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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
100% EQUITY INTEREST IN CEC TECHNOLOGY**

**MAJOR TRANSACTION AND
CONTINUING CONNECTED TRANSACTIONS
CEC TECHNOLOGY FINANCIAL SERVICES AGREEMENT
WITH CEC FINANCE**

**CONTINUING CONNECTED TRANSACTIONS
PROPERTY MANAGEMENT AGREEMENT
BETWEEN CEC BEIHAI AND CEC RIDA**

**CONTINUING CONNECTED TRANSACTIONS
GUARANTEE ARRANGEMENTS
BETWEEN CEC AND THE TARGET GROUP**

Financial advisor to the Company



* *For identification purpose only*

Reference is made to the announcement of the Company dated 26 April 2013.

The Board is pleased to announce that on 5 July 2013 (after trading hours), the Company and CEC entered into the Equity Transfer Agreement pursuant to which the Company has conditionally agreed to acquire and CEC has conditionally agreed to sell 100% equity interest in CEC Technology at a consideration of RMB600 million (equivalent to approximately HK\$750 million).

Incidental to the Acquisition, the Company proposes that CEC Technology and CEC Finance shall enter into the CEC Technology Financial Services Agreement in respect of the financial services to be provided by CEC Finance to the Target Group. Further, the Company also proposes to continue the existing property management services to CEC Beihai by CEC Rida under the Property Management Agreement and the existing Guarantee Arrangements between the Target Group and CEC after the Completion.

As at the date of this announcement, CEC was interested in approximately 71.30% of the issued share capital of the Company. CEC is the ultimate controlling shareholder of the Company and thus is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction of the Company, and the Guarantee Arrangements and the transactions thereunder will constitute continuing connected transactions of the Company.

CEC Finance is a subsidiary of CEC. As such, CEC Finance is a connected person of the Company under the Listing Rules and upon the Completion, the CEC Technology Financial Services Agreement and the transactions thereunder will constitute continuing connected transactions of the Company.

CEC Rida is a subsidiary of CEC. As such, CEC Rida is a connected person of the Company under the Listing Rules and upon the Completion, the Property Management Agreement and the transactions thereunder will constitute continuing connected transactions 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 Chapter 14 and 14A of the Listing Rules respectively and is subject to requirements for reporting, announcement and independent shareholders' approval.

The Company considers that the nature of the continuing connected transactions under the CEC Technology Financial Services Agreement are similar to the continuing connected transactions under the 2013 – 2016 Financial Services Agreement dated 7 May 2013 between the Company and CEC Finance, and the relevant annual caps of the transactions under the two agreements should be aggregated for the purpose of determining the classification of the continuing connected transactions and their compliance requirements. Taking into account the continuing connected transactions under the two agreements, one or more of the applicable aggregated percentage ratios referred to in Chapters 14 and 14A of the Listing Rules exceed 25% but all of which are less than 100%, and therefore the provision of financial services under the CEC Technology Financial Services Agreement constitute a major transaction and continuing connected transactions of the Company under Chapter 14 and 14A of the Listing Rules respectively and are subject to requirements for reporting, announcement and independent shareholders' approval.

As one or more of the applicable percentage ratios for the Property Management Agreement are more than 0.1% but all of which are less than 5%, pursuant to Rules 14A.27 and 14A.34 of the Listing Rules, the Property Management Agreement and the transactions thereunder are only subject to requirements for reporting and announcement, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios for the Guarantee Arrangements are more than 0.1% but all of which are less than 5%, pursuant to Rules 14A.27 and 14A.34 of the Listing Rules, the Guarantee Arrangements and the transactions thereunder are only subject to requirements for reporting and announcement, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

None of the Directors have a material interest in the Acquisition, the CEC Technology Financial Services Agreement, the Property Management Agreement, the Guarantee Arrangements and/or the transactions thereunder. Accordingly, no Director was required to abstain from voting on the board resolutions in respect thereof.

The SGM will be convened to consider and, if thought fit, to approve (a) the Acquisition and (b) the CEC Technology Financial Services Agreement and the 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 the Acquisition and the CEC Technology Financial Services Agreement and the 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. In order to allow sufficient time for the Company to compile relevant information on the Target Group for the circular, the Company proposes to despatch the circular on or before 13 August 2013.

Reference is made to the announcement of the Company dated 26 April 2013.

The Board is pleased to announce that on 5 July 2013 (after trading hours), the Company and CEC entered into the Equity Transfer Agreement pursuant to which the Company has conditionally agreed to acquire and CEC has conditionally agreed to sell 100% equity interest in CEC Technology at a consideration of RMB600 million (equivalent to approximately HK\$750 million).

Incidental to the Acquisition, the Company proposes that CEC Technology and CEC Finance shall enter into the CEC Technology Financial Services Agreement in respect of the financial services to be provided by CEC Finance to the Target Group. Further, the Company also proposes to continue the existing property management services to CEC Beihai by CEC Rida under the Property Management Agreement and the existing Guarantee Arrangements between the Target Group and CEC after the Completion.

THE EQUITY TRANSFER AGREEMENT

Date: 5 July 2013

Purchaser: the Company

Vendor: CEC

Assets to be acquired

Pursuant to the Equity Transfer Agreement, CEC has conditionally agreed to sell and the Company has conditionally agreed to purchase 100% equity interest in CEC Technology. Details of CEC Technology are set out in section headed “Information on the Target Group” below.

Consideration

The consideration for the Acquisition shall be RMB600 million (equivalent to approximately HK\$750 million), which has been agreed after arm's length negotiation between the Company and CEC. The consideration represented a discount of approximately 16% to the agreed value of the Relevant Equity Interest, which was derived by the unaudited consolidated net asset value of the Target Group as at 30 April 2013, plus the difference between the market value and the carrying value of the property interests held by the Target Group attributable to CEC Technology.

The consideration of RMB600 million is payable in two instalments:

- (a) 60% of the consideration (i.e. RMB360 million), payable within 5 business days of the date on which the Equity Transfer Agreement takes effect; and
- (b) 40% of the consideration (i.e. RMB240 million), payable within 6 months of the date on which the Equity Transfer Agreement takes effect, together with the interest calculated in accordance with the prevailing benchmark lending rate of Renminbi.

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

Information on the Target Group

Overview

The Target Group comprises CEC Technology and its subsidiaries. CEC Technology is wholly-owned by CEC. Mr. Xie Qinghua, Managing Director of the Company, has been one of the directors and the general manager of CEC Technology since 2007, and the chairman of the board of directors of CEC Technology since 2012.

The principal business activity of CEC Technology is investment holding. CEC Technology holds, among others, 100% equity interests in CEC Beihai, 40% equity interests in Hainan RSC and 27.27% equity interests in CEC Xi'an, respectively. Pursuant to the Equity Transfer Agreement, CEC shall procure the completion of the transfer of the 12.99% equity interest in CEC Xi'an held by ChinaSoft to CEC Technology and the transfer of the 25.97% equity interest in CEC Xi'an held by the 6th Research Institute to CEC Technology before the Equity

Transfer Agreement takes effect. Upon Completion, CEC Technology will hold 100% equity interests in CEC Beihai, 40% equity interests in Hainan RSC and 66.23% equity interests in CEC Xi'an, respectively.

The principal business activities of CEC Beihai, Hainan RSC and CEC Xi'an have been the development and management of industrial parks in the PRC which provides a platform for industry players to develop electronic information technology business. CEC Beihai is engaged in the construction and operation of the CEC Beihai Industrial Park (中國電子北海產業園), while Hainan RSC is engaged in the construction and operation of the Hainan Resort Software Community (海南生態軟件園) and CEC Xi'an is engaged in the construction and operation of the CEC Xi'an Industrial Park (中國電子西安產業園).

Electronic information technology industrial parks

Modern information technology is a very important driving force behind the social and economic development in the 21st century, and it is the foundation for enhancing the nation's competitiveness as well as creating strategic and pillar industries. As a result of advancement and development in information technology, it is anticipated that the society would develop and prosper through the increase of economic activities, the improvement of employment conditions and the rationalisation of industrial sectors. As such, the implementation of measures in connection with information technology, which includes the construction of electronic information technology bases and industrial parks, is now taking high priority in order to transform the nation into a superpower in the electronic information technology arena.

For the purpose of promoting the development of electronic information technology industrial parks as well as enhancing the innovation and competitiveness of the relevant industrial sectors, the PRC government promulgated "Policies regarding the support for the development of the State's information technology bases and industrial parks" (《支持國家電子信息產業基地和產業園發展的若干政策》), which laid down the directions and policy support for the development of electronic information technology industrial parks in the PRC.

The vision of the Industrial Parks is to enable science and technology companies to nurture ideas, innovate and grow, and provide support to them. In addition to providing attractive areas to work, live and relax in, these industrial parks provide the following business support to the resident enterprises:

- Human resources – the Industrial Parks facilitate the recruitment and training of resident enterprises by cooperating with renowned universities, research institutes and other training institutes. They also provide support to personnel who work in the Industrial Parks by offering residential quarters, community health centres and a range of communal facilities to them.
- Financial resources and governmental support – the Industrial Parks organise various investment and financing matchmaking activities for resident enterprises. Also, as home of various science and technology companies which are generally welcome by local government for the development of knowledge economy, the Industrial Parks are in a good position to act as a communication platform between the local government and resident enterprises, and engage financial support from the local governments for the benefit of resident enterprises.
- Infrastructure – the Industrial Parks provide infrastructure tailored for science and technology companies, for example, laboratories, open-source codes and shared use of software.

Brief information on the Industrial Parks are set out as follows:

CEC Beihai Industrial Park (中國電子北海產業園)

CEC Beihai is engaged in the construction and operation of the CEC Beihai Industrial Park. The CEC Beihai Industrial Park is situated in Beihai, Guangxi, with a planned total area of 3,000 mu, designated for industrial, research and training, commercial and community facilities uses for the development of electronic information technology services. The CEC Beihai Industrial Park targets manufacturers of computers and computer storage, as well as enterprises engaging in software research and services, and the production of key parts of LCD monitors and A/D power. Currently, CEC Beihai Industrial Park has a total of 90 resident enterprises (including 50 enterprises under its incubation programme). As at 30 April 2013, CEC Technology holds 100% equity interests in CEC Beihai.

Hainan Resort Software Community (海南生態軟件園)

Hainan RSC is engaged in the construction and operation of the Hainan Resort Software Community. The Hainan Resort Software Community is situated in Haikou, Hainan, with a planned total area of 3,000 mu. The Hainan Resort Software Community targets enterprises engaging in software research, software outsourcing and information technology training, as well as call centres and internet media. Currently, Hainan Resort Software Community has a total of 275 resident enterprises, including Hewlett-Packard, Neusoft (東軟集團), ChinaSoft, Greatwall Information (長城信息) and Join-Cheer (久其軟件). As at 30 April 2013, CEC Technology holds 40% equity interests in Hainan RSC.

CEC Xi'an Industrial Park (中國電子西安產業園)

CEC Xi'an is engaged in the construction and operation of the CEC Xi'an Industrial Park. The CEC Xi'an Industrial Park is situated in Xi'an, Shaanxi and has a planned total area of 470 mu. The CEC Xi'an Industrial Park targets enterprises engaging in cloud computing services and service outsourcing. Construction of CEC Xi'an Industrial Park commenced in October 2011 and the first batch of resident enterprises are expected to move in about August 2014. As at 30 April 2013, CEC Technology holds 27.27% equity interests in CEC Xi'an.

Financial information on the Target Group

As at 30 April 2013, CEC Beihai is regarded as a subsidiary of CEC Technology and each of Hainan RSC and CEC Xi'an is regarded as an associate of CEC Technology. Pursuant to the Equity Transfer Agreement, CEC shall procure the completion of the transfer of the 12.99% equity interest in CEC Xi'an held by ChinaSoft to CEC Technology and the transfer of the 25.97% equity interest in CEC Xi'an held by the 6th Research Institute to CEC Technology before the Equity Transfer Agreement takes effect. As such, CEC Technology will become interested in 66.23% equity interest in CEC Xi'an upon Completion and CEC Xi'an will become a subsidiary of CEC Technology.

Based on the financial information of the Target Group prepared in accordance with Hong Kong Financial Reporting Standards, the unaudited consolidated net assets of the Target Group was approximately RMB98.4 million as at 30 April 2013. The following table shows the unaudited consolidated results of the Target Group for the two years ended 31 December 2011 and 2012 and the four months ended 30 April 2013 as extracted from the financial information of the Target Group:

	Year ended 31 December		Four months
	2011	2012	ended
	(RMB'000)	(RMB'000)	30 April 2013
			(RMB'000)
Profit/(loss) before taxation	244	87,195	(7,904)
(Loss)/profit for the year/period	(5,910)	62,606	(10,132)

Based on the financial information of CEC Xi'an prepared in accordance with Hong Kong Financial Reporting Standards, the unaudited consolidated net assets of CEC Xi'an was approximately RMB89.2 million as at 30 April 2013. The following table shows the unaudited consolidated results of CEC Xi'an for the two years ended 31 December 2011 and 2012 and the four months ended 30 April 2013 as extracted from the financial information of CEC Xi'an:

	Year ended 31 December		Four months
	2011	2012	ended
	(RMB'000)	(RMB'000)	30 April 2013
			(RMB'000)
Loss before taxation	8,024	7,296	3,012
Loss for the year/period	6,581	5,715	2,299

The Company understands that the total investment cost for the Target Group by CEC was approximately RMB100 million, representing the paid-in capital of CEC Technology.

Conditions precedent

The Equity Transfer Agreement shall take effect upon the following:

- (i) the Equity Transfer Agreement having been signed by the legal representative or authorised representative of CEC and of the Company;
- (ii) the Company and CEC having obtained all necessary internal authorisations, consents and approvals in writing in relation to the transfer of the Relevant Equity Interest;
- (iii) the Equity Transfer Agreement having obtained all approvals from the relevant authority(ies) on mergers and acquisitions; and
- (iv) the Equity Transfer Agreement having completed other necessary approval or filing procedures in the PRC.

Pursuant to the Equity Transfer Agreement, CEC shall procure the completion of each of the transfer of the 12.99% equity interests in CEC Xi'an held by ChinaSoft to CEC Technology and the transfer of the 25.97% equity interests in CEC Xi'an held by the 6th Research Institute to CEC Technology before the Equity Transfer Agreement takes effect.

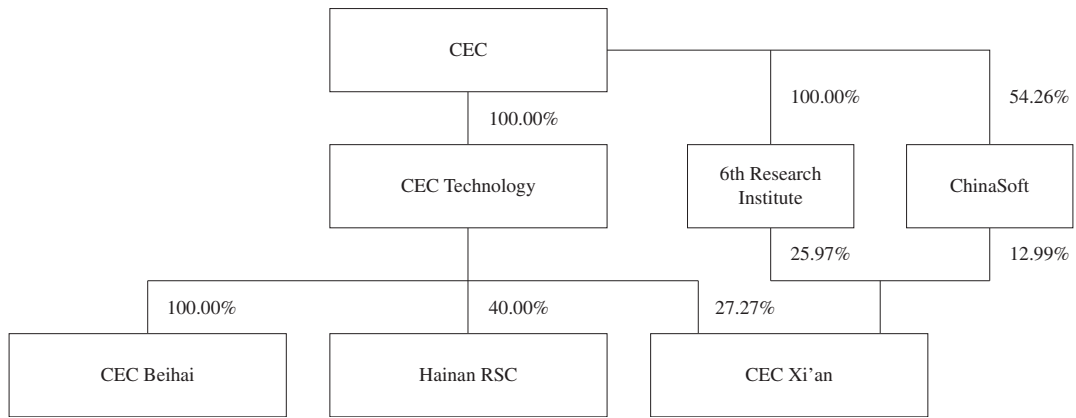
Completion is subject to, among other things, (i) the Equity Transfer Agreement taking effect as described above, and (ii) the Company having obtained the approval of the Acquisition and the continuing connected transactions incidental thereto (where applicable) at the general meeting of the Independent Shareholders in accordance with the Listing Rules.

Completion

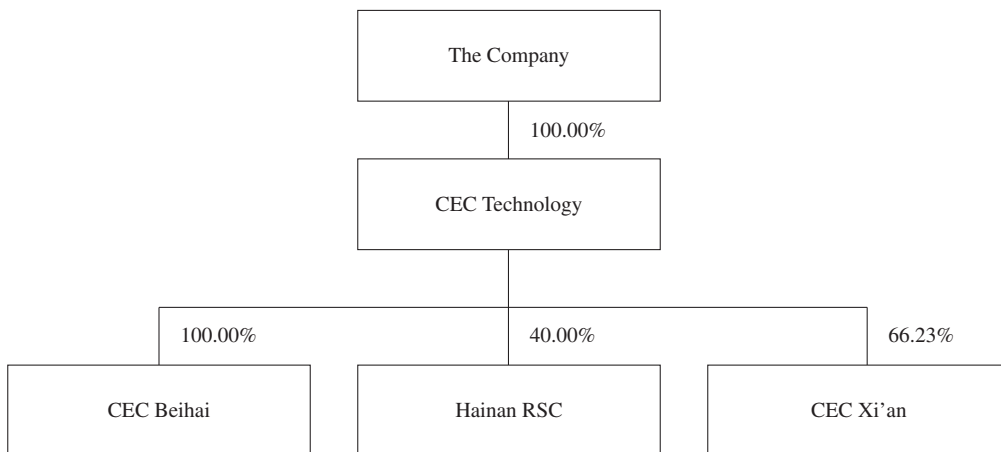
The Completion shall take place on the date on which the registration with the relevant authority of industry and commerce has completed and the issue of the business license of CEC Technology. Upon the Completion, CEC Technology will become a subsidiary of the Company and the assets, liabilities and financial results of CEC Technology will be consolidated into the consolidated financial statements of the Company.

Shareholding structure of the Target Group

The following is the simplified shareholding structure chart of the Target Group:



The following is the simplified shareholding structure chart of the Target Group immediately after the completion of the Acquisition:



MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS – CEC TECHNOLOGY FINANCIAL SERVICES AGREEMENT

Background

Currently, CEC Finance provides various financial services to the Target Group. It is expected that these financial services will continue after the Acquisition. As CEC Technology will become a wholly-owned subsidiary of the Company after the Completion, these financial services between CEC Finance and the Target Group will, upon the Completion, become continuing connected transactions of the Company. Such financial services 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 and secured 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- and commission-based financial services, including but not limited to guarantee services, fund management, agency services and financial consultancy services.

The Company proposes that CEC Technology shall enter into the CEC Technology Financial Services Agreement with CEC Finance, with a view to govern the terms of the financial services provided by CEC Finance to the Target Group after the Acquisition.

CEC Technology Financial Services Agreement

The CEC Technology Financial Services Agreement would not create any obligation on the part of the Target Group to utilise any particular services of CEC Finance. Other than time deposits which have specified deposit terms, the Target 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 Target Group. The Target Group may obtain financial services available from any other financial institutions in addition to or instead of CEC Finance, as it sees fit.

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

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

The fees and commissions for the fee- and commission-based financial services provided by CEC Finance to the Target 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- and commission-based financial services will be payable in cash according to the terms of the deposits, financial assistance or financial services provided.

To the Group's understanding, the PBOC promulgates standard or reference rates for certain loan and deposit services, in which case commercial banks are expected to price their services within the stipulated rates. If such a standard or reference rate exists, the Target Group would refer to such standard or reference rates before agreeing with CEC Finance on the pricing of the relevant financial service. Such standard or reference rates are less common for fee- and commission-based financial services. In any case, before making a deposit with, seeking financial assistance from or using fee- and commission-based financial services from CEC Finance, the Target Group would obtain the interest rates and/or fee/commission (as appropriate) offered by one or two reputable domestic commercial banks or financial institutions which the Target Group has established business relationship and compare that with the interest rates and/or fee/commission offered by CEC Finance.

The CEC Technology Financial Services Agreement is subject to the approval of the Independent Shareholders and will take effect from the date of the Completion and expire on 30 June 2016. Upon expiry of the CEC Technology Financial Services Agreement, the agreement may be renewed for further terms of three years if the parties so agree, subject to compliance of the requirements under the Listing Rules.

Historical Transaction Amounts of Financial Services between CEC Finance and the Target Group

Type of transaction	Historical transaction amounts			
	for the year ended 31 December			for the four months ended
	2010	2011	2012	30 April 2013
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Provision of deposit services by CEC Finance to the Target Group				
Maximum daily balance of deposits (together with the interests accrued thereon) maintained by the Target Group with CEC Finance.	109,110	128,954	143,940	29,694
Provision of financial assistance by CEC Finance to the Target Group				
Maximum daily balance of financial assistance provided by CEC Finance to the Target Group (<i>Note 1</i>).	30,000	40,000	160,000	160,000
Provision of fee- and commission-based financial services by CEC Finance to the Target Group				
Fees and commissions payable by the Target Group to CEC Finance.	–	26	70	60

Note:

1. Apart from unsecured RMB and foreign currencies loans, the Target Group may be required to provide security for certain types of financial assistance to be provided by CEC Finance.

Proposed Caps for the CEC Technology Financial Services Agreement

It is expected that for each of the years ending 31 December 2013, 2014 and 2015 and the six months ending 30 June 2016, the maximum daily balance of the deposits and the financial assistance, and the fees and commissions for the fee- and commission-based financial services payable by the Target 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 CEC Technology Financial Services Agreement accordingly:

Type of transaction	For the year ending 31 December			For the six months ending
	2013 (RMB'000)	2014 (RMB'000)	2015 (RMB'000)	30 June 2016 (RMB'000)
Provision of deposit services by				
CEC Finance to the Target Group				
Maximum daily balance of deposits (together with the interests accrued thereon) maintained by the Target Group with CEC Finance.	400,000	400,000	200,000	230,000
Provision of financial assistance by				
CEC Finance to the Target Group				
Maximum daily balance of financial assistance provided by CEC Finance to the Target Group (<i>Note 1</i>).	400,000	400,000	200,000	230,000
Provision of fee- and commission-based financial services by				
CEC Finance to the Target Group				
Fees and commissions payable by the Target Group to CEC Finance.	750	750	750	750

In arriving at the above caps for the provision of deposit services by CEC Finance to the Target Group, the Company and CEC Technology have made reference to the cash flow position and the treasury policy of the Group and of the Target Group, that is to maintain safety of cash resources, to retain flexibility in the deployment of funds, to ensure sufficient liquidity, to support operational needs, as well as to minimise financing cost and to achieve reasonable return from surplus funds. The maximum daily balance of deposit was arrived at taking into consideration of the annual cap relating to the provision of financial assistance by CEC Finance to the Target Group. In particular, as part of its treasury policy, CEC is prepared to provide annual financial assistance of the above amounts to the Target Group through CEC

Finance. The proposed annual caps is determined with reference to the possible capital and operational needs of the Target Group, which the Company and CEC Technology understand to be the limit proposed by CEC Finance based on their internal assessment on the maximum amount of unsecured and secured financial assistance which they may provide to the Target Group. In return for the financial assistance provided by CEC Finance, the proposed maximum daily balance of deposit was set at a level which is the same as the limit of the financial assistance that could be provided.

In arriving at the above caps for the fees and commissions payable for the provision of fee- and commission-based financial services by CEC Finance, the Company and CEC Technology have made reference to the possible demand of the fee- and commission-based financial services provided by CEC Finance to the Target Group and the fees and commissions payable for such services.

CONTINUING CONNECTED TRANSACTIONS – PROPERTY MANAGEMENT AGREEMENT

Background

Currently, CEC Rida provides various property management services to CEC Beihai under the Property Management Agreement. It is expected that these property management services will continue after the Completion. As CEC Beihai will become a wholly-owned subsidiary of the Company after the Completion, these property management services will become continuing connected transactions of the Company.

Property Management Agreement

Date: 1 February 2013

Parties: (i) CEC Beihai
(ii) CEC Rida

Major terms: Pursuant to the Property Management Agreement, CEC Rida agreed to provide property management services within the public areas in the CEC Beihai Industrial Park and the areas in the CEC Beihai Industrial Park retained by CEC Beihai for its own use (the “Designated Area”). The term of the Property Management Agreement commenced on 1 February 2013 and will expire on 31 December 2016. The scope of services provided under the Property Management Agreement includes but is not limited to:

- (1) Day to day maintenance and management of the Designated Area;
- (2) Maintenance and management of common facilities in the Designated Area; and
- (3) Other services to the resident enterprises and their employees in the CEC Beihai Industrial Park.

According to the Property Management Agreement, the service fee payable by CEC Beihai to CEC Rida is currently RMB2,300,000 per year and is inclusive of all disbursements, payable by CEC Beihai in quarterly instalments in cash within 10 days of the end of each quarter. The service fee payable under the Property Management Agreement is determined after arm’s length negotiations between CEC Beihai and CEC Rida.

The service fees for the property management services under the Property Management Agreement were nil, nil, nil and RMB575,000 for the years ended 31 December 2010, 2011 and 2012 and the four months ended 30 April 2013 respectively. It is expected that for each of the years ending 31 December 2013, 2014 and 2015 and the six months ending 30 June 2016, the service fees would not exceed RMB2,200,000, RMB2,300,000, RMB2,300,000 and RMB1,200,000 respectively.

CONTINUING CONNECTED TRANSACTIONS – GUARANTEE ARRANGEMENTS

Currently, CEC Finance provides loan facilities to the Target Group while under the Guarantee Arrangements, CEC provides guarantees in respect of such loans in return for the Guarantee Fees. It is expected that after the Completion, CEC Finance will continue to provide financial assistance to the Target Group (as set out in the paragraph headed “Major Transaction and Continuing Connected Transactions – CEC Technology Financial Services Agreement” above) and the Guarantee Arrangements will continue. As CEC Technology will become a wholly-owned subsidiary of the Company after the Completion, the Guarantee Arrangements will become continuing connected transactions of the Company.

Under the current arrangements, when CEC Finance confirmed on its agreement to provide financial assistance to the Target Group, CEC Technology and CEC would negotiate and agree on the Guarantee Fees, payable upfront in cash, in relation to the guarantee to be provided by CEC to the Target Group on a case-by-case basis, based on, among other things, the amount and term of the proposed financial assistance in question. The Company proposes that CEC Technology shall enter into a written agreement with CEC with respect to the Guarantee Arrangements.

The Guarantee Fees under the Guarantee Arrangements were RMB1,853,000, RMB1,073,000, RMB151,000 and nil for the years ended 31 December 2010, 2011 and 2012 and the four months ended 30 April 2013 respectively. Taking into account the financial assistance which may be utilised by the Target Group in the relevant periods, it is expected that for each of the years ending 31 December 2013, 2014 and 2015 and the six months ending 30 June 2016, the Guarantee Fees would not exceed RMB3,000,000, RMB3,000,000, RMB2,000,000 and RMB2,000,000 respectively.

REASONS FOR AND BENEFITS OF THE PROPOSED TRANSACTIONS

The Board believes the Acquisition, the CEC Technology Financial Services Agreement, the Property Management Agreement and the Guarantee Arrangements incidental to the Acquisition, 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

As a result of the rolling out of supportive policies that are designed to enhance the growth of the information technology industry as well as the room for growth that is being expanded by the nationwide rural-urban transformation, the Board believes that the outlook of electronic information technology industrial parks is positive and that by tapping into this sector, the Company will be able to leverage this opportunity to extend its principal business of designing and developing integrated circuits into the electronic information technology industrial parks sector and complement their existing information technology facilities with a view to accelerating development of the electronic information technology industrial parks and achieving growth for the Company.

The Company takes a positive view on the development of the electronic information technology industrial parks in the PRC and, with the support that will be given under the relevant policies, it is anticipated that the electronic information technology industrial parks will see considerable growth. It is further expected that by participating in the construction and management of electronic information technology industrial parks, the Company will be in a good position to capture the opportunities that will be presented by the electronic information technology sector and enable the Company to upgrade the conventional industries by integrating them with modern information technology.

It is anticipated that, subsequent to the Acquisition, the Company will step up its efforts in developing the Target Group by leveraging on its strong information technology expertise and client network, and the Board believes that such efforts will eventually realise income earning potential of the Target Group which will, in turn, enhance the quality of the assets held by the Group and thereby enhancing the Group's profitability and growth.

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 under the Equity Transfer Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CEC Technology Financial Services Agreement

CEC Finance is a non-bank 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 the Target Group's utilising the financial services provided by CEC Finance are as follows:

- (i) CEC Finance has been providing various financial services to the Target Group prior to the Acquisition. Therefore, in order to maintain stability in the financial operation of the Target Group, it is beneficial and commercially sensible for the Target Group to continue such arrangements.
- (ii) The interest rates on deposits and financial assistance offered by CEC Finance to the Target Group will be no less favourable than those offered by other domestic commercial banks. CEC Finance is also ready to provide financial assistance to the Target Group on an unsecured basis. The fees and commissions for the fee- and commission-based financial services provided by CEC Finance will not be higher than those charged by other domestic commercial banks or financial institutions.
- (iii) 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.
- (iv) The Target Group is expected to benefit from CEC Finance's better understanding of the operations of the Target Group which will allow expedient and efficient service provision. The Target Group also expects that as an intra-group service provider, CEC Finance will generally have a better and more efficient communication with the Target Group compared with other domestic commercial banks or financial institutions.
- (v) The CEC Technology Financial Services Agreement will provide the Target Group with the right and flexibility, which it may choose to utilise the different kinds of financial assistance provided by CEC Finance and secure an 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 terms of the CEC Technology Financial Services Agreement and the proposed caps of the transactions thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Property Management Agreement

CEC Rida is engaged in property management in the PRC and has received various recognitions in the field. It is familiar in the operation of CEC Beihai Industrial Park through its previous services. The Directors consider that it is beneficial for CEC Beihai to continue such engagement.

Having considered the aforesaid factors, the Directors (including the independent non-executive Directors) are of the view that the Property Management Agreement and the proposed caps of the transactions thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Guarantee Arrangements

The provision of guarantee by CEC to the Target Group at a fee has been an integral part of the financial assistance from CEC Finance to the Target Group, which has been in place before the Acquisition. The Guarantee Arrangements enabled the provision of financial assistance from CEC Finance to the Target Group and the Directors considered that it is beneficial and commercially sensible for the Target Group to continue such arrangements.

The Directors (including the independent non-executive Directors) are of the view that the Guarantee Arrangements and the proposed caps of the transactions thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PARTIES

(a) Information on the Group

The Company is an investment holding company. The principal activities of the Group are the design, research and development and sale of integrated circuits.

(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.

LISTING RULES IMPLICATIONS

As at the date of this announcement, CEC was interested in approximately 71.30% of the issued share capital of the Company. CEC is the ultimate controlling shareholder of the Company and thus is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction of the Company, and the Guarantee Arrangements and the transactions thereunder will constitute continuing connected transactions of the Company.

CEC Finance is a subsidiary of CEC. As such, CEC Finance is a connected person of the Company under the Listing Rules and upon the Completion, the CEC Technology Financial Services Agreement and the transactions thereunder will constitute continuing connected transactions of the Company.

CEC Rida is a subsidiary of CEC. As such, CEC Rida is a connected person of the Company under the Listing Rules and upon the Completion, the Property Management Agreement and the transactions thereunder will constitute continuing connected transactions 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 Chapter 14 and 14A of the Listing Rules respectively and is subject to requirements for reporting, announcement and independent shareholders' approval.

The Company considers that the nature of the continuing connected transactions under the CEC Technology Financial Services Agreement are similar to the continuing connected transactions under the 2013 – 2016 Financial Services Agreement dated 7 May 2013 between the Company and CEC Finance, and the relevant annual caps of the transactions under the two agreements should be aggregated for the purpose of determining the classification of the continuing connected transactions and their compliance requirements. Taking into account the continuing connected transactions under the two agreements, one or more of the applicable aggregated percentage ratios referred to in Chapters 14 and 14A of the Listing Rules exceed 25% but all of which are less than 100%, and therefore the provision of financial services under the CEC Technology Financial Services Agreement constitute a major transaction and continuing connected transactions of the Company under Chapter 14 and 14A of the Listing Rules respectively and are subject to requirements for reporting, announcement and independent shareholders' approval.

As one or more of the applicable percentage ratios for the Property Management Agreement are more than 0.1% but all of which are less than 5%, pursuant to Rules 14A.27 and 14A.34 of the Listing Rules, the Property Management Agreement and the transactions thereunder are only subject to requirements for reporting and announcement, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios for the Guarantee Arrangements are more than 0.1% but all of which are less than 5%, pursuant to Rules 14A.27 and 14A.34 of the Listing Rules, the Guarantee Arrangements and the transactions thereunder are only subject to requirements for reporting and announcement, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

None of the Directors have a material interest in the Acquisition, the CEC Technology Financial Services Agreement, the Property Management Agreement, the Guarantee Arrangements and/or the transactions thereunder. Accordingly, no Director was required to abstain from voting on the board resolutions in respect thereof.

SGM

The SGM will be convened to consider and, if thought fit, to approve (a) the Acquisition and (b) the CEC Technology Financial Services Agreement and the 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 the Acquisition and the CEC Technology Financial Services Agreement and the 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. In order to allow sufficient time for the Company to compile relevant information on the Target Group for the circular, the Company proposes to despatch the circular on or before 13 August 2013.

DEFINITIONS

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

“6th Research Institute”	The 6th Research Institute of China Electronics Corporation Limited (中國電子信息產業集團有限公司第六研究所), an entity under CEC and established under the law of the PRC
“Acquisition”	the acquisition of the 100% equity interest in CEC Technology by the Company from CEC pursuant to the terms and conditions of the Equity Transfer Agreement
“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 Beihai”	China Electronics Beihai Industrial Park Development Co., Ltd (中國電子北海產業園發展有限公司), a company established under the laws of the PRC
“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 Rida”	CEC Rida Property Management Co., Ltd (北京中電瑞達物業有限公司), a company established under the laws of the PRC and a subsidiary of CEC
“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 CEC Technology financial services agreement proposed to be entered into between CEC Technology and CEC Finance, in respect of the financial services to be provided by CEC Finance to the Target Group after the Completion
“CEC Xi’an”	China Electronics Xi’an Industrial Park Development Co., Ltd (中國電子西安產業園發展有限公司), a company established under the laws of the PRC
“ChinaSoft”	China National Software & Service Co., Ltd (中國軟件與技術服務股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600536) and a subsidiary of CEC
“Company”	China Electronics Corporation Holdings Company Limited
“Completion”	completion of the Acquisition in accordance with the terms of the Equity Transfer Agreement

“connected person”	has the meaning ascribed to this term under the Listing Rules
“Directors”	the directors of the Company
“Equity Transfer Agreement”	the agreement dated 5 July 2013 and entered into between the Company and CEC in respect of the Acquisition
“Group”	the Company and its subsidiaries
“Guarantee Arrangements”	the guarantee arrangements between the Target Group and CEC under which CEC provides guarantee(s) in respect of certain financial assistance by CEC Finance to the Target Group
“Guarantee Fees”	the fees payable by the Target Group to CEC in relation to the Guarantee Arrangements
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hainan RSC”	Hainan Resort Software Community Investment and Development Co., Ltd (海南生態軟件園投資發展有限公司), a company established under the laws of the PRC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of Directors consisting of Mr. Chan Kay Cheung, Mr. Qiu Hongsheng and Mr. Yin Yongli, being all independent non-executive Directors, formed to advise the Independent Shareholders in respect of the terms of the Acquisition as well as the CEC Technology Financial Services Agreement and the proposed caps of the transactions thereunder
“Independent Shareholders”	Shareholders other than CEC and its associates

“Industrial Parks”	CEC Beihai Industrial Park, Hainan Resort Software Community and CEC Xi’an Industrial Park
“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
“Property Management Agreement”	the property management agreement dated 1 February 2013 between CEC Beihai and CEC Rida
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Relevant Equity Interest”	100% equity interest in CEC Technology owned by CEC
“SGM”	the special general meeting of the Company convened to be held to consider and, if thought fit, to approve (a) the Acquisition and (b) the CEC Technology Financial Services Agreement and the proposed caps of the transactions thereunder
“Shareholder(s)”	shareholder(s) of the Company
“Target Group”	CEC Technology and its subsidiaries
“%”	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.

Unless otherwise specified in this announcement, amounts denominated in RMB have been converted into Hong Kong dollars at HK\$1.0 to RMB0.8 for illustration purpose only. No representation has been made by the Company that any amount has been, could have been or could be converted at the above rate or at any other rates or at all.

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

Hong Kong, 7 July 2013

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