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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Electronics Corporation Holdings Company Limited (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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CHINA ELECTRONICS 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)

(1) MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

(2) PROPOSED REDUCTION OF SHARE PREMIUM AND PAYMENT OF SPECIAL DIVIDEND

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

ALTUS CAPITAL LIMITED

A notice convening a special general meeting of the Company to be held at Plaza 1-2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Thursday, 20 June 2013 at 10:00 a.m. is set out on pages 47 to 50 of this circular. Whether or not you are able to attend the special general meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the time appointed for holding the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjourned meeting should you so wish.

A letter from the independent board committee of the Company containing its recommendation to the independent shareholders of the Company is set out on page 21 of this circular. A letter from Altus Capital Limited, the independent financial adviser, containing its advice to the independent board committee and the independent shareholders of the Company is set out on pages 22 to 39 of this circular.

28 May 2013

* For identification purpose only

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DEFINITIONS

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

“2010-2013 Business Services Agreement”	the 2010-2013 business services agreement dated 19 July 2010 and entered into between CEC and the Company
“2013-2016 Business Services Agreement”	the 2013-2016 business services agreement dated 7 May 2013 and entered into between CEC and the Company
“2013-2016 Financial Services Agreement”	the 2013-2016 comprehensive financial services agreement dated 7 May 2013 and entered into between the Company and CEC Finance
“Altus Capital”	Altus Capital Limited, a licensed corporation to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement and their respective proposed caps
“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Bye-laws”	the bye-laws of the Company as may be amended from time to time
“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)
“CEC Group”	CEC and its subsidiaries (other than the Group)

DEFINITIONS

“China Huada”	China Integrated Circuit Design Corp., Ltd (中國華大集成電路設計集團有限公司), a substantial shareholder of the Company
“Company”	China Electronics Corporation Holdings Company Limited
“connected person”	has the meaning ascribed to this term under the Listing Rules
“Director(s)”	the director(s) of the Company
“Elimination of Accumulated Losses”	the elimination of the audited accumulated losses of the Company of HK\$214,534,000 as at 31 December 2012
“Financial Services Agreement”	the comprehensive financial services agreement dated 19 July 2010 and entered into between the Company and CEC Finance
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement and their respective proposed caps
“Independent Shareholders”	shareholders of the Company other than CEC and its associates
“Latest Practicable Date”	21 May 2013, being the latest applicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PBOC”	the People’s Bank of China
“PRC”	the People’s Republic of China

DEFINITIONS

“Payment of Special Dividend”	the payment of a special dividend of an aggregate amount in cash of HK\$50,746,800 (representing HK\$0.03 per Share) out of the contributed surplus account of the Company after the Reduction of Share Premium becoming effective
“RMB”	Renminbi, the lawful currency of the PRC
“Reduction of Share Premium”	the reduction of the Share Premium Account by HK\$600,000,000 and the transfer of the credit arising from the reduction to the contributed surplus account of the Company where it will be utilised by the Board in accordance with the Bye-laws and all applicable laws, including the Elimination of Accumulated Losses and the Payment of Special Dividend
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, to approve (a) the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement and their respective proposed caps; and (b) the Reduction of Share Premium and the Payment of Special Dividend
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Share Premium Account”	the share premium account of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

For ease of reference only, the names of PRC established companies and entities have been included in this circular 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.

LETTER FROM THE BOARD



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)

Non-executive Directors:

Rui Xiaowu (*Chairman*)

Zhao Guiwu (*Vice Chairman*)

Executive Directors:

Xie Qinghua (*Managing Director*)

Liu Jinping

Independent Non-executive Directors:

Chan Kay Cheung

Qiu Hongsheng

Yin Yongli

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal place of business in

Hong Kong:

Room 3403, 34th Floor

China Resources Building

26 Harbour Road

Wanchai

Hong Kong

28 May 2013

To the Shareholders

Dear Sir or Madam,

(1) MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

(2) PROPOSED REDUCTION OF SHARE PREMIUM AND PAYMENT OF SPECIAL DIVIDEND

INTRODUCTION

Reference is made to the announcement of the Company dated 7 May 2013 in relation to, among other things, (1) the entering into of the 2013-2016 Business Services Agreement with CEC and 2013-2016 Financial Services Agreement with CEC Finance; and (2) the proposed Reduction of Share Premium and Payment of Special Dividend. The purpose of this circular is to provide you with, among other things, information on the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement and their respective proposed caps, and to set out the

* For identification purpose only

LETTER FROM THE BOARD

advice from Altus Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement and their respective proposed caps, the recommendation from the Independent Board Committee, information on the proposed Reduction of Share Premium and Payment of Special Dividend and to give the notice of SGM.

1. MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

Background

Reference is made to the announcements dated 19 July 2010 and 26 August 2011 and the circulars dated 9 August 2010 and 19 September 2011 of the Company in relation to certain continuing connected transactions between the Group and each of the CEC Group and CEC Finance under the 2010-2013 Business Services Agreement and the Financial Services Agreement, respectively (collectively, the “2010 Agreements”). These agreements will expire on 30 June 2013.

On 7 May 2013, in order to continue the existing continuing connected transactions contemplated under the 2010 Agreements, and to facilitate the Group’s production and operation upon the expiration of the 2010 Agreements, the Company entered into (1) the 2013-2016 Business Services Agreement with CEC and (2) the 2013-2016 Financial Services Agreement with CEC Finance to reflect the terms of the proposed continuing connected transactions and the caps of the transactions thereunder for each of the years ending 31 December 2013, 2014 and 2015 and the six months ending 30 June 2016.

2013-2016 Business Services Agreement

Date : 7 May 2013

Parties : (i) the Company

(ii) CEC

The 2013-2016 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.

LETTER FROM THE BOARD

Details of the continuing connected transactions contemplated under the 2013-2016 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*

Pursuant to the 2013-2016 Business Services Agreement, 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, pursuant to the 2013-2016 Business Services Agreement, purchase from the CEC Group raw materials, modules, software and equipment for the research and development of integrated circuit cards, smart cards and chips, on a non-committed and non-exclusive basis.

(ii) *Sale of products to the CEC Group*

Pursuant to the 2013-2016 Business Services Agreement, the Group will 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 2013-2016 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. Before confirming the pricing of 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 Group would refer to the pricing of the end products according to the customers order, the complexity of the particular work and the raw materials and technology involved. Before confirming the pricing of sale of products to the CEC Group, the Group would refer to the previous transactions with other customers who are independent third parties of the Group in respect of similar products within 6 months and any market information based on the experience of the Group's management, the dealings with other players in the market, and industry level profit margin, which may be available at that time, and make an assessment of the general market price of that type of product.

The pricing of the transactions under the 2013-2016 Business Services Agreement are subject to an internal approval process. An application should be made by the purchases department or the sales department (as the case may be), and presented to the legal department and financial department for approval. For transactions in larger amounts, the pricing shall be approved by the senior management.

The consideration payable and receivable by the Group under the 2013-2016 Business Services Agreement will be settled in cash according to the terms upon which the services or products are provided.

LETTER FROM THE BOARD

For the purpose of the 2013-2016 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.

The 2013-2016 Business Services Agreement is subject to the approval of the Independent Shareholders, and will take effect from 1 July 2013 and expire on 30 June 2016. Upon expiry of the 2013-2016 Business 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 and Existing Caps for the 2010-2013 Business Services Agreement

In respect of each category of continuing connected transactions contemplated under the 2013-2016 Business Services Agreement, the historical transaction amounts for each of the years ended 31 December 2010, 2011 and 2012 and the three months ended 31 March 2013 and the existing caps for the six months ending 30 June 2013 for the 2010-2013 Business Services Agreement are set out below:

Type of transaction	Existing caps for the six months ending 30 June 2013 (RMB'000) (Note 1)	Historical transaction amounts for			
		the year ended 31 December			the three months ended 31 March 2013 (RMB'000)
		2010 (RMB'000)	2011 (RMB'000)	2012 (RMB'000)	
Products processing, testing and assembling services and purchase of raw materials and modules					
– Consideration payable by the Group	480,000 (Note 2)	302,829	405,375	475,977	103,977
Sale of products					
– Consideration receivable by the Group	68,000	47,368	50,316	82,258	20,755

Notes:

- The Company confirmed that the consideration payable and receivable by the Group under the 2010-2013 Business Services Agreement for the period commencing from 1 January 2013 until the Latest Practicable Date have not exceeded the caps for the six months ending 30 June 2013 set out in the above table.
- Such revised cap of consideration payable by the Group pursuant to the 2010-2013 Business Services Agreement for the six months ending 30 June 2013 was approved at the special general meeting held on 10 October 2011, details of which are set out in the circular dated 19 September 2011.

LETTER FROM THE BOARD

Proposed Caps for the 2013-2016 Business 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 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 2013-2016 Business Services Agreement accordingly:

Type of transaction	For the year ending 31 December			For the six months ending 30 June 2016
	2013 (RMB'000) (Note 3)	2014 (RMB'000)	2015 (RMB'000)	2016 (RMB'000)
Products processing, testing and assembling services and purchase of raw materials, modules, software and equipment				
– Consideration payable by the Group	656,000	852,000	1,064,000	665,000
Sale of products				
– Consideration receivable by the Group	116,000	150,000	188,000	117,000

Notes:

- The caps for the consideration payable by the Group to the CEC Group and the consideration receivable by the Group from the CEC Group for the year ending 31 December 2013 set out above cover both (i) the consideration payable and receivable and expected to be payable and receivable by the Group under the 2010-2013 Business Services Agreement from 1 January 2013 until 30 June 2013 and (ii) the consideration expected to be payable and receivable by the Group under the 2013-2016 Business Services Agreement from 1 July 2013 until 31 December 2013.

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 made reference to the historical service fees paid by the Group and the historical purchase of raw materials and modules 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. The Group's integrated circuits design business comprises the design of integrated circuits chips and the development of application system. Products processing, testing and assembling services and purchase of raw materials, modules, software and equipment are usually conducted outside the Group, and are regarded as different steps in the production process in the Group's business model. As such, the Company considers it appropriate to group the transaction amounts under the same proposed annual caps. In relation to the historical transaction amounts and proposed annual caps, a vast majority is related to products processing and assembling services.

LETTER FROM THE BOARD

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 made reference to the historical sales, the expected demand of the Group's products by the CEC Group and the order status of the products.

The respective proposed annual caps for (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 products to the CEC Group for the year ending 31 December 2013 were based on an assumed increase of approximately 40% from the respective historical transaction amounts in the year ended 31 December 2012 and the purchase orders already received by the Group during the first quarter of 2013. The proposed annual caps for the years ending 31 December 2014 and 2015 and the six months ending 30 June 2013 were based on an increase of approximately 30%, 25% and 25% from the proposed annual caps for the previous year. The proposed annual caps are based on historical pricing of comparable products, assuming no changes in prices.

The revenue of the Group increased by 87.9% (or a CAGR of 37.1%) from RMB500,338,000 in 2010 to RMB940,268,000 in 2012. The consideration payable by the Group for products processing, testing and assembling services and purchase of raw materials and modules increased by 57.2% (or a CAGR of 25.4%) from RMB302,829,000 in 2010 to RMB475,977,000 in 2012. The consideration receivable by the Group for sale of products increased by 73.7% (or a CAGR of 31.8%) from RMB47,368,000 in 2010 to RMB82,258,000 in 2012. As disclosed in the Company's annual report for the year ended 31 December 2012, with continuing increase in investment in the banking, social security and Internet of Things sector in the PRC, the Directors expect the PRC smart cards industry to continue to grow in 2013. The Company is also aware of the potential growth of the PRC smart cards industry, having regard to in particular (i) the PRC government's continuous cultivation of this industry under its "Golden Card Project" (國家金卡工程) with recent emphasis on integrated circuit cards; and (ii) the promotion of integrated circuit cards in the financial sector by the PBOC. On these bases, the Company considers that the increment in the annual caps from the year ending 31 December 2013 onwards is in line with the increasing trend of the Group's revenues in the recent financial years and the growing trend of the industry.

LETTER FROM THE BOARD

2013-2016 Financial Services Agreement

Date : 7 May 2013

Parties : (i) the Company

(ii) CEC Finance

Pursuant to the 2013-2016 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 2013-2016 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- and commission-based financial services, including but not limited to guarantee services, fund management, agency services and financial consultancy services.

The 2013-2016 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 sees 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.

LETTER FROM THE BOARD

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- 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- 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 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 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 Group has established business relationship and compare that with the interest rates and/or fee/commission offered by CEC Finance.

The 2013-2016 Financial Services Agreement is subject to the approval of the Independent Shareholders and will take effect from 1 July 2013 and expire on 30 June 2016. Upon expiry of the 2013-2016 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.

LETTER FROM THE BOARD

Historical Transaction Amounts and Existing Caps for the Financial Services Agreement

In respect of each category of continuing connected transactions contemplated under the 2013-2016 Financial Services Agreement, the historical transaction amounts for each of the years ended 31 December 2010, 2011 and 2012 and the three months ended 31 March 2013 and the existing caps for the six months ending 30 June 2013 for the Financial Services Agreement are set out below:

Type of transaction	Existing caps for the six months ending 30 June 2013 (RMB'000) (Note 4)	Historical transaction amounts for			
		the year ended 31 December			the three months ended 31 March 2013 (RMB'000)
		2010 (RMB'000)	2011 (RMB'000)	2012 (RMB'000)	
Provision of deposit services by CEC Finance to the Group					
Maximum daily balance of deposits (together with the interests accrued thereon) maintained by the Group with CEC Finance.	80,000	80,000	80,000	80,000	80,000
Provision of financial assistance by CEC Finance to the Group					
Maximum daily balance of financial assistance provided by CEC Finance to the Group (Note 5).	80,000	–	–	–	–
Provision of fee- and commission-based financial services by CEC Finance to the Group					
Fees and commissions payable by the Group to CEC Finance.	2,000	–	–	–	–

Notes:

- The Company confirmed that 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 Group, under the Financial Services Agreement for the period commencing from 1 January 2013 until the Latest Practicable Date have not exceeded the caps for the six months ending 30 June 2013 set out in the above table.
- 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.

LETTER FROM THE BOARD

Proposed Caps for the 2013-2016 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 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 2013-2016 Financial Services Agreement accordingly:

Type of transaction	For the year ending 31 December			For the six months ending
	2013	2014	2015	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	2016
	(Note 6)			(RMB'000)
Provision of deposit services by CEC Finance to the Group				
Maximum daily balance of deposits (together with the interests accrued thereon) maintained by the Group with CEC Finance.	280,000	280,000	280,000	280,000
Provision of financial assistance by CEC Finance to the Group				
Maximum daily balance of financial assistance provided by CEC Finance to the Group (Note 5).	280,000	280,000	280,000	280,000
Provision of fee- and commission-based financial services by CEC Finance to the Group				
Fees and commissions payable by the Group to CEC Finance.	10,000	10,000	10,000	5,000

Notes:

- The caps for the fees and commissions for the fee- and commission-based financial services payable by the Group to CEC Finance for the year ending 31 December 2013 set out above cover both (i) the fees and commissions payable and expected to be payable by the Group under the Financial Services Agreement from 1 January 2013 until 30 June 2013 and (ii) the fees and commissions expected to be payable by the Group under the 2013-2016 Financial Services Agreement from 1 July 2013 until 31 December 2013.

LETTER FROM THE BOARD

In arriving at the above caps for the provision of deposit services by CEC Finance, the Company has made reference to the cash flow position and the treasury policy of the Group, that is to maintain safety of the Group's cash resources, flexibility in the deployment of funds, sufficient liquidity, to support the Group's operational needs, as well as minimizing financing cost and achieving 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. In particular, as part of its treasury policy, CEC is prepared to provide annual financial assistance of up to RMB280,000,000 to the Group through CEC Finance. The proposed annual cap of RMB280,000,000 is determined with reference to the possible capital and operational needs of the Group on the basis of 75% of the Group's cash and cash equivalent balance as at 31 December 2012, which the Company understands to be the limit proposed by CEC Finance based on their internal assessment on the maximum amount of unsecured 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 deposit was set at the equivalent amount of RMB280,000,000 which is the same as the limit of the financial assistance that could be provided.

In arriving at the above caps for the provision of financial assistance by CEC Finance, the Company has made reference to the possible capital and operational needs of the Group.

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 has made reference to the possible demand of the fee- and commission-based financial services provided by CEC Finance and the fees and commissions payable for such services.

In particular, the Company has taken into account (i) the possible utilisation of financial guarantees provided by CEC Finance for up to RMB280,000,000 at prevailing market guarantee fee rate (one-off) of up to 3% of the principal amount and (ii) other financial service fees with an aggregate estimated amount of RMB1.6 million per annum.

Reasons for Entering into the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement

The CEC Group provides products processing, testing and assembling services for the production of the Group's products and supply raw materials, modules, software and equipment to the Group for its research and development purposes. The CEC Group is also a customer of the products of the Group. The transactions contemplated under the 2013-2016 Business Services Agreement are, therefore, vital and integral to the business operations of the Group.

LETTER FROM THE BOARD

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 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. CEC Finance is also ready to provide financial assistance to the 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.
- (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 is expected to benefit from CEC Finance's better understanding of the operations of the Group which will allow expedient and efficient service provision. The Group also expects that as an intra-group service provider, CEC Finance will generally have a better and more efficient communication with the Group compared with other domestic commercial banks or financial institutions.
- (iv) The 2013-2016 Financial Services Agreement will provide the 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.

LISTING RULES IMPLICATIONS

CEC, which is interested in approximately 71.30% of the issued share capital of the Company as at the Latest Practicable Date, is the ultimate controlling shareholder of the Company and hence a connected person of the Company. CEC Finance, being a subsidiary of CEC, is also a connected person of the Company.

The Group has no prior transactions with CEC, CEC Finance and their respective associates which required aggregation with the transactions contemplated under the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement under Rule 14A.25 of the Listing Rules.

LETTER FROM THE BOARD

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the 2013-2016 Business Services Agreement are more than 5%, the 2013-2016 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.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the 2013-2016 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 2013-2016 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.

As one of the applicable percentage ratios calculated in accordance with the Listing Rules for the deposit services under the 2013-2016 Financial Services Agreement exceeds 25% but all of which are less than 100%, the provision of the deposit services by CEC Finance to the Group constitutes a major transaction of the Company under Rule 14.06(3) of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

None of the Directors have a material interest in the transactions contemplated under the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement. Accordingly, no Director was required to abstain from voting on the board resolutions in respect thereof.

2. PROPOSED REDUCTION OF SHARE PREMIUM AND PAYMENT OF SPECIAL DIVIDEND

Subject to approval of the Shareholders, the Board proposes to pay a special dividend of an aggregate amount in cash of HK\$50,746,800 (representing HK\$0.03 per Share) out of the contributed surplus account of the Company after the Reduction of Share Premium becoming effective.

The Board intends to put forward a proposal to the Shareholders at the SGM for the Reduction of Share Premium pursuant to the laws of Bermuda and the Bye-laws.

LETTER FROM THE BOARD

Reduction of Share Premium

As at 31 December 2012, the Company had audited accumulated losses of HK\$214,534,000. As at 31 December 2012, the amount standing to the credit of the Share Premium Account was HK\$872,255,000 based on the audited financial statements of the Company. It is proposed that the Share Premium Account will be reduced by HK\$600,000,000 and the credit arising from the reduction of the Share Premium Account will be transferred to the contributed surplus account of the Company where it will be utilised by the Board in accordance with the Bye-laws and all applicable laws, including the Elimination of Accumulated Losses and the Payment of Special Dividend.

Payment of Special Dividend

Subject to the approval by the Shareholders of the proposal of the Reduction of Share Premium at the SGM, the Board intends to put forward a proposal to the Shareholders at the SGM for the payment of a special dividend of an aggregate amount in cash of HK\$50,746,800 (representing HK\$0.03 per Share) out of the contributed surplus account of the Company, payable to the Shareholders whose names appear on the register of members of the Company on 2 October 2013.

Effect of the Reduction of Share Premium

The Reduction of Share Premium does not involve any reduction in the authorised or issued share capital of the Company and it does not involve any reduction in the nominal value of the Shares.

Implementation of the Reduction of Share Premium will not, of itself, affect the underlying assets, liabilities, business operations, management or financial position of the Company or the interests of the Shareholders as a whole other than related expenses incurred.

Conditions of the Reduction of Share Premium and the Payment of Special Dividend

The Reduction of Share Premium and the Payment of Special Dividend are conditional upon, inter alia, the following being fulfilled:

- (i) the passing of the necessary special resolution by the Shareholders to approve the Reduction of Share Premium at the SGM;

LETTER FROM THE BOARD

- (ii) compliance with all relevant procedures and requirements under the Listing Rules, applicable laws and regulations, in particular, the requirements under section 46 of the Companies Act 1981 of Bermuda (as amended) to effect the Reduction of Share Premium; and
- (iii) the passing of an ordinary resolution by the Shareholders to approve the Payment of Special Dividend at the SGM.

Subject to the fulfilment of the above conditions, it is expected the Reduction of Share Premium will become effective on the business day immediately following the date of passing of the special resolution to approve the Reduction of Share Premium.

Subject to both the resolutions relating to the Reduction of Share Premium and the Payment of Special Dividend having been approved by the Shareholders, the special dividend is expected to be paid in cash to the Shareholders on or before 31 October 2013.

Book Closure Periods

Shareholders whose names appear on the register of members of the Company on 20 June 2013 will be entitled to attend and vote at the SGM. The register of members of the Company will be closed from 18 June 2013 to 20 June 2013 (both days inclusive), during which period no transfer of Shares will be registered.

In order to be entitled to attend and vote at the SGM, all share certificates with completed transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 17 June 2013.

Shareholders whose names appear on the register of members of the Company on 2 October 2013 will be entitled to the special dividend. The register of members of the Company will be closed from 27 September 2013 to 2 October 2013 (both days inclusive), during which period no transfer of Shares will be registered.

In order to qualify for the special dividend, all share certificates with completed transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 26 September 2013.

LETTER FROM THE BOARD

GENERAL INFORMATION

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

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 sector in the PRC.

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.

SGM

A notice convening the SGM to be held at Plaza 1-2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Thursday, 20 June 2013 at 10:00 a.m. is set out on pages 47 to 50 of this circular. At the SGM, resolutions will be proposed to approve (a) the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement and their respective proposed caps; and (b) the Reduction of Share Premium and the Payment of Special Dividend. Any connected person with a material interest in the transaction, and any Shareholder with a material interest in the transaction and its associates will not vote. As such, CEC and its associates shall abstain from voting on the resolutions approving the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement and their respective proposed caps. To the best of the information and belief of the Directors having made all reasonable enquiries, no Shareholder is required to abstain from voting on the resolutions approving the Reduction of Share Premium and the Payment of Special Dividend. Pursuant to Rule 13.39(4) of the Listing Rules, all the above resolutions shall be taken by poll at the SGM.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors are of the view that the transactions contemplated under the 2013-2016 Business Services Agreement and the 2013-2016 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 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement and their respective proposed caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The credit arising from the Reduction of Share Premium will be transferred to the contributed surplus account of the Company. It will allow the Company to apply its contributed surplus to eliminate the audited accumulated losses of the Company as at 31 December 2012, and to enable the Payment of Special Dividend. The remaining contributed surplus of the Company will give flexibility to the Directors in planning its applications that the Company may choose in the foreseeable future in an expedient manner. As such, the Directors consider that the Reduction of Share Premium and the Payment of Special Dividend are beneficial to the Company and its Shareholders as a whole.

FURTHER INFORMATION

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

Yours faithfully,

For and on behalf of the Board

China Electronics Corporation Holdings Company Limited

Rui Xiaowu

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

28 May 2013

To the Independent Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 28 May 2013 (the “Circular”) , of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular, unless the context otherwise requires.

In compliance with the Listing Rules, we have been appointed to advise the Independent Shareholders in relation to the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement and their respective proposed caps. In this connection, Altus Capital has been appointed as the independent financial adviser to advise on these matters.

Your attention is drawn to the “Letter from the Board” set out on pages 4 to 20 of the Circular which contains, inter alia, information about the terms of the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement and their respective proposed caps, and the “Letter from Altus Capital” set out on pages 22 to 39 of the Circular which contains the advice from Altus Capital in respect of the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement and their respective proposed caps together with the principal factors and reasons taken into consideration in arriving at such.

We, having considered the terms of the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement and their respective proposed caps and having taken into account the principal factors and reasons considered by Altus Capital as stated in its letter of advice, consider that the terms of the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement and their respective proposed caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement and their respective proposed caps, as detailed in the notice of SGM set out on pages 47 to 50 of the Circular.

Yours faithfully,

Independent Board Committee

Chan Kay Cheung

Qiu Hongsheng

Yin Yongli

Independent non-executive Directors

* For identification purpose only

LETTER FROM ALTUS CAPITAL

The following is the text of a letter of advice from Altus Capital to the Independent Board Committee and the Independent Shareholders in respect of the 2013-2016 Business Services Agreement, the 2013-2016 Financial Services Agreement, the transactions contemplated under each of the aforesaid agreements and the proposed caps for the transactions contemplated under each of the aforesaid agreements, which has been prepared for the purpose of incorporation in this circular.

ALTUS CAPITAL LIMITED

21 Wing Wo Street
Central, Hong Kong

28 May 2013

The Independent Board Committee and the Independent Shareholders
China Electronics Corporation Holdings Company Limited
Room 3403, 34th Floor
China Resources Building
26 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2013-2016 Business Services Agreement, the 2013-2016 Financial Services Agreement, the transactions contemplated under each of the aforesaid agreements (the “Continuing Connected Transactions”) and the proposed caps for the transactions contemplated under each of the aforesaid agreements (the “Proposed Caps”). Details of the 2013-2016 Business Services Agreement, the 2013-2016 Financial Services Agreement and the Continuing Connected Transactions are set out in the “Letter from the Board” contained in the circular dated 28 May 2013 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 7 May 2013, the Company announced that it had entered into the 2013-2016 Business Services Agreement with CEC and the 2013-2016 Financial Services Agreement with CEC Finance.

LETTER FROM ALTUS CAPITAL

Pursuant to the 2013-2016 Business Services Agreement, the CEC Group will (i) provide products processing, testing and assembling services to the Group; and (ii) purchase integrated circuit cards and smart cards modules and chips from the Group, whilst the Group will purchase raw materials, modules, software and equipment from the CEC Group.

Pursuant to the 2013-2016 Financial Services Agreement, CEC Finance will provide a range of financial services to the Group (as further described in the “Letter from the Board” of the Circular) and the Group will utilise such financial services on a non-exclusive basis.

As at the Latest Practicable Date, CEC, which was interested in approximately 71.30% of the issued share capital of the Company, was the ultimately controlling Shareholder and hence a connected person of the Company. As at the Latest Practicable Date, CEC Finance, being a subsidiary of CEC, was also a connected person of the Company. As such, the transactions contemplated under the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of (i) each of the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement are more than 5%; and (ii) under the 2013-2016 Financial Services Agreement, the Group may be required to provide security for certain types of financial assistance to be provided by CEC Finance, each of the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement is subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios calculated in accordance with the Listing Rules for the deposit services under the 2013-2016 Financial Services Agreement exceeds 25% but all of which are less than 100%, the provision of the deposit services by CEC Finance to the Group constitutes a major transaction of the Company under Rule 14.06(3) of the Listing Rules and is subject to the reporting, announcement and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chan Kay Cheung, Mr. Qiu Hongsheng and Mr. Yin Yongli, has been established to consider the terms of the 2013-2016 Business Services Agreement, the 2013-2016 Financial Services Agreement and the Continuing Connected Transactions, and to advise the Independent Shareholders as to whether the terms of the aforesaid agreements, the Continuing Connected Transactions and the Proposed Caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and on how to vote on the resolutions to be proposed at the SGM.

LETTER FROM ALTUS CAPITAL

As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the 2013-2016 Business Services Agreement, the 2013-2016 Financial Services Agreement and the Continuing Connected Transactions, are in the Group's ordinary and usual course of business and together with the Proposed Caps are in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the aforesaid agreements and the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (iii) whether the Proposed Caps have been fairly and reasonably arrived at; and (iv) how the Independent Shareholders should vote in respect of the resolutions relating thereto to be proposed at the SGM.

BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background

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

The principal activities of the Group are engaged in the design, research and development and sale of integrated circuits.

LETTER FROM ALTUS CAPITAL

CEC is a state-owned enterprise established under the laws of the PRC. CEC Group provides design, development, manufacturing, sales and service in semiconductor and electronics components, computer and core computer parts, software and system integration, telecommunication and consumer electronics. CEC also engages in e-commerce, logistic and information service, electronic engineering design and contracts.

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

b. The 2010-2013 Business Services Agreement and the Financial Services Agreement

On 19 July 2010, the Company entered into the 2010-2013 Business Services Agreement with CEC and the Financial Services Agreement with CEC Finance. Both agreements will expire on 30 June 2013. The annual caps for the service charges payable pursuant to the 2010-2013 Business Services Agreement was revised upward at a special general meeting of the Company held on 10 October 2011.

Pursuant to the 2010-2013 Business Services Agreement, CEC Group will (i) provide products processing, testing and assembling services to the Group; and (ii) purchase integrated circuit cards and smart cards modules and chips from the Group, whilst the Group will purchase raw materials and modules from the CEC Group.

Pursuant to the 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.

2. Terms of the 2013-2016 Business Services Agreement

The services to be provided under the 2013-2016 Business Services Agreement are substantially the same as those prescribed in the 2010-2013 Business Services Agreement. To assess the fairness and reasonableness of the terms of the 2013-2016 Business Services Agreement, we have considered the following:

a. Sourcing or purchase from the CEC Group

- (i) All outsourcing and/or purchase transactions shall be undertaken on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties. In particular, the transactions are to be carried out on a market oriented basis. Hence, the Group is neither obliged nor committed to outsource or exclusively purchase from the CEC

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Group. Also, the Group is free to engage other third party service providers or suppliers should management deem that they offer more competitive prices for comparable quality of services and products.

- (ii) The services charges and purchase prices are determined on arm's length negotiation with reference to the prevailing market price for similar services and raw materials. Market prices refers to (a) the prices at which the same or comparable types 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 types of products or services provided by independent third parties in the ordinary and usual course of business.

We have compared samples of unit prices of past purchase and relevant service charges per unit for modules obtained from the CEC Group with those of similar products provided by independent third party service providers and found the overall average prices per unit and service charges per unit to be comparable. We have also compared the purchase prices of raw materials purchased from independent third party suppliers against those purchased from the CEC Group and found that the prices are comparable. In order to select a representative sample throughout the three years ended 31 December 2012 and three months ended 31 March 2013, samples were randomly selected from transactions undertaken during each half-year intervals of the three years ended 31 December 2012 and from the three month ended 31 March 2013.

b. Sales of products to the CEC Group

- (i) The sale transactions shall be undertaken on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties. In particular, the Group is neither obliged nor committed to sell only to the CEC Group if the terms offered are commercially unreasonable (e.g. prices are not comparable to prevailing market prices). Hence, the Group is free to sell its products to other third party customers at comparable or higher selling prices.
- (ii) Price of products will be determined based on arm's length negotiation with reference to the prevailing market price for similar products.

We have reviewed samples of historical terms and sale price of products for transactions between the Group and CEC Group and found that they are consistent with the price determination basis as mentioned above. Average sales price per unit of products sold by the Group to the CEC Group have also been compared to average sale prices per unit of similar products sold by the Group to independent third party customers and were found to be comparable. In order to select a representative sample throughout the three years ended 31 December 2012 and three months ended 31 March 2013, samples were randomly selected from transactions undertaken during each half-year intervals of the three years ended 31 December 2012 and from the three month ended 31 March 2013.

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Taking into account the above factors, we consider the transactions contemplated under the 2013-2016 Business Services Agreement to be on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. Terms of the 2013-2016 Financial Services Agreement

The services to be provided under the 2013-2016 Financial Services Agreement are the same as prescribed in the Financial Services Agreement. To assess the fairness and reasonableness of the terms of the 2013-2016 Financial Services Agreement, we have considered the following:

- (i) All transactions contemplated under the 2013-2016 Financial Services Agreement shall be undertaken on normal commercial terms or on terms no less favourable to the Group than terms available from other domestic commercial banks or financial institutions. In particular, the Group is neither obliged nor committed to carry out any transactions contemplated under the 2013-2016 Financial Services Agreement if the terms, interest rates on deposits and financial assistance, the fees and commissions for the fee- and commission-based financial services are less favourable in comparison to those offered by other domestic commercial banks or financial institutions.
- (ii) Interest rates on deposits and financial assistance offered by CEC Finance to the Group will be determined with reference to, and shall be no less favourable than those offered to the Group by other domestic commercial banks. In addition, the fees and commissions for the fee- and commission-based financial services provided by CEC Finance to the Group will be determined with reference to and shall not be higher than those charged by other domestic commercial banks or financial institutions. Also according to the management of the Company, interest rate or fee quotes will be obtained from other domestic commercial banks and/or financial institutions before the choice of financial services provider is made.
- (iii) According to the management of the Company, with the exception of 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, which is considered to be a more favourable arrangement than with those domestic commercial banks and financial institutions.

We have compared the interest rates on deposits of various terms offered by CEC Finance with those offered by independent third party domestic commercial banks and/or financial institutions and found that the rates are comparable. We also note that the Group may be required to provide security for certain types of financial assistance to be provided by independent third party domestic commercial banks or financial institutions. As the Group has not obtained any financial assistance or fee- and commission-based financial service from CEC Finance during the three years ended 31 December 2012 and the three months ended 31 March 2013, no samples of such transactions has been selected for review.

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Taking into account the aforesaid factors, we consider the transactions contemplated under the 2013-2016 Financial Services Agreement to be on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

4. Reasons for and benefits of the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement

a. The 2013-2016 Business Services Agreement

The Group does not own facilities to perform the processing, testing and assembling procedures on integrated circuits products. Such procedures are outsourced to specialised service providers which include the CEC Group. Further, we understand from the management of the Company that a majority of the Group's products are bespoke for specific applications. As such, the raw materials and modules employed by the Group are usually product-specific and may vary largely depending on customers' requirements.

According to the management of the Company, the CEC Group have been efficient in fulfilling majority of the outsourcing and purchase requirements of the Group. Moreover, the services provided by the CEC Group have been of high quality and supply of raw materials and modules has been reliable and at competitive prices. As such, the management of the Company considers that the CEC Group as an important supplier of the Group and that it is commercially sensible to continue such business relationship.

Regarding the sales transactions, the CEC Group have been long term customers to the Group, purchasing products such as integrated circuit cards and smart cards modules and chips. According to the management of the Company, the continuing business between the Group and the CEC Group has contributed positively to the Group, representing approximately 9.5%, 6.1% and 8.7% of the Group's revenue in the three years ended 31 December 2010, 2011 and 2012 respectively. Furthermore, the Group has not encountered any significant disputes or problems in collecting sales proceeds from the CEC Group in the past. As such, the Directors believe that it is in the interests of the Group to continue such business arrangement with the CEC Group.

In view of the above, we concur with the Directors and are of the view that the transactions contemplated under the 2013-2016 Business Services Agreement are vital and integral to the Group's business operations. Together with the fact that (i) the transactions contemplated under the 2013-2016 Business Services Agreement will continue to be conducted on normal commercial terms or on terms no less favourable to the Group than

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terms available to and from independent third parties (as described in paragraph 2 above); and (ii) the transactions contemplated under the 2013-2016 Business Services Agreement are undertaken in the ordinary and usual course of the Group's business given the respective principal businesses of the Group and the CEC Group (as described in paragraph 1(a) above), we concur with the Directors that the entering of the 2013-2016 Business Services Agreement is in the interests of the Company and the Shareholders as a whole.

b. The 2013-2016 Financial Services Agreement

As a regulated financial institution, CEC Finance is required to comply with all rules and operational requirements of the regulatory authorities, namely the PBOC and the CBRC. As such, the utilisation of the financial services provided by CEC Finance would not expose the Group to additional financial risk as compared to utilising financial services provided by similar financial institutions that are governed by the same rule and operational requirements of the PBOC and the CBRC. In addition, given its status as an intra-group service provider, in comparison to other domestic commercial banks or financial institutions, CEC Finance has advantages of (i) better understanding of the Group's operations, which management of the Company believes will lead to more expedient and efficient services; and (ii) better communication with the Group.

Moreover, the availability of deposits, financial assistance and fee- and commission-based financial services provided by CEC Finance under the 2013-2016 Financial Services Agreement will provide the Group with the right and flexibility to secure an additional source of financing and services at reasonable costs as and when needed.

In view of the above and that (i) the transactions contemplated under the 2013-2016 Financial Services Agreement will continue to be conducted on normal commercial terms or on terms no less favourable to the Group than terms available from other domestic commercial banks or financial institutions; and (ii) the transactions contemplated under the 2013-2016 Financial Services Agreement are undertaken in the ordinary and usual course of the Group's business given the principal businesses of CEC Finance, we concur with the Directors that the entering of the 2013-2016 Financial Services Agreement is in the interests of the Company and the Shareholders as a whole.

c. Overall

The Company proposes to seek Independent Shareholders' approval of the 2013-2016 Business Services Agreement and the 2013-2016 Financial Services Agreement to allow the Group to continue to undertake the transactions as currently stipulated under the 2010-2013 Business Services Agreement and the Financial Services Agreement (which were previously approved by the Independent Shareholders) for an additional term till 30 June 2016.

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5. Proposed Caps

a. The 2013-2016 Business Services Agreement

(i) Historical financial information and trading prospects

Set out below are the Group's (i) revenue; (ii) cost of sales; (iii) sales to the CEC Group; and (iv) outsourcing and/or purchases from the CEC Group for the three years ended 31 December 2010, 2011 and 2012 as extracted from the Company's respective published annual reports.

	For the year ended 31 December		
	2010	2011	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	500,338	790,746	940,268
Sales of products to the CEC Group	47,368	50,316	82,258
Percentage of revenue	9.5%	6.4%	8.7%
Cost of sales	315,309	551,249	572,724
Products processing, testing and assembling services and purchase of raw materials and modules	302,829	405,375	475,977
Percentage of cost of sales	96.0%	73.5%	83.1%

Source: Company's 2010, 2011 and 2012 annual reports

Note: The figures in the table have been translated using the following exchange rates:
2010 – HK\$/RMB: 0.871; 2011 – HK\$/RMB: 0.828; 2012 – HK\$/RMB: 0.814

As shown in the table above, sales to the CEC Group represent approximately 9.5%, 6.4% and 8.7% of the Group's total revenue for the year ended 31 December 2010, 2011 and 2012 respectively, whilst outsourcing/purchases from the CEC Group represent approximately 96.0%, 73.5% and 83.1% of the Group's cost of sales for the same period respectively. As aforementioned in paragraph 4a, majority of the Group's products are bespoke for specific applications, consequently, the raw materials and modules employed by the Group are usually product-specific and may not be readily available in the market. It is therefore commercially reasonable to purchase from the CEC Group, who has proven to provide high quality services/supplies at competitive prices. Given the above and that the 2010-2013 Business Services Agreement was entered into on a non-committed and non-exclusive basis with a market oriented approach, we are of the view that there is no over-reliance on purchases from the CEC Group.

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It was noted that there was a growth of approximately 58.0% in the Group's total revenue from 2010 to 2011, but sales to the CEC Group merely increased by approximately 6.2%. Then in the year ended 31 December 2012, the Group's total revenue experienced an increase of approximately 18.9% as compared to the previous year, but sales to the CEC Group experienced a growth by approximately 63.5%.

It was also noted that there was an increase of approximately 74.8% in the Group's cost of sales from 2011 to 2012, but the amount of outsourcing and purchasing by the Group from the CEC Group increased at a slower pace of approximately 33.9%. Then in the year ended 31 December 2012, the Group's cost of sales experienced an increase of approximately 3.9% as compared to the previous year, whilst the amount of outsourcing and purchasing by the Group from the CEC Group increased by approximately 17.4%.

We understand from management of the Company that such divergences between the transactions with the CEC Group and the Group's overall business trends were mainly attributable to the market oriented approach adopted in the 2010-2013 Business Services Agreement, which was also entered into on a non-committed and non-exclusive basis. Detailed discussion on the fairness and reasonableness of such basis is set out in paragraph 2 above.

(ii) Existing caps and historical variances

Below is a table setting out (aa) each category of continuing connected transactions contemplated under the 2010-2013 Business Services Agreement and the 2013-2016 Business Services Agreement; (bb) the existing cap approved for the 2010-2013 Business Services Agreement; (cc) the historical amount of charges recorded for each of the three years ended 31 December 2010, 2011, and 2012 and the three months ended 31 March 2013; and (dd) the Proposed Caps for the 2013-2016 Business Services Agreement.

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Type of transaction	Existing caps/historical amount recorded				Proposed Caps			
	For the year ended 31 December			For the six months ending 30 June	For the year ending 31 December			For the six months ending 30 June
	2010	2011	2012	2013	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Products processing, testing and assembling services and purchase of raw materials, modules, software and equipment								
Historical service charges payable by the Group	302,829	405,375	475,977	103,977 (Note 1)				
Approved cap (Note 2)	422,000	590,000	770,000	480,000	656,000	852,000	1,064,000	665,000
Utilisation percentage	71.8%	68.7%	61.8%	(Note 3)				
Sale of products								
Historical charges receivable by the Group	47,368	50,316	82,258	20,755 (Note 1)				
Approved cap	68,000	86,000	106,000	68,000	116,000	150,000	188,000	117,000
Utilisation percentage	69.7%	58.5%	77.6%	(Note 3)				

Notes:

1. The amount refers to the latest available information prior to the despatch of the Circular, being the historical amount for the three months ended 31 March 2013.
2. The annual caps set out in the 2010-2013 Business Services Agreement for the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013 were RMB366,000,000, RMB392,000,000 and RMB207,000,000 respectively. These were subsequently revised and approved by the then independent shareholders of the Company at the special general meeting held on 10 October 2011. Details of which are set out in a circular issued by the Company dated 19 September 2011.
3. No utilisation percentage is presented.

As shown in the table above, the amount recorded for the outsourcing and purchase transactions with the CEC Group (i.e. the historical service charges payable by the Group) for the three years ended 31 December 2010, 2011 and 2012 represent approximately 71.8%, 68.7% and 61.8% respectively of the approved caps. For the three months ended 31 March 2013, the amount recorded for the outsourcing and purchase transactions with the CEC Group was approximately RMB103,977,000. Also shown in the table above, the amount of sales to the CEC Group (i.e. historical charges receivable by the Group) for the three years ended 31 December 2010, 2011 and 2012 represent approximately 69.7%, 58.5% and 77.6% respectively of the approved caps. For the three months ended 31 March 2013, the amount of sales to the CEC Group was approximately RMB20,755,000.

LETTER FROM ALTUS CAPTIAL

As stated in the “Letter from the Board” of the Circular, the Company confirmed that the consideration payable and receivable by the Group under the 2010-2013 Business Services Agreement for the period commencing from 1 January 2013 until the Latest Practicable Date have not exceeded the approved cap for the six months ending 30 June 2013.

(iii) Proposed Caps

In determining the Proposed Caps for the outsourcing and/or purchasing transactions, we understand that the Company has taken into consideration (i) the historical service charges payable by the Group; (ii) the expected demand of the products of the Group; (iii) production plan of the Group; and (iv) the costs of such services, raw materials, modules, software and equipment.

We note that the Company has taken into account the 61.8% utilisation of the approved cap for the year ended 31 December 2012 (as depicted in paragraph 5(a) (ii) above) and lowered the Proposed Cap for the year ending 31 December 2013 to RMB656 million. The respective Proposed Caps of RMB852 million and RMB1,064 million for the years ending 31 December 2014 and 2015 represent an approximate 29.9% and 24.9% increase over the Proposed Caps for each of the related preceding years.

We understand from the management of the Company that the Proposed Cap of RMB656 million for the year ending 31 December 2013 was primarily based on the expected amount of purchase orders to be received by the Group for the said period, which was in turn derived based on the purchase orders already received during the first quarter of 2013. The Proposed Caps for the two years ending 31 December 2014 and 2015 and for the six months ending 30 June 2016 were then projected taking into consideration of expected market demand. It is also our understanding that the average unit prices based on historical data of comparable products were adopted in deriving the Proposed Caps. In this regard, we have received samples of the Company’s transactions with the CEC Group and established that the average unit prices represented in our sample are comparable to those adopted in deriving the Proposed Caps.

LETTER FROM ALTUS CAPTIAL

Moreover, according to the Company's annual report for the year ended 31 December 2012, with continuing increase in investment in the banking, social security and Internet of Things sector in the PRC, the Directors expect the PRC smart cards industry to continue to grow at a steady pace in 2013. The expected rise in market demand from such a growth, however, may be countered by an increase in market competition resulting from the PRC's overall slowdown in economic growth. The Directors plan to address the potential rise in market competition with a proactive market oriented approach whilst continuing to draw on its strength in technology innovation. We concur with the view of the Directors with regard to the potential growth of the PRC smart cards industry given (i) the PRC government continuous cultivation of this industry under its "Golden Card Project" (國家金卡工程) with recent emphasis on integrated circuit cards; and (ii) the promotion of integrated circuit cards in the financial sector by the People's Bank of China and believe that it is fair and reasonable for the management of the Company to factor such considerations into the Proposed Caps.

In arriving at the above caps for the sale transactions with the CEC Group, we understand the Company has made reference to (i) historical sales; (ii) the expected demand of the Group's products by the CEC Group; and (iii) the order status of the products.

We understand that the Proposed Cap of RMB116 million for the year ending 31 December 2013 was derived from recent sales to the CEC Group and their market expectation for the coming year. The Proposed Caps for the years ending 31 December 2014 and 2015 and six months ending 30 June 2016 were established based on expected demand of the Group's products by the CEC Group, which is in line with expected market demand. Please refer to the paragraph above for our discussion on the expected market demand of the PRC smart cards industry. Similar to the sourcing and/or purchases transactions, the Proposed Caps for sales transactions were derived adopting historical average unit prices of comparable products. In this regard, we have received samples of the Company's transactions with the CEC Group and established that the average unit prices represented in our sample are comparable to those adopted in deriving the Proposed Caps.

Taking into account the above factors and reasons, we are of the view that the Proposed Caps with regard to the transactions contemplated under the 2013-2016 Business Services Agreement for each of the three years ending 31 December 2013, 2014 and 2015 and the six months ending 30 June 2016 are fair and reasonable.

LETTER FROM ALTUS CAPTIAL

b. The 2013-2016 Financial Services Agreement

(i) Historical financial information

Set out below are the Group's (i) cash and cash equivalent; and (ii) the maximum amount of daily deposit with CEC Finance for the three years ended 31 December 2010, 2011 and 2012 as extracted from the Company's respective published annual reports.

	As at 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Cash and cash equivalent	232,746	272,757	387,796
Maximum amount of daily deposit with CEC Finance	80,000	80,000	80,000
Percentage	34.4%	29.3%	20.6%

Source: Company's 2010, 2011 and 2012 annual reports

Note: The figures in the table have been translated using the following exchange rates:
2010 – HK\$/RMB: 0.871; 2011 – HK\$/RMB: 0.828; 2012 – HK\$/RMB: 0.814

As illustrated in the table above, the Group's cash and cash equivalent balance experienced year-on-year increase from 2010 to 2012 due to continuous growth in its business operations during the same period as depicted in paragraph 5(a)(i) above. We also note that the maximum amount of daily deposits of RMB80 million represents approximately 34.4%, 29.3% and 20.6% of the cash and cash equivalent as at 31 December 2010, 2011 and 2012 respectively, which we consider to be reasonable.

LETTER FROM ALTUS CAPTIAL

(ii) Existing caps and historical variances

Below is a table setting out (aa) each category of continuing connected transactions contemplated under the Financial Services Agreement and the 2013-2016 Financial Services Agreement; (bb) the existing cap approved for the Financial Services Agreement; (cc) the historical amount recorded for each of the three years ended 31 December 2010, 2011, and 2012 and the three months ended 31 March 2013; and (dd) the Proposed Caps for the 2013-2016 Financial Services Agreement.

Type of transaction	Existing caps/historical amount recorded				Proposed Caps			
	For the year ended 31 December			For the six months ending	For the year ending 31 December			For the six months ending
	2010	2011	2012	30 June 2013	2013	2014	2015	30 June 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Provision of deposit services by CEC Finance to the Group								
Historical maximum daily balance of deposits maintained by the Group with CEC Finance	80,000	80,000	80,000	80,000 (Note)				
Approved cap	80,000	80,000	80,000	80,000	280,000	280,000	280,000	280,000
Utilisation percentage	100.0%	100.0%	100.0%	100.0%				
Provision of financial assistance by CEC Finance to the Group								
Historical maximum amount of financial assistance provided by CEC Finance to the Group	–	–	–	–				
Approved Cap	80,000	80,000	80,000	80,000	280,000	280,000	280,000	280,000
Utilisation percentage	0%	0%	0%	0%				
Provision of fee- and commission-based financial services by CEC Finance to the Group								
Historical amount of fees and commissions payable by the Group to CEC Finance for the fee- and commission-based financial services provided by CEC Finance	–	–	–	–				
Approved cap	2,000	4,000	4,000	2,000	10,000	10,000	10,000	5,000
Utilisation percentage	0%	0%	0%	0%				

Note: The amount refers to the latest available information prior to the despatch of the Circular, being the historical amount for the three months ended 31 March 2013.

LETTER FROM ALTUS CAPTIAL

Due to its high level of cash and cash equivalent balance as described in paragraph 5(b)(i) above, the Group has not sought financial assistance or fee- and commission-based financial services by CEC Finance during the period from 1 January 2010 to the Latest Practicable Date.

(iii) Proposed Caps

According to the management of the Company, 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. In particular, as part of its treasury policy, CEC, being the ultimate controlling shareholder of the Group, is prepared to provide annual financial assistance of up to RMB280 million to the Group through CEC Finance. The Proposed Cap of RMB280 million is determined with reference to the possible capital and operational needs of the Group on the basis of 75% of the Group's cash and cash equivalent balance as at 31 December 2012, which we understand from the management of the Group was the limit proposed by CEC Finance based on their internal assessment. In return for the financial assistance provided by CEC Finance, the Group has offered to maintain an amount of deposit with CEC Finance. Such amount is proposed to be up to a maximum daily balance of deposit at the equivalent amount of RMB280 million which is the same as the limit of the financial assistance that could be provided. We have discussed with the management of the Company to understand the commercial rationale of this arrangement, we also understand from the management of the Company that other domestic commercial banks and/or financial institutions would usually request for security in respect of financial assistance of such magnitude. Further, notwithstanding the Group has not obtained financial assistance from CEC Finance under the Financial Services Agreement during the three years ended 31 December 2012 and three months ended 31 March 2013, we consider that it is commercially reasonable for the Group to maximise its financial flexibility by accepting the highest limit of financial assistance offered by CEC Finance. In view of this and that the Group is neither obliged nor committed to carry out any transactions contemplated under the 2013-2016 Financial Services Agreement if the terms, interest rates on deposits and financial assistance are less favourable in comparison to those offered by other domestic commercial banks or financial institutions, we consider the aforementioned Proposed Caps to be reasonable.

In determining the Proposed Caps for the fees and commissions payable for the provision of fee- and commission-based financial services (including guarantee services, fund management, agency services and financial consultancy services) by CEC Finance, the management of the Company has taken into account (i) the possible utilisation of financial guarantees provided by CEC Finance for up to RMB280 million at prevailing market guarantee fee rate (one-off) of up to 3% of the principal amount; and (ii) financial service fees with an aggregate estimated amount of RMB1.6 million per annum. In particular, we understand from the management of the Company that

LETTER FROM ALTUS CAPITAL

item (i) represents the maximum fee that may be charged by CEC Finance should the Group opt to use its guarantee services (the principal amount of which would be taken into account under the Proposed Caps of RMB280 million for the provision of financial assistance by CEC Finance) whilst item (ii) was derived based on rates of the other fee- and commission-based financial services. Although the Group has not obtained fee- and commission-based financial services from CEC Finance during the three years ended 31 December 2012 and three months ended 31 March 2013, we are of the view that such services, in particular those in compliment to the potential financial assistance to be provided by CEC Finance, will provide the Group with more financial flexibility.

Based on the above, we are of the view that the Proposed Caps with regard to the transactions contemplated under the 2013-2016 Financial Services Agreement for each of the three years ending 31 December 2013, 2014 and 2015 and the six months ending 30 June 2016 are fair and reasonable.

6. Continuing connected transactions requirements under the Listing Rules

Pursuant to Rules 14A.37 of the Listing Rules, the independent non-executive Directors are required to review the continuing connected transactions annually and confirm in the Company's annual report that the transactions under the 2013-2016 Business Services Agreement and 2013-2016 Financial Services Agreement have been (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In addition, in compliance with the Listing Rules, the Company has also engaged PricewaterhouseCoopers ("PwC"), the Company's auditor, to report to the Board on the Group's continuing connected transactions. PwC had confirmed that, in accordance with Rule 14A.38 of the Listing Rules that in each of the two years ended 31 December 2010 and 2011 (i) the transactions contemplated under the 2010-2013 Business Service Agreement and the Financial Services Agreement (the "Transactions") had been approved by the Board; (ii) the selected Transactions were in accordance with the pricing policies of the Group; (iii) the selected Transactions were entered into in accordance with the 2010-2013 Business Services Agreement and Financial Services Agreement; and (iv) the Transactions had not exceeded their respective caps as disclosed in previous announcements. For the year ended 31 December 2012, the Company's auditor has confirmed that nothing has come to their attention that causes them to believe that (i) the Transactions have not been approved by the Board; (ii) the Transactions were not in all material respects, in accordance with the pricing policies of the Group; (iii) the Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such Transactions; and (iv) the Transactions have exceeded their respective maximum aggregate annual value as disclosed in the previous announcements.

LETTER FROM ALTUS CAPTIAL

Given the above, we consider that there exist appropriate procedures and arrangements to ensure that the transactions contemplated under the 2013-2016 Business Services Agreement and 2013-2016 Financial Services Agreement will be conducted on terms in compliance with the provisions of the Listing Rules.

RECOMMENDATION

Having considered the above principal factors, we are of the view that (i) the 2013-2016 Business Services Agreement, the 2013-2016 Financial Services Agreement and the Continuing Connected Transactions, are in the Group's usual and ordinary course of business and the Proposed Caps are in the interests of the Company and the Shareholders as a whole; (ii) the terms of the aforesaid agreements and the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the Proposed Caps have been fairly and reasonably arrived at. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions approving the 2013-2016 Business Services Agreement, the 2013-2016 Financial Services Agreement, the Continuing Connected Transactions and the Proposed Caps to be proposed at the SGM.

Yours faithfully
For and on behalf of
Altus Capital Limited
Chang Sean Pey
Executive Director

1. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2012

Financial information of the Group for the three years ended 31 December 2012 is disclosed on pages 32 to 106 of the annual report of the Company for the year ended 31 December 2010 published on 15 March 2011, pages 31 to 94 of the annual report of the Company for the year ended 31 December 2011 published on 13 March 2012 and pages 37 to 98 of the annual report of the Company for the year ended 31 December 2012 published on 7 March 2013, respectively, which are available on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.cecholding.com).

2. INDEBTEDNESS**Borrowings**

As at the close of business on 30 April 2013, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding unsecured short-term borrowings of approximately HK\$11.3 million.

Disclaimer

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have, at the close of business on 30 April 2013, any mortgages, charges, debentures, debt securities issued and outstanding, and authorised or otherwise created but unissued, outstanding borrowings or indebtedness in the nature of borrowing including term loans, bank overdrafts, liabilities under acceptances, acceptance credits, hire purchase and finance lease commitments or other similar indebtedness, or any guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, taking into account of the Group's available financial resources including internally generated cash flows and cash on hand, the Group have sufficient working capital for its present requirements, that is for at least 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

With the continuing increase in investment in the banking, social security and Internet of Things sectors domestically, the overall market size of the PRC smart cards industry in 2013 is expected to grow at a steady pace. Nevertheless, due to factors like increasing domestic economic difficulties and slowing down in economic growth, it is expected that market competition will further intensify. Facing such increasingly complicated external environment, the Group will proactively respond to market changes, continue to be innovative in its business vision, fine-tune and optimise its product mix. The Group will continue to leverage on its strengths, deepen its technology innovation. The Group will also seek opportunities in expanding into new business coverage, extend its industry value chain, and add value to the business and improve profitability, so as to bring rewarding returns to the Shareholders.

**5. FINANCIAL EFFECTS OF THE TRANSACTIONS UNDER THE 2013-2016
FINANCIAL SERVICES AGREEMENT**

In respect of the transactions under the 2013-2016 Financial Services Agreement, the Company is of the view that: (1) the cash deposited by the Group with CEC Finance will generate interest at a rate not less than the rates offered to the Group by other domestic commercial banks for comparable deposits; and (2) the Group is able to obtain financial assistance from CEC Finance at an interest rate not higher than the rates offered to the Group by other domestic commercial banks for comparable financial assistance. The Company is of the view that the provision of fee-and commission-based financial services by CEC Finance to the Group would not have any significant impact on the earnings, assets and liabilities of the Group.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Mr. Rui Xiaowu, the Chairman of the Company and a non-executive Director, is the chairman of CEC and a director of China Electronics Corporation (BVI) Holdings Company Limited (“CEC (BVI)”). Mr. Zhao Guiwu, the Vice Chairman of the Company and a non-executive Director, is a director of CEC (BVI). Mr. Xie Qinghua, the Managing Director of the Company and an executive Director, is also a director of CEC (BVI). Mr. Liu Jinping, an executive Director, is the general manager of China Huada. Details of the shareholding of CEC, CEC (BVI) and China Huada in the Company are set out in the paragraph headed “Substantial Shareholders” in this Appendix. Save as disclosed herein, none of the Directors is a director or employee of a company which has, or is deemed to have, an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

None of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group taken as a whole.

Since 31 December 2012, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to the Latest Practicable Date, none of the Directors nor Altus Capital had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons had, or were deemed to have, interests or short positions in the shares or the underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Number or attributable number of shares interest	Approximate percentage or attributable percentage of total issued share capital of the Company
CEC (BVI)	812,500,000	48.03%
China Huada (<i>Note 1</i>)	393,680,000	23.27%
CEC (<i>Notes 1 and 2</i>)	1,206,180,000	71.30%
SDIC High-Tech Investment Co., Ltd (<i>Note 1</i>)	393,680,000	23.27%
The State Development and Investment Corporation (<i>Note 1</i>)	393,680,000	23.27%

All the interests disclosed above represent long position in the shares of the Company.

Notes:

- (1) The equity interest of China Huada is contributed as to 50% by CEC and as to 50% by SDIC High-Tech Investment Co., Ltd. SDIC High-Tech Investment Co., Ltd is a wholly-owned subsidiary of The State Development and Investment Corporation, which is a state-owned investment holding company established under the laws of the PRC. By virtue of the SFO, CEC, SDIC High-Tech Investment Co., Ltd and The State Development and Investment Corporation are deemed to be interested in the 393,680,000 shares of the Company held by China Huada.
- (2) CEC holds 100% interest in CEC (BVI) and is deemed to be interested in the shares of the Company held by CEC (BVI).

Save as disclosed above, there is no person known to the Directors or the chief executive of the Company who, as at the Latest Practicable Date, had, or was deemed to have, an interest or short position in the shares or the underlying shares of the Company, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or any option in respect of such capital.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. EXPERT

Altus Capital is a licensed corporation to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO. Altus Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice and references to its name in the form and context in which they appear.

Altus Capital is not beneficially interested in the share capital of any member of the Group and does not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

6. COMPETING INTEREST

Mr. Rui Xiaowu, the Chairman of the Company and a non-executive Director, is the chairman of CEC. Mr. Zhao Guiwu, the Vice Chairman of the Company and a non-executive Director, is the chairman of Shanghai Belling Co., Ltd, the chairman of Shanghai Huahong Integrated Circuit Co., Ltd, the vice chairman of Shanghai Huahong (Group) Co., Ltd, a director of Hua Hong Semiconductor Ltd, and a director of Shanghai Huahong NEC Electronics Company Ltd. Mr. Liu Jinping, an executive Director, is the general manager of China Huada and the chairman of Nationz Technologies Inc.

Currently, the abovementioned companies are engaging in, or having subsidiaries or associates engaging in, integrated circuits related businesses which compete or are likely to compete, either directly or indirectly, with the business of the Group.

The abovementioned competing businesses are operated and managed by independent management and administration. The Board exercises independent judgment and is always acting for the interests of the Company and the Shareholders as a whole. Accordingly, the Group is capable of carrying on its business independently of, and at arm's length from, the competing businesses mentioned above.

Apart from the above, none of the Directors nor his associates is or was interested in any business, apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. MATERIAL CONTRACTS

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

- (a) the 2013-2016 Business Services Agreement; and
- (b) the 2013-2016 Financial Services Agreement.

9. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

10. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Ng Kui Kwan. Mr. Ng is a member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company in Hong Kong is at Room 3403, 34th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.
- (c) Tricor Abacus Limited, the Company's branch share registrar and transfer office in Hong Kong, is at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular and form of proxy shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at King & Wood Mallesons, 9th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong during normal business hours on any business day from the date of this circular up to and including 13 June 2013 and at the SGM:

- (a) the Bye-laws;
- (b) the 2013-2016 Business Services Agreement;
- (c) the 2013-2016 Financial Services Agreement;
- (d) the letter from the Independent Board Committee, the text of which is set out on page 21 of this circular;
- (e) the letter from Altus Capital, the text of which is set out on pages 22 to 39 of this circular;
- (f) the consent letter from Altus Capital as referred to in the paragraph headed “Expert” in this Appendix;
- (g) the annual reports of the Company for the financial years ended 31 December 2011 and 2012; and
- (h) this circular.

NOTICE OF SGM



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)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “Meeting”) of China Electronics Corporation Holdings Company Limited (the “Company”) will be held at Plaza 1-2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Thursday, 20 June 2013 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions:

SPECIAL RESOLUTION

1. “**THAT**, conditional upon the compliance by the Company with the relevant legal procedures and requirements under the Companies Act 1981 of Bermuda (as amended) and the bye-laws of the Company (the “Bye-laws”) to effect the Reduction of Share Premium (as defined below), with effect from the business day (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) immediately after the passing of this resolution by the shareholders of the Company:
 - (a) the share premium account of the Company be reduced from HK\$872,255,000 to HK\$272,255,000 by the amount of HK\$600,000,000 (the “Reduction of Share Premium”);
 - (b) upon the Reduction of Share Premium becoming effective, the directors of the Company be and are hereby authorised to transfer the credit arising from the Reduction of Share Premium to the contributed surplus account of the Company (the “Contributed Surplus Account”);

* For identification purpose only

NOTICE OF SGM

- (c) the directors of the Company be and are hereby authorised to use the amount then standing to the credit of the Contributed Surplus Account in any manner as may be permitted by all applicable laws and the Bye-laws including, without limitation, (i) eliminating the accumulated losses of the Company as at 31 December 2012; (ii) eliminating other accumulated losses of the Company as may arise from time to time; and/or (iii) paying dividend or making any other distribution out of the Contributed Surplus Account from time to time without further authorisation from the shareholders of the Company and all such actions in relation thereto be approved, ratified and confirmed; and
- (d) any one director of the Company be and is hereby authorised to do all such acts and things and execute all such documents on behalf of the Company which he considers necessary or expedient to give effect to the Reduction of Share Premium.”

ORDINARY RESOLUTIONS

- 2. “**THAT**, conditional upon the Reduction of Share Premium (as defined in the special resolution above) becoming effective, the payment of a special dividend from the Contributed Surplus Account (as defined in the special resolution above) of HK\$0.03 per share to shareholders of the Company as recorded on the register of members of the Company on 2 October 2013 be and is hereby approved.”
- 3. “**THAT** the continuing connected transactions contemplated under the 2013-2016 business services agreement dated 7 May 2013 and entered into between the Company and China Electronics Corporation Limited (中國電子信息產業集團有限公司) (the “2013-2016 Business Services Agreement”) and the proposed caps for the transactions thereunder be and are hereby generally and unconditionally approved and any one director of the Company be and is hereby authorised to do all such acts and things and execute all such documents on behalf of the Company which he considers necessary or expedient to give effect to the 2013-2016 Business Services Agreement and the continuing connected transactions contemplated thereunder.”

NOTICE OF SGM

4. “**THAT** the continuing connected transactions contemplated under the 2013-2016 comprehensive financial services agreement dated 7 May 2013 and entered into between the Company and China Electronics Financial Co., Ltd (中國電子財務有限公司) (the “2013-2016 Financial Services Agreement”) and the proposed caps for the transactions thereunder be and are hereby generally and unconditionally approved and any one director of the Company be and is hereby authorised to do all such acts and things and execute all such documents on behalf of the Company which he considers necessary or expedient to give effect to the terms of the 2013-2016 Financial Services Agreement and the continuing connected transactions contemplated thereunder.”

By Order of the Board
China Electronics Corporation Holdings Company Limited
Ng Kui Kwan
Company Secretary

Hong Kong, 28 May 2013

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business
in Hong Kong:
Room 3403, 34th Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

NOTICE OF SGM

Notes:

1. The register of members of the Company will be closed from Tuesday, 18 June 2013 to Thursday, 20 June 2013, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be entitled to attend and vote at the Meeting, all share certificates with completed transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 17 June 2013.
2. Any shareholder of the Company entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Meeting. A proxy need not be a shareholder of the Company but must be present in person at the Meeting to represent the shareholder. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
3. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and returned together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, to the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the time appointed for holding the Meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a shareholder from attending and voting in person at the Meeting or any adjournment thereof, should he so wish.
4. In the case of joint registered holders of any shares, any one of such joint holders may vote at the Meeting, either personally or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of the joint holding shall alone be entitled to vote in respect thereof.