to Huada Electronics confirming that the conditions precedents under the Acquisition Agreements have been satisfied (or waived by Huada Electronics);
- (ii) that Huahong submits a certificate signed by its legal representative on the date of Completion confirming that the conditions precedents under the Acquisition Agreements have been satisfied (or waived by Huada Electronics), and that no material adverse change has occurred as at the date of Completion;
- (iii) that a capital contribution certificate (in the form as prescribed under the PRC laws) signed by the legal representative of Huahong with its company seal affixed thereto be issued to Huada Electronics, stating that Huada Electronics owns 83.38% equity interest in Huahong (subject to the exercise of pre-emption rights by relevant shareholders of Huahong under the Huada Semiconductor Agreement or relevant Individual Vendor Agreement(s), respectively); and
- (iv) that Huada Electronics be entered in the register of members of Huahong as the legal and beneficial owner of the 83.38% equity interest of Huahong, and that a copy of the revised register of members be provided to Huada Electronics.

Upon completion of the Huada Semiconductor Acquisition, Huahong will become a subsidiary of the Company and the assets, liabilities and financial results of Huahong will be consolidated into the consolidated financial statements of the Company.

HUAHONG GROUP AGREEMENT

Huada Electronics has also entered into the Huahong Group Agreement with Huahong Group pursuant to which Huahong Group has agreed to sell its 7.62% equity interest in Huahong to Huada Electronics.

Date: 26 June 2015

Vendor: Huahong Group

Purchaser: Huada Electronics

Subject asset: 7.62% of the equity interest of Huahong

The amount of consideration offered by Huada Electronics shall be determined by reference to the consideration payable under the Huada Semiconductor Agreement and each of the Individual Vendor Agreement(s).

The Huahong Group Agreement shall take effect upon each party having obtained approvals at its respective board meetings, shareholder meetings and other relevant competent authorities and upon the completion of relevant filings (if required).

Huahong Group will actively procure the approval (i) at its board meetings, shareholder meetings of, and (ii) by the relevant competent authorities of, including the completion of the relevant filings (if required) under, the Huahong Group Acquisition.

The parties under the Huahong Group Agreement may enter into a supplemental acquisition agreement to determine certain terms including, among other things, the amount of consideration, conditions precedent and the terms of completion for the Huahong Group Acquisition. The Huahong Group Agreement will be terminated if the parties are unable to reach agreement within one year after the date of signing of the agreement.

The Company will make a further announcement if Huada Electronics has entered into a supplemental acquisition agreement.

OFFER TO PURCHASE THE REMAINING EQUITY INTEREST

As the Company intends to acquire the entire equity interest of Huahong, Huada Electronics has issued an offer letter to each of the Remaining Shareholders on 26 June 2015 under which Huada Electronics has offered to purchase the Remaining Equity Interest at the same price as agreed under the Acquisition Agreements. The Remaining Shareholders must elect to sell any Remaining Equity Interest to Huada Electronics by 25 July 2015. Such Remaining Shareholders, if they so elect, shall enter into separate acquisition agreement(s) with Huada Electronics containing similar terms as the Acquisition Agreements for the sale of their respective Remaining Equity Interest by 31 July 2015.

The Company will issue a further announcement if Huada Electronics has entered into further acquisition agreement(s) to acquire all or some of the Remaining Equity Interest after the date of this announcement.

INFORMATION ON HUAHONG

Overview

Established in 1998 and under the laws of the PRC, Huahong is an industrial leader in the design of the integrated circuit sector in the PRC. It has a comprehensive domestic smart card product line, with technology focusing on the design and system development of contact, contactless and dual-interface integrated circuit chips, which are widely used in sectors such as social security (social security cards), telecommunications (SIM cards), public transport (public transport cards), identity authentication (identity cards and residence permits), electronic travel documents (electronic passports) and financial security (bank cards). Huahong also focuses on providing customers with system solutions to address their business and operational challenges. In recent years, Huahong launched a series of solutions including the public transport one-card pass solution, residence permit solution, Shanghai World Expo ticketing solution, commercial encryption access control system solution, and multi-applications financial solution. These solutions embrace the technical elements of application software, key management system and encrypted integrated circuit chips to form the application-oriented and customer-oriented solutions that enhance the efficiency and security of supply chains, transactions and the authentication of goods and people.

Huahong emphasises original innovation and integrated innovation capabilities, and attaches great importance to scientific discovery and technology invention. Over the years, Huahong has obtained 165 patents, 55 registered integrated circuit layout designs and 21 computer software copyrights through its independent innovation development strategy.

In November 2013, one of the dual-interface integrated circuit chips for security control independently researched and developed by Huahong, was accredited with the Common Criteria Evaluation Assurance Level 4+ Certificate (an international standard for security certification). In the following year, Huahong was also accredited with the EMVCo certificate (security certification). Huahong became the only integrated circuit chip design company in the PRC which was accredited with both certifications. In addition, such dual-interface integrated circuit chip was certified by the State Cryptography Administration Office of Security Commercial Code, PRC, and was accredited with the full qualification certificate by UnionPay, a bank card association established under the approval of the State Council of the PRC and the PBOC. Huahong is the sole PRC supplier of bank cards (at state secret level) for the Industrial and Commercial Bank of China Limited and one of the PRC suppliers of bank cards (at state secret level) for the China Construction Bank Corporation. Huahong is now well positioned to tap into the domestic market where over 90% of the integrated circuit chips for bank cards are imported from overseas.

Mr. Dong Haoran, Mr. Wang Liqiang, Mr. Ma Yuchuan, Mr. Xiang Xiang and Mr. Li Rongxin are currently directors of Huahong. Mr. Dong Haoran is a director of the Company and the general manager of Huada Semiconductor.

Financial information on Huahong

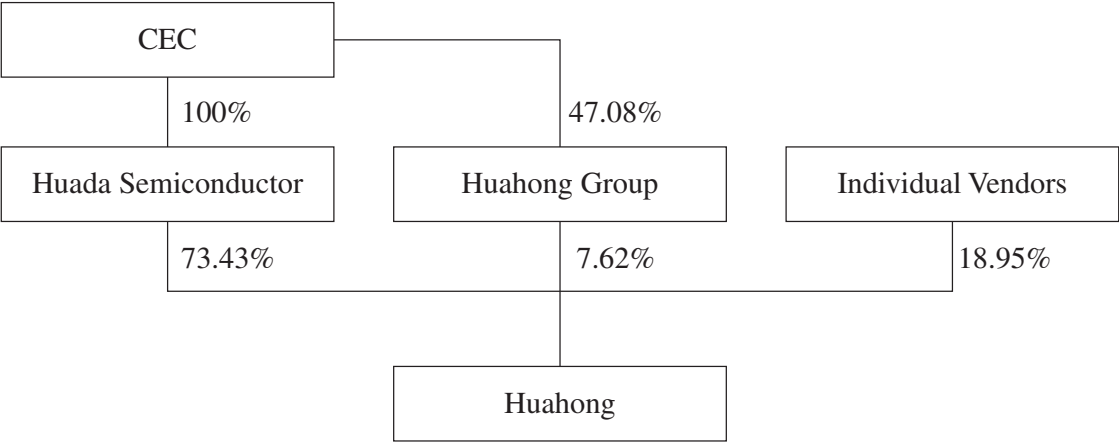
Based on the financial information of Huahong prepared in accordance with the Hong Kong Financial Reporting Standards, the unaudited consolidated net assets of Huahong was approximately RMB344.0 million as at 31 December 2014. The following table shows the unaudited consolidated results of Huahong for the two years ended 31 December 2013 and 2014 as extracted from the unaudited management accounts of Huahong:

	Year ended 31 December	
	2013	2014
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Profit before taxation	64,239	51,800
Profit for the year	64,239	56,069

The Company understands that the total investment cost for Huahong by Huada Semiconductor and the Individual Vendors was approximately RMB260.8 million and RMB15.8 million, respectively.

Shareholding structure of Huahong

The following is the simplified shareholding structure chart of Huahong as at the date of this announcement:



The following is the simplified shareholding structure chart of Huahong immediately after the Completion:



CONTINUING CONNECTED TRANSACTIONS – 2015-2018 BUSINESS SERVICES AGREEMENT WITH CEC

Background

The Company refers to its announcement dated 7 May 2013 and the circular dated 28 May 2013 in relation to certain continuing connected transactions between the Group and the CEC Group contemplated under the 2013-2016 Business Services Agreement. The 2013-2016 Business Services Agreement will expire on 30 June 2016. Huahong has on-going transactions with the CEC Group which are similar to those contemplated under the 2013-2016 Business Services Agreement in its ordinary and usual course of business. These transactions will, after the completion of the Huada Semiconductor Acquisition, become continuing connected transactions of the Company.

On 26 June 2015, in order to streamline the existing continuing connected transactions contemplated under the 2013-2016 Business Services Agreement, and to facilitate the Group's production and operation after the completion of the Huada Semiconductor Acquisition, the Company entered into the 2015-2018 Business Services Agreement with CEC to reflect the terms of the proposed continuing connected transactions and the caps of the transactions thereunder for the period commencing from the completion of the Huada Semiconductor Acquisition until 31 December 2015, each of the years ending 31 December 2016 and 2017 and the six months ending 30 June 2018.

2015-2018 Business Services Agreement

Date: 26 June 2015

Parties: (i) the Company

(ii) CEC

The 2015-2018 Business Services Agreement covers (i) the provision of products processing, testing and assembling services by the CEC Group, and the purchase of raw materials, modules, software and equipment from the CEC Group; and (ii) the sale of integrated circuit cards and smart cards modules and chips to the CEC Group.

Details of the continuing connected transactions contemplated under the 2015-2018 Business Services Agreement are as follows:

(i) Provision of products processing, testing and assembling services by the CEC Group, and the purchase of raw materials, modules, software and equipment from the CEC Group

The CEC Group will provide products processing, testing and assembling services to the Group for the production of products including integrated circuit cards, smart cards and chips, on a non-committed and non-exclusive basis.

The Group will also purchase raw materials, modules, software and equipment for the research and development of integrated circuit cards, smart cards and chips from the CEC Group, on a non-committed and non-exclusive basis.

(ii) Sale of products to the CEC Group

The Group will also sell products including integrated circuit cards and smart cards modules and chips to the CEC Group, on a non-committed and non-exclusive basis.

The prices payable and receivable by the Group under the 2015-2018 Business Services Agreement will be determined after arm's length negotiations between the parties with reference to market prices. The prices offered by or to the CEC Group will be no less favourable than the prices of similar products offered by or to other independent third parties of the Group.

The consideration payable and receivable by the Group under the 2015-2018 Business Services Agreement will be settled in cash according to the terms upon which the services or products are provided.

For the purpose of the 2015-2018 Business Services Agreement: "market prices" mean (a) the prices at which same or comparable type of products or services provided by independent third parties in the same area in the ordinary and usual course of business; or, in the absence of which, (b) the prices at which same or comparable type of products or services provided by independent third parties in the ordinary and usual course of business.

Subject to the approval of the Independent Shareholders, the 2015-2018 Business Services Agreement will take effect from the date of the completion of the Huada Semiconductor Acquisition and will be valid until 30 June 2018. The agreement may be renewed for further terms of three years after its expiration if the parties so agree, subject to compliance with the requirements under the Listing Rules.

The 2015-2018 Business Services Agreement will, upon taking effect, supersede the 2013-2016 Business Services Agreement.

Historical transaction amounts for each of the years ended 31 December 2012, 2013, 2014 and the three months ended 31 March 2015

Type of transaction	Existing caps for the six months ending 30 June 2015 (RMB'000) (Note 1)	Historical transaction amounts for			
		the year ended 31 December			the three months ended
		2012	2013	2014	31 March 2015
		(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Products processing, testing and assembling services and purchase of raw materials, modules, software and equipment					
– Consideration payable by the Group under the 2013-2016 Business Services Agreement	532,000	475,977	360,445	373,949	76,294
– Consideration payable by Huahong (Note 2)	–	41,939	29,728	86,501	27,571
	<u>532,000</u>	<u>517,916</u>	<u>390,173</u>	<u>460,450</u>	<u>103,865</u>
Sale of products					
– Consideration receivable by the Group under the 2013-2016 Business Services Agreement	94,000	82,258	74,170	136,730	33,459
– Consideration receivable by Huahong (Note 2)	–	51,730	34,083	31,168	16,040
	<u>94,000</u>	<u>133,988</u>	<u>108,253</u>	<u>167,898</u>	<u>49,499</u>

Notes:

1. The Company confirmed that the consideration payable and receivable by the Group under the 2013-2016 Business Services Agreement for the period commencing from 1 January 2015 until the date of this announcement have not exceeded the caps for the six months ending 30 June 2015 set out in the above table.
2. Huahong's historical transaction amounts are set out here for illustration as one of the bases for determining the proposed caps under the 2015-2018 Business Services Agreement.

Proposed caps for the 2015-2018 Business Services Agreement

It is expected that for the period commencing from the completion of the Huada Semiconductor Acquisition until 31 December 2015, each of the years ending 31 December 2016 and 2017 and the six months ending 30 June 2018, the consideration payable by the Group to the CEC Group and the consideration receivable by the Group from the CEC Group will not exceed the following respective amounts and such amounts have been set as the proposed caps for the relevant continuing connected transactions contemplated under the 2015-2018 Business Services Agreement accordingly:

Type of transaction	For the period commencing from the completion of the Huada Semiconductor Acquisition until 31 December 2015	For the year ending 31 December		For the six months ending
	(RMB'000) (Note 1)	2016 (RMB'000)	2017 (RMB'000)	30 June 2018 (RMB'000)
Products processing, testing and assembling services and purchase of raw materials, modules, software and equipment				
– Consideration payable by the Group	300,000	780,000	1,000,000	650,000
Sale of products				
– Consideration receivable by the Group	110,000	290,000	370,000	240,000

Note:

1. The 2013-2016 Business Services Agreement will expire on 30 June 2016. The 2015-2018 Business Services Agreement will, upon taking effect, supersede the 2013-2016 Business Services Agreement. The 2015-2018 Business Services Agreement is subject to the approval of the Independent Shareholders at the SGM, which is expected to take place after June 2015. As such, the term of the 2015-2018 Business Services Agreement will not exceed three years.

In arriving at the above caps for the consideration payable by the Group for the provision of products processing, testing and assembling services by the CEC Group, and the purchase of raw materials, modules, software and equipment from the CEC Group, the Company has referred to the historical service fees paid by the Group and the historical purchase of raw materials, modules, software and equipment from the CEC Group and has taken into account the expected demand of the products of the Group, the production plan of the Group and the costs of such services, raw materials, modules, software and equipment.

In arriving at the above caps for the consideration receivable by the Group for the sale of products to the CEC Group, the Company has referred to the historical sales, the expected demand of the Group's products by the CEC Group and the order status of the products.

CONTINUING CONNECTED TRANSACTIONS – 2015-2018 FINANCIAL SERVICES AGREEMENT WITH CEC FINANCE

Background

The Company refers to its announcements dated 7 May 2013 and 7 July 2013 and the circulars dated 28 May 2013 and 28 August 2013 in relation to certain continuing connected transactions between the Group and CEC Finance contemplated under the 2013-2016 Financial Services Agreement and the CEC Technology Financial Services Agreement, respectively (together, the “2013 Financial Services Agreements”). The 2013 Financial Services Agreements will expire on 30 June 2016. Huahong has on-going transactions with CEC Finance which are similar to those contemplated under the 2013 Financial Services Agreements in its ordinary and usual course of business. These transactions will, after the completion of the Huada Semiconductor Acquisition, become continuing connected transactions of the Company.

On 26 June 2015, in order to streamline the existing continuing connected transactions contemplated under the 2013 Financial Services Agreements and to facilitate the Group's operation after the completion of the Huada Semiconductor Acquisition, the Company entered into the 2015-2018 Financial Services Agreement with CEC Finance to reflect the terms of the proposed continuing connected transactions and the caps of the transactions thereunder for the period commencing from the completion of the Huada Semiconductor Acquisition until 31 December 2015, each of the years ending 31 December 2016 and 2017 and the six months ending 30 June 2018.

2015-2018 Financial Services Agreement

Date: 26 June 2015

Parties: (i) the Company
(ii) CEC Finance

Pursuant to the 2015-2018 Financial Services Agreement, CEC Finance will provide a range of financial services to the Group and the Group will utilise such financial services on a non-exclusive basis. The financial services to be provided by CEC Finance to the Group under the 2015-2018 Financial Services Agreement include:

- (a) deposit services, including but not limited to, time deposits, call deposits and negotiable deposits;
- (b) provision of financial assistance, including but not limited to, unsecured RMB and foreign currencies loans, finance leasing, discounting of bank acceptance bills and commercial acceptance bills and factoring of account receivables; and
- (c) provision of fee-based and commission-based financial services, including but not limited to, guarantee services, fund management, agency services and financial consultancy services.

The 2015-2018 Financial Services Agreement does not create any obligation on the part of the Group to utilise any particular services of CEC Finance. Other than time deposits which have specified deposit terms, the Group may at any time withdraw the funds deposited with CEC Finance without incurring any penalty. CEC Finance is one of a number of financial institutions which provide financial services to the Group. The Group may obtain financial services available from any other financial institutions in addition to, or instead of, CEC Finance, as it deems fit.

The interest rates for the Group's deposits with CEC Finance will be determined by reference to, and shall not be less than, the rates offered to the Group by other domestic commercial banks for comparable deposits.

The interest rates for the financial assistance provided by CEC Finance to the Group will be determined by reference to, and shall not be higher than, the rates offered to the Group by other domestic commercial banks for comparable financial assistance.

The fees and commissions for the fee-based and commission-based financial services provided by CEC Finance to the Group will be determined by reference to, and shall not be higher than, the fees and commissions charged by other domestic commercial banks or financial institutions for the same type of financial services.

The interests on the deposits and the financial assistance, and the fees and commissions for the fee-based and commission-based financial services will be settled in cash according to the terms of the deposits, financial assistance or financial services provided.

Subject to the approval of the Independent Shareholders, the 2015-2018 Financial Services Agreement will take effect from the date of the completion of the Huada Semiconductor Acquisition and will be valid until 30 June 2018. The agreement may be renewed for further terms of three years upon expiration if the parties so agree, subject to compliance with the requirements under the Listing Rules.

The 2015-2018 Financial Services Agreement will, upon taking effect, supersede the 2013 Financial Services Agreements.

Historical transaction amounts for each of the years ended 31 December 2012, 2013, 2014 and the three months ended 31 March 2015

Type of transaction	Existing caps for the six months ending 30 June 2015 (RMB'000) (Note 1)	Historical transaction amounts for			
		the year ended 31 December			the three months ended
		2012 (RMB'000)	2013 (RMB'000)	2014 (RMB'000) (Note 3)	31 March 2015 (RMB'000) (Note 3)
Provision of deposit services by CEC Finance					
Maximum daily balance of deposits (together with the interests accrued thereon) maintained with CEC Finance by:					
– the Group under the 2013 Financial Services Agreements	480,000	80,000	276,000	398,351	383,581
– Huahong (Note 4)	–	410,374	350,385	307,050	95,229
	<u>480,000</u>	<u>490,374</u>	<u>626,385</u>	<u>705,401</u>	<u>478,810</u>
Provision of financial assistance by CEC Finance					
Maximum daily balance of financial assistance provided by CEC Finance to:					
– the Group under the 2013 Financial Services Agreements (Note 2)	480,000	–	–	361,000	50,000
– Huahong (Note 4)	–	–	–	–	–
	<u>480,000</u>	<u>–</u>	<u>–</u>	<u>361,000</u>	<u>50,000</u>
Provision of fee-based and commission-based financial services by CEC Finance					
Fees and commissions payable by:					
– the Group under the 2013 Financial Services Agreements	5,375	–	–	445	28
– Huahong (Note 4)	–	31	22	16	–
	<u>5,375</u>	<u>31</u>	<u>22</u>	<u>461</u>	<u>28</u>

Notes:

1. The Company confirmed that the maximum daily balance of the deposits and the financial assistance, and the fees and commissions for the fee-based and commission-based financial services payable by the Group, under the 2013 Financial Services Agreements for the period commencing from 1 January 2015 until the date of this announcement have not exceeded the caps for the six months ending 30 June 2015 set out in the above table.
2. Apart from unsecured RMB and foreign currencies loans, the Group may be required to provide security for certain types of financial assistance to be provided by CEC Finance.
3. CEC Technology became a wholly-owned subsidiary of the Company following the completion of the acquisition of CEC Technology on 26 June 2014. The transactions between CEC Technology and its subsidiaries and the CEC Group have since then become continuing connected transactions of the Company.
4. Huahong's historical transaction amounts are set out here for illustration as one of the bases for determining the proposed caps under the 2015-2018 Financial Services Agreement.

Proposed caps for the 2015-2018 Financial Services Agreement

It is expected that for the period commencing from the completion of the Huada Semiconductor Acquisition until 31 December 2015, each of the years ending 31 December 2016 and 2017 and the six months ending 30 June 2018, the maximum daily balance of the deposits and the financial assistance, and the fees and commissions for the fee-based and commission-based financial services payable by the Group, will not exceed the following respective amounts and such amounts have been set as the proposed caps for the relevant continuing connected transactions contemplated under the 2015-2018 Financial Services Agreement accordingly:

Type of transaction	For the period commencing from the completion of the Huada Semiconductor Acquisition until	For the year ending 31 December		For the six months ending
	31 December 2015 (RMB'000) (Note 1)	2016 (RMB'000)	2017 (RMB'000)	30 June 2018 (RMB'000)
Provision of deposit services by CEC Finance				
Maximum daily balance of deposits (together with the interests accrued thereon) maintained by the Group with CEC Finance	700,000	740,000	780,000	820,000
Provision of financial assistance by CEC Finance				
Maximum daily balance of financial assistance provided by CEC Finance to the Group (Note 2)	700,000	740,000	780,000	820,000
Provision of fee-based and commission-based financial services by CEC Finance				
Fees and commissions payable by the Group to CEC Finance	5,000	10,000	10,000	5,000

Notes:

1. The 2013 Financial Services Agreements will expire on 30 June 2016. The 2015-2018 Financial Services Agreement will, upon taking effect, supersede the 2013 Financial Services Agreements. The 2015-2018 Financial Services Agreement is subject to the approval of the Independent Shareholders at the SGM, which is expected to take place after June 2015. As such, the term of the 2015-2018 Financial Services Agreement will not exceed three years.
2. Apart from unsecured RMB and foreign currencies loans, the Group may be required to provide security for certain types of financial assistance to be provided by CEC Finance.

The maximum daily balance of deposits was determined by taking into consideration of the caps relating to the provision of financial assistance by CEC Finance to the Group. In particular, as part of its treasury policy, CEC is prepared to provide financial assistance of the above amounts to the Group through CEC Finance. The proposed caps are 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 unsecured and secured financial assistance which they may provide to the Group. In return for the financial assistance provided by CEC Finance, the proposed maximum daily balance of deposits was set at a level which is the same as the limit of the financial assistance that could be provided.

The above caps for the provision of financial assistance by CEC Finance have been determined based on the estimated capital and operational needs of the Group.

The above caps for the fees and commissions payable for the provision of fee-based and commission-based financial services by CEC Finance have been determined based on the estimated demand of the fee-based and commission-based financial services provided by CEC Finance and the fees and commissions payable for such services.

REASONS FOR AND BENEFITS OF THE PROPOSED TRANSACTIONS

The Board believes that the Acquisition and the Huahong Group Acquisition and the entry into the 2015-2018 Business Services Agreement and the 2015-2018 Financial Services Agreement are in line with the development strategies of the Group, and will bring long-term and strategic benefits to the Group, including but not limited to, the following:

The Acquisition and the Huahong Group Acquisition

1. With the launch of new supportive policies, the integrated circuit industry holds great future development potential in the PRC. The Acquisition and the Huahong Group Acquisition will enable the Group to be well positioned to swiftly capitalise on the enormous market opportunities created by the development of the integrated circuit industry.
2. The Group plans to step up its efforts on expanding the business in the horizon of the design of contactless and dual-interface integrated circuit chip solutions and services. Huahong is a leading supplier of contactless public transport and electronic travel document solutions and services. Huahong is also well positioned to tap into the PRC dual-interface financial security solutions and services market, which at present imported most of the integrated circuit chips for bank cards from overseas. Following the Acquisition and the Huahong Group Acquisition, there will be tremendous synergies between the business of Huahong and the Group. The Acquisition and the Huahong Group Acquisition represents a significant strategic move by the Group in broadening its business coverage, and in capturing a dominant position in the PRC contactless and dual-interface integrated circuit chip markets.
3. As Huahong and Huada Electronics are both engaging in the design of integrated circuit chips, the Acquisition and the Huahong Group Acquisition will enable the Group to become a formidable force within the industry and will thus lead to improvement of the overall productivity, efficiency, bargaining power and market coverage of the integrated circuit design operation of the Group.

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

2015-2018 Business Services Agreement and 2015-2018 Financial Services Agreement

Following the completion of the Huada Semiconductor Acquisition, Huahong will become an indirect subsidiary of the Company. Huahong has on-going transactions with the CEC Group which are similar to those contemplated under the 2013-2016 Business Services Agreement and the 2013 Financial Services Agreements in its ordinary and usual course of business. These transactions will, after the completion of the Huada Semiconductor Acquisition, become continuing connected transactions of the Company. In order to streamline the continuing connected transactions between members of the Group (including Huahong after the completion of the Huada Semiconductor Acquisition) and members of the CEC Group, the Company entered into the 2015-2018 Business Services Agreement with CEC and the 2015-2018 Financial Services Agreement with CEC Finance which will, upon taking effect, supersede the 2013-2016 Business Services Agreement and the 2013 Financial Services Agreements, respectively.

(1) 2015-2018 Business Services Agreement

The Group is engaged in the design of integrated circuit chips. The CEC Group provides products processing, testing and assembling services for the production of the Group's products and supplies raw materials, modules, software and equipment to the Group for its research and development purposes. The CEC Group is also a customer of the Group. The transactions contemplated under the 2015-2018 Business Services Agreement are, therefore, vital and integral to the business operations of the Group.

The Directors (other than the independent non-executive Directors who will express their views after considering the advice of the independent financial adviser) are of the view that the transactions contemplated under the 2015-2018 Business Services Agreement will be conducted on normal commercial terms (or better to the Group) and in the ordinary and usual course of business of the Group and that the terms of the 2015-2018 Business Services Agreement and the proposed caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(2) 2015-2018 Financial Services Agreement

CEC Finance is a non-banking financial institution approved and regulated by the PBOC and the CBRC. CEC Finance was established for the purpose of enhancing the centralised management of funds within the CEC Group and for improving the fund utilisation efficiency of the CEC Group as a whole. CEC Finance is permitted to provide various financial services such as deposit services, loan services, finance leasing and investment services to the CEC Group.

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

- (i) The interest rates on deposits and financial assistance offered by CEC Finance to the Group will be no less favourable than those offered by other domestic commercial banks. The fees and commissions for the fee-based and commission-based financial services provided by CEC Finance will not be higher than those charged by other domestic commercial banks or financial institutions.
- (ii) CEC Finance is regulated by the PBOC and the CBRC and provides its services in accordance and in compliance with the rules and operational requirements of these regulatory authorities.
- (iii) The Group expects to benefit from CEC Finance's better understanding of the operations of the Group which will allow expedient and efficient delivery of services. The Group also expects that as an intra-group service provider, CEC Finance will generally have more efficient communication channels with the Group as compared with other domestic commercial banks or financial institutions.
- (iv) The 2015-2018 Financial Services Agreement will provide the Group with the right and flexibility, which it may choose from different kinds of financial assistance provided by CEC Finance and secure additional and stable financing for its operations.

The Directors (other than the independent non-executive Directors who will express their views after considering the advice of the independent financial adviser) are of the view that the transactions contemplated under the 2015-2018 Financial Services Agreement will be conducted on normal commercial terms (or better to the Group) and in the ordinary and usual course of business of the Group and that the terms of the 2015-2018 Financial Services Agreement and the proposed caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PARTIES

(a) Information on the Company

The Company is an investment holding company. The Group is principally engaged in the design and sale of integrated circuit chips, and the development and management of electronic information technology industrial parks.

(b) Information on 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, semi-conductor and software sectors in the PRC.

(c) Information on Huada Electronics

Huada Electronics is principally engaged in the design and sale of integrated circuit chips.

(d) Information on Huada Semiconductor

Huada Semiconductor is principally engaged in the design and sale of integrated circuit products.

(e) Information on Huahong Group

Huahong Group is principally engaged in the design, manufacturing and sale of integrated circuit products.

(f) Information on CEC Finance

CEC Finance is a non-banking financial institution approved and regulated by the PBOC and the CBRC. CEC Finance was established for the purpose of enhancing the centralised management of funds within the CEC Group and for improving the fund utilisation efficiency of the CEC Group as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, CEC was interested in approximately 59.42% of the issued share capital of the Company. CEC is the ultimate controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction of the Company.

As one or more of the applicable percentage ratios referred to in Chapters 14 and 14A of the Listing Rules for the Acquisition exceed 25% but all of which are less than 100%, the Acquisition constitutes a major transaction and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules respectively and is subject to the reporting, announcement and independent shareholders' approval requirements.

CEC is the ultimate controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. Upon the completion of the Huada Semiconductor Acquisition, the 2015-2018 Business Services Agreement and the transactions thereunder will constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the 2015-2018 Business Services Agreement are more than 5%, the 2015-2018 Business Services Agreement and the proposed caps for the transactions thereunder are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CEC Finance is a subsidiary of CEC and is therefore a connected person of the Company under the Listing Rules. Upon the completion of the Huada Semiconductor Acquisition, the 2015-2018 Financial Services Agreement and the transactions thereunder will constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the 2015-2018 Financial Services Agreement are more than 5% and that the Group may be required to provide security for certain types of financial assistance to be provided by CEC Finance, the 2015-2018 Financial Services Agreement and the proposed caps for the transactions thereunder are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors have a material interest in the Acquisition, the Huahong Group Acquisition, the 2015-2018 Business Services Agreement and the 2015-2018 Financial Services Agreement. Accordingly, no Director was required to abstain from voting on the relevant board resolutions.

SGM

The SGM will be convened to consider and, if thought fit, to approve (a) the Acquisition and the Huahong Group Acquisition and (b) the 2015-2018 Business Services Agreement and the 2015-2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder. The vote of the Independent Shareholders at the SGM shall be taken by poll and CEC and its associates shall abstain from voting in respect of such ordinary resolutions.

DESPATCH OF CIRCULAR

A circular containing, among other things, information on (a) the Acquisition and the Huahong Group Acquisition and (b) the 2015-2018 Business Services Agreement and the 2015-2018 Financial Services Agreement and their respective proposed caps of the transactions thereunder, the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, the recommendation from the Independent Board Committee together with the notice of the SGM will be published and issued by the Company and despatched to the Shareholders. As at the date of this announcement, given that (i) the parties under the Huahong Group Agreement are still negotiating certain terms for the Huahong Group Acquisition and a supplemental acquisition agreement may be entered into between the parties at a later date; (ii) Huada Electronics may enter into further acquisition agreement(s) to acquire all or some of the Remaining Equity Interest by 31 July 2015 and (iii) the Company would require sufficient time to compile relevant information on Huahong, the Company proposes to despatch the circular on or before 30 September 2015.

DEFINITIONS

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

“2013-2016 Business Services Agreement”	the 2013-2016 business services agreement dated 7 May 2013 and entered into between CEC and the Company
“2015-2018 Business Services Agreement”	the 2015-2018 business services agreement dated 26 June 2015 and entered into between CEC and the Company
“2013-2016 Financial Services Agreement”	the comprehensive financial services agreement dated 7 May 2013 and entered into between the Company and CEC Finance
“2015-2018 Financial Services Agreement”	the comprehensive financial services agreement dated 26 June 2015 and entered into between the Company and CEC Finance
“Acquisition”	together, the Huada Semiconductor Acquisition and the Individual Vendor Acquisition
“Acquisition Agreements”	the Huada Semiconductor Agreement and the Individual Vendor Agreement(s)
“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“CBRC”	China Banking Regulatory Commission

“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
“CEC Group”	CEC and its subsidiaries (other than the Group)
“CEC Technology”	China Electronics Technology Development Co., Ltd (中國電子科技開發有限公司), a company established under the laws of the PRC
“CEC Technology Financial Services Agreement”	the comprehensive financial services agreement dated 11 October 2013 and entered into between CEC Technology and CEC Finance
“Company”	China Electronics Corporation Holdings Company Limited
“Completion”	completion of the Huada Semiconductor Acquisition and the Individual Vendor Acquisition in accordance with the terms of the Huada Semiconductor Agreement and the Individual Vendor Agreement(s), respectively
“connected person”	has the meaning ascribed to this term under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries

“Huada Electronics”	CEC Huada Electronic Design Co., Ltd (北京中電華大電子設計有限責任公司), a company established under the laws of the PRC and a wholly-owned subsidiary of the Company
“Huada Semiconductor”	Huada Semiconductor Co., Ltd (華大半導體有限公司), a company established under the laws of the PRC and a wholly-owned subsidiary of CEC and a controlling shareholder of the Company
“Huada Semiconductor Acquisition”	the acquisition of a 73.43% equity interest in Huahong by Huada Electronics from Huada Semiconductor pursuant to the Huada Semiconductor Agreement
“Huada Semiconductor Agreement”	the equity transfer agreement dated 26 June 2015 entered into between Huada Electronics and Huada Semiconductor in relation to the Huada Semiconductor Acquisition
“Huahong”	Shanghai Huahong Integrated Circuit Co., Ltd (上海華虹集成電路有限責任公司), a company established under the laws of the PRC
“Huahong Group”	Shanghai Huahong (Group) Co., Ltd (上海華虹(集團)有限公司), a company established under the laws of the PRC and an associate of CEC
“Huahong Group Acquisition”	the acquisition of a 7.62% equity interest in Huahong by Huada Electronics from Huahong Group pursuant to the Huahong Group Agreement
“Huahong Group Agreement”	the preliminary equity transfer agreement dated 26 June 2015 entered into between Huada Electronics and Huahong Group in relation to the Huahong Group Acquisition

“Independent Board Committee”	the committee of Directors, which consists only of independent non-executive Directors, formed to advise the Independent Shareholders in respect of the terms of the Acquisition Agreements and the Huahong Group Agreement, the 2015-2018 Business Services Agreement and the 2015-2018 Financial Services Agreement and their respective proposed caps
“Independent Shareholders”	Shareholders other than CEC and its associates
“Individual Vendor(s)”	the individual vendor(s) of the Individual Vendor Agreement(s), who are the director and/or employees of Huahong
“Individual Vendor Acquisition”	the acquisition of an aggregate of 9.95% equity interest in Huahong by Huada Electronics from the Individual Vendors pursuant to the Individual Vendor Agreement(s)
“Individual Vendor Agreement(s)”	the equity transfer agreement(s) dated 26 June 2015 entered into between Huada Electronics and the respective Individual Vendor in relation to the Individual Vendor Acquisition
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PBOC”	the People’s Bank of China
“PRC”	the People’s Republic of China
“Remaining Equity Interest”	9.00% equity interest of Huahong held by the Remaining Shareholders

“Remaining Shareholders ”	being shareholders of Huahong holding an aggregate of 9.00% equity interest of Huahong who have not agreed to sell his or her respective equity interest in Huahong under the terms of the Individual Vendor Agreement(s)
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, to approve (a) the Acquisition and the Huahong Group Acquisition and (b) the 2015-2018 Business Services Agreement and the 2015-2018 Financial Services Agreement and their respective proposed caps
“Shareholder(s)”	shareholder(s) of the Company
“%”	per cent.

For ease of reference only, the names of PRC established companies and entities have been included in this announcement in both Chinese and English and the English names of these companies and entities are either English translations of their respective official Chinese names or English trade names used by them. In the event of any inconsistency between the English names and their respective Chinese names, the Chinese names shall prevail.

By Order of the Board
China Electronics Corporation Holdings Company Limited
Rui Xiaowu
Chairman

Hong Kong, 28 June 2015

As at the date of this announcement, the Board comprises two Non-executive Directors, namely Mr. Rui Xiaowu (Chairman) and Mr. Dong Haoran, two Executive Directors, namely Mr. Liu Hongzhou (Vice Chairman) and Mr. Xie Qinghua (Managing Director), and two Independent Non-executive Directors, namely Mr. Chan Kay Cheung and Mr. Qiu Hongsheng.