

AMASSE CAPITAL
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9 May 2024

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**I. CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE REVISION OF 2024 ANNUAL CAP AND
THE NEW COOPERATION AGREEMENT;
AND**

**II. EXTENSION OF THE VALIDITY PERIOD OF THE RESOLUTION IN
RESPECT OF THE ISSUANCE OF A SHARE CONVERTIBLE CORPORATE
BONDS TO NON-SPECIFIC INVESTORS AND THE VALIDITY PERIOD OF
THE RELEVANT AUTHORISATION, POSSIBLE SUBSCRIPTION FOR A
SHARE CONVERTIBLE
CORPORATE BONDS BY CONNECTED PERSONS**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Continuing Connected Transactions and the Possible Subscription, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 9 May 2024 (the “**Circular**”), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

I. Continuing connected transactions in relation to the revision of 2024 Annual Cap and the New Cooperation Agreement

Reference is made to (i) the announcements of the Company dated 26 March 2021, 30 August 2021 and 5 November 2021 (collectively, the “**Previous CCT Announcements**”) respectively, and the circulars dated 29 April 2021 and 20 October 2021 (collectively, the “**Previous CCT Circulars**”), in relation to the entering into the cooperation agreement between the Company and Fudan Communication for the agency of selling the reconfigurable devices and memory IC chips and the setting and revision of the relevant annual caps; and (ii) the announcement of the Company dated 22

March 2024 (the “**CCT Announcement**”) in respect of, among other things, the New Cooperation Agreement and the transactions contemplated thereunder (including the revision of 2024 Annual Cap and 2025 – 2027 Annual Caps).

The Independent Board Committee comprising all of the independent non-executive Directors has been formed to advise the Independent Shareholders on the New Cooperation Agreement and the transactions contemplated thereunder (including the revision of 2024 Annual Cap and the proposed 2025 – 2027 Annual Caps). We have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect, and such appointment has been approved by the Independent Board Committee.

Listing rules implications of the Proposed Continuing Connected Transactions

With reference to the Letter from the Board, as at the Latest Practicable Date, Fudan Fukong held approximately 13.38% of the issued share capital of the Company and was a Substantial Shareholder of the Company. Fudan Fukong also held approximately 33.84% of the issued share capital of Fudan Communication which is an associate of Fudan Fukong. As defined in Chapter 14A of the Listing Rules, Fudan Fukong and Fudan Communication are Connected Persons of the Company, therefore the transactions under the Old Cooperation Agreement and the New Cooperation Agreement constitute connected transactions of the Company.

As the revised 2024 Annual Cap of the continuing connected transactions contemplated under the Old Cooperation Agreement and the New Cooperation Agreement and the 2025 – 2027 Annual Caps of the continuing connected transactions contemplated under the New Cooperation Agreement exceed the applicable percentage ratios of 5% (except for profits ratio), the continuing connected transactions are subject to the reporting, annual review, announcement, circular and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

II. Extension of the validity period of the resolution in respect of the issuance of A Share Convertible Corporate Bonds to non-specific investors and the validity period of the relevant authorisation and Possible subscription for A Share Convertible Corporate Bonds by Connected Persons

Background of the proposed Issuance, the proposed extension (the “Proposed Extensions”) of the validity period of the resolution and the validity period of the relevant authorisation of the Issuance and the Possible Subscription

Reference is made to (i) the circular of the Company dated 12 June 2023 (the “**Previous CT Circular**”) in relating to, among others, the proposed Issuance of A Share Convertible Corporate Bonds and the Possible Subscription concerning (which includes), (x) the validity period of the Issuance plan of the resolution in respect of the proposal on the issuance of A Share Convertible Corporate Bonds to non-specific investors of the Company; and (y) the authorisations to the Board and its authorised persons to deal with the matters relating to the issuance of A Share Convertible Corporate Bonds to Non-Specific Investors at their absolute discretion (collectively the “**2023 Resolutions**”); and (ii) the announcement of the Company dated 29 April 2024 (the “**CT Announcement**”) in relation to the Proposed Extensions and the Possible Subscription. The 2023

Resolutions have been passed in the extraordinary general meeting and class meetings which were held on 5 July 2023. The application relating to the Issuance of A Share Convertible Corporate Bonds has been approved by the Listing Committee of the Shanghai Stock Exchange on 26 January 2024. Whilst the Company is being informed by the Shanghai Stock Exchange that the registration procedures with China Securities Regulatory Commission (“CSRC”) shall commence soon, there is still uncertainty to obtain the consent of registration with the CSRC and the timing thereof. The decision on whether the Company can obtain the consent of registration of the CSRC and the final time to obtain it will depend on the examination of the CSRC. Whilst the Company has actively promoted the application process, the Company is not possible to accurately predict when the aforementioned consent registration decision can be obtained, and is unable to determine whether the Issuance of A Share Convertible Corporate Bonds can be completed on 5 July 2024 which is the end of the validity of the 2023 Resolutions. As a result, in order to ensure the smooth implementation of the relevant work on the Issuance of A Share Convertible Corporate Bonds, the Board seeks permission from Shareholders to further extend the validity period of the resolutions for twelve months from the date of expiry (5 July 2024), i.e., until 5 July 2025. Furthermore, according to the plan for the Issuance of A Share Convertible Corporate Bonds and subject to the issuance of listing approval by the Shanghai Stock Exchange and registration with the CSRC, Connected Persons including Fudan Fukong, Fuxin Fangao, certain Directors of the Company, Shanghai Shenghao and Shanghai Yuhao may exercise their pre-emptive rights to subscribe for the A Share Convertible Corporate Bonds. Under Chapter 14A of the Listing Rules, the subscription of the A Share Convertible Bonds by these Connected Persons will constitute a Connected Transaction of the Company, and shall be subject to the reporting, announcement and Independent Shareholders’ approval requirements under the Listing Rules.

Save for the extended validity periods as stated above, there are no changes to the other terms of the proposed Issuance of A Share Convertible Corporate Bonds.

According to the plan for the Issuance of A Share Convertible Corporate Bonds and subject to the issuance of listing approval by the Shanghai Stock Exchange and registration with the CSRC, the Convertible Corporate Bonds under the Issuance will be firstly placed at a certain portion to all the A Shareholders of the Company whose names appeared on the share register at the registration date when the existing A Shareholders have the pre-emptive rights after closing of the stock market. The specific proportion of the placement will be determined based on market situation and negotiations between the Board or its authorised persons and the sponsor (the lead underwriter) under the authorisation of the EGM and the Class Meetings. Unsubscribed portion will be offered to other potential investors.

Listing rules implications of the Proposed Extensions and the Possible Subscription

As at the Latest Practicable Date, Fudan Fukong and Fuxin Fangao held 109,620,000 and 106,730,000 A Shares, respectively, representing approximately 13.38% and 13.03% of the total issued Shares of the Company, and hence are Substantial Shareholders of the Company, and therefore, Fudan Fukong and Fuxin Fangao are connected persons of the Company. Under Chapter 14A of the Listing Rules, the subscription of the A Share Convertible Bonds by Fudan Fukong and/or

Fuxin Fangao will constitute a Connected Transaction of the Company, and shall be subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

As at the Latest Practicable Date, certain Directors held 14,942,546 A Shares in aggregate, representing approximately 1.82% of the total issued Shares. Under Chapter 14A of the Listing Rules, the subscription of the A Share Convertible Bonds by Directors of the Company will constitute a Connected Transaction of the Company, and shall be subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

As at the Latest Practicable Date, Ms. Zhang Yanfeng, being a Supervisor, and Ms. Fang Jing, being a supervisor of Sino IC, each held 40% interests in the issued share capital of Shanghai Yuji. Shanghai Yuji is the general partner of Shanghai Shenghao and Shanghai Yuhao and has the de facto control of Shanghai Shenghao and Shanghai Yuhao, and Shanghai Shenghao and Shanghai Yuhao held 2,253,750 and 366,000 A Shares, representing approximately 0.28% and 0.04% of the total issued Shares, respectively. Under Chapter 14A of the Listing Rules, the subscription of the A Share Convertible Bonds by Shanghai Shenghao and Shanghai Yuhao will constitute a Connected Transaction of the Company, and shall be subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising all of the independent non-executive Directors has been formed to advise the Independent Shareholders in respect of the Possible Subscription. We have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect, and such appointment has been approved by the Independent Board Committee.

Possible Subscription for A Share Convertible Bonds by Fudan Fukong

As at the Latest Practicable Date, Fudan Fukong, a Substantial Shareholder of the Company, held 109,620,000 A Shares. Fudan Fukong shall have the pre-emptive rights to subscribe for the A Share Convertible Bonds, and the right to surrender such pre-emptive rights. Subject to certain assumptions stated hereunder, Fudan Fukong may subscribe for A Share Convertible Bonds with a maximum subscription amount of approximately RMB410,001,002.

Possible Subscription for A Share Convertible Bonds by Fuxin Fangao

As at the Latest Practicable Date, Fuxin Fangao, a Substantial Shareholder of the Company, held 106,730,000 A Shares. Fuxin Fangao shall have the pre-emptive rights to subscribe for the A Share Convertible Bonds, and the right to surrender such pre-emptive rights. Subject to certain assumptions stated hereunder, Fuxin Fangao may subscribe for A Share Convertible Bonds with a maximum subscription amount of approximately RMB399,191,817.

Possible Subscription for A Share Convertible Bonds by Directors of the Company

As at the Latest Practicable Date, Mr. Jiang Guoxing, Mr. Shi Lei and Mr. Yu Jun, being the Directors, held 7,210,000 A Shares, 7,210,000 A Shares, and 522,546 A Shares respectively, and in aggregate held 14,942,546 A Shares. They shall have the pre-emptive rights to subscribe for the A Share Convertible Bonds, and the right to surrender such pre-emptive rights. Subject to certain assumptions stated hereunder, Mr. Jiang Guoxing, Mr. Shi Lei and Mr. Yu Jun may subscribe for A Share Convertible Bonds with a maximum subscription amount of approximately RMB26,966,860, RMB26,966,860 and RMB1,954,428 respectively.

Possible Subscription for A Share Convertible Bonds by Shanghai Shenghao and Shanghai Yuhao

As at the Latest Practicable Date, Ms. Zhang Yanfeng, being the Supervisor, and Ms. Fang Jing, being a supervisor of Sino IC, each held 40% interests in the issued share capital of Shanghai Yuji. Shanghai Yuji is the general partner of Shanghai Shenghao and Shanghai Yuhao and has the de facto control of Shanghai Shenghao and Shanghai Yuhao, and Shanghai Shenghao and Shanghai Yuhao held 2,253,750 and 366,000 A Shares respectively. Shanghai Shenghao and Shanghai Yuhao shall have the pre-emptive rights to subscribe for the A Share Convertible Bonds, and the right to surrender such pre-emptive rights. Subject to certain assumptions stated hereunder, Shanghai Shenghao and Shanghai Yuhao may subscribe for A Share Convertible Bonds with a maximum subscription amount of approximately RMB8,429,481 and RMB1,368,914 respectively.

The terms and conditions of the Possible Subscription for A Share Convertible Bonds by Fudan Fukong, Fuxin Fangao, certain Directors, Shanghai Shenghao and Shanghai Yuhao are the same as the terms and conditions of subscription for A Share Convertible Corporate Bonds by other A Shareholders.

As at the Latest Practicable Date, Fudan Fukong, Fuxin Fangao, Mr. Jiang Guoxing, Mr. Shi Lei, Mr. Yu Jun, Shanghai Shenghao and Shanghai Yuhao have not indicated their intentions to subscribe for the A Share Convertible Corporate Bonds.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have acted as an independent financial adviser to the independent board committee and the independent shareholders of the Company regarding the connected transaction in relation to possible subscription for A Share convertible corporate bonds by connected persons (the “**Previous Appointment**”), details of which are set out in the Previous CT Circular.

With regard to our independence from the Company, it is noted that, apart from normal professional fees paid or payable to us in connection with the Previous Appointment as well as the current appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have reviewed, among others, (i) the CCT Announcement, the Previous CCT Announcements, the Previous CCT Circular, the CT Announcement, the Previous CT Circular, the annual report (the “**2023 Annual Report**”) of the Company for the year ended 31 December 2023 (the “**FY2023**”), the interim report (the “**2023 Interim Report**”) of the Company for the six months ended 30 June 2023 and the annual report (the “**2022 Annual Report**”) of the Company for the year ended 31 December 2022 (the “**FY2022**”) in relation to the information of the Group; (ii) the information contained or referred to in the Circular; and (iii) relevant public information. We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the management of the Company (collectively, the “**Management**”). We have assumed that all information and representations that have been provided by the Management, for which the Directors are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the representation and confirmation of the Management that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Proposed Continuing Connected Transactions, the Proposed Extensions and the Possible Subscription. We have reviewed and discussed with the Company on the information provided as well as sought and received confirmation from the Management that all information and representations provided to us by the Management are true, accurate, complete and not misleading in all respects at the time they were made and as at the Latest Practicable Date. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the 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 in the Circular or the Circular as a whole misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Management, nor have we conducted any independent in-depth investigation into the business and affairs of any members of the Group, the counter party(ies) to the Proposed Continuing Connected Transactions, the Proposed Extensions and the Possible Subscription or their respective subsidiaries or associates. We also have not considered the taxation implication on the Group or the Shareholders as a result of the Proposed Extensions, the Possible Subscription, the revision of annual caps, proposed continuing connected transactions and the transactions contemplated thereunder. We have not carried out any feasibility study on the past, and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Group. Our opinion has been formed on the assumption that

any analysis, estimation, anticipation, condition and assumption provided by the Group are feasible and sustainable. Our opinion shall not be constructed as to give any indication to the validity, sustainability and feasibility of any past, existing and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Group.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company. We expressly disclaim any liability and/or any loss arising from or in reliance upon the whole or any part of the contents of this letter.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion, we have taken into consideration the following principal factors and reasons.

1. BACKGROUND INFORMATION

(a) Information of the Group

The Company's principal activities consist of design, developing and selling products of application-specific IC.

Set out below is a summary of the financial information of the Group as extracted from 2022 Annual Report, 2023 Interim Report and the 2023 Annual Report, details of which are as follows:

	For the year ended 31 December		
	2023	2022	2021
	<i>RMB'million</i>		
	<i>(audited)</i>		
Revenue	3,536.26	3,538.91	2,577.26
Operating profit	751.42	1,121.40	573.36
Net profit attributable to shareholders of the parent company	719.49	1,076.84	514.47

	As at 31 December 2023	As at 30 June 2023
	<i>RMB'million</i>	
	<i>(audited)</i>	<i>(unaudited)</i>
Total assets	8,411.35	7,843.39
Total Liabilities	2,449.65	2,275.20
Total shareholder's equity	5,961.70	5,568.19

For the year ended 31 December 2023

For the FY2023, the Group recorded revenue of approximately RMB3,536.26 million, representing a decrease of 0.07% as compared to that of approximately RMB3,538.91 million for the FY2022. The decrease in revenue was mainly attributable to (i) divergent market demands in the downstream markets of various product lines (especially for Smart Meter Chips), (ii) changes in the product mix of products; (iii) growth in revenue from the design and sale of integrated circuits; and (iv) offset by the impact of a decline in revenue from IC testing services.

For the FY2023, the operating profit of the Group approximately RMB751.42 million, representing a decrease of 32.99% as compared to that of approximately RMB1,121.40 million for the FY2022. The decrease in operating profit was mainly attributable to the (i) slightly decrease of revenue mentioned above; (ii) the comprehensive gross profit margin was affected by the prices of certain product lines, representing a decrease of 3.46 percentage points and thus cost of sales increased by RMB121 million when compared with the last year; and (iii) the research and development expenses increased by approximately 37.42% or RMB275 million when compared with the last year.

For the FY2023, the net profit attributable to shareholders of the parent company was approximately RMB719.49 million, representing a decrease of 33.18% when compared to that of approximately RMB1,076.84 million for the FY2022 due to reasons disclosed as above.

For the year ended 31 December 2022

For the FY2022, the Group recorded revenue of approximately RMB3,538.91 million, representing an increase of approximately 37.31% as compared to that of approximately RMB2,577.26 million for the FY2021. The increase in revenue was mainly attributable to the Group achieved various level of revenue growth in major product lines of IC design business because the Group adjusted its product mix in a timely manner and explored new products and customers actively, with the facts that there were wide variation in demand for some product lines for downstream applications during the year.

For the year ended FY2022, the operating profit of the Group approximately RMB1,121.40 million, representing an increase of approximately 95.58% as compared to that of approximately RMB573.36 million for the FY2021. The increase in operating profit was mainly attributable to the increase in revenue and gross profit margin, offset by the increment of assets impairment losses.

For the FY2022, the net profit attributable to shareholders of the parent company was approximately RMB1,076.84 million, representing an increase of 109.31% when compared to that of approximately RMB514.47 million for the FY2021 due to the reasons mentioned above for the increment of revenue and operating profit.

For the year ended 31 December 2021

For the FY2021, the Group recorded revenue of approximately RMB2,577.26 million, representing an increase of approximately 52.42% as compared to that of approximately RMB1,690.90 million for the year ended 31 December 2020 (the “FY2020”). The increase in revenue was mainly attributable to the strong demand in the downstream application market, and the Company’s continuous investment in research and development, and the launch of new products.

For the FY2021, the operating profit of the Group approximately RMB573.36 million, representing an increase of approximately 237.23% as compared to that of approximately RMB170.02 million for the FY2020. The increase in operating profit was mainly attributable to the substantial increase in revenue and increase of gross profit margin due to introduction of new products and increase of unit price.

For the FY2021, the net profit attributable to shareholders of the parent company was approximately RMB514.47 million, representing an increase of 287.20% when compared to that of approximately RMB132.87 million for the FY2020 due to the reasons mentioned above for the increment of revenue and operating profit.

Financial position as at 31 December 2023

The total assets of the Group was approximately RMB8,411.35 million as at 31 December 2023, representing an increase of approximately 7.24% as compared to that of approximately RMB7,843.39 million as at 30 June 2023.

The total liabilities of the Group was approximately RMB2,449.65 million as at 31 December 2023, representing an increase of approximately 7.67% as compared to that of approximately RMB2,275.20 million as at 30 June 2023.

The total shareholder’s equity of the Group was approximately RMB5,961.70 million as at 31 December 2023, representing an increase of approximately 7.07% as compared to that of approximately RMB5,568.19 million as at 30 June 2023.

(b) Information of Fudan Communication

As stated in the Letter from the Board, Fudan Communication is mainly engaged in design, development and production of telecommunication devices in the PRC. With reference to the Letter from the Board, as at the Latest Practicable Date, the Company holds approximately 16.34% equity interest of Fudan Communication. In addition, Mr. Yu Jun, the executive Director of the Company, holds approximately 1.19% equity interest of Fudan Communication through his spouse. Fudan Fukong, a Substantial Shareholder of the Company, holds approximately 33.84% equity interest of Fudan Communication and other Independent Third Parties hold approximately 48.63% equity interest of Fudan Communication.

(c) Information on the connected persons (the “Connected Subscribers”) to the Proposed Extensions and the Possible Subscriptions

Fudan Fukong, being a Substantial Shareholder of the Company, holds 109,620,000 A Shares, representing approximately 13.38% of the issued share capital of the Company as at the Latest Practicable Date. Shanghai Commerce and Invest (Group) Corporation holds 70.2% interest in Fudan Fukong, while 29.8% is held by the independent third party. Shanghai Commerce and Invest (Group) Corporation is wholly owned by Bailian Group Company Limited, which in turn is a state-owned enterprise wholly owned by the Shanghai Municipal Government.

Fuxin Fangao, being a Substantial Shareholder of the Company, holds 106,730,000 A Shares, representing approximately 13.03% of the issued share capital of the Company as at the Latest Practicable Date. Fuxin Fangao is wholly owned by Shanghai Fudan Asset Management Co., Ltd., which in turn is wholly owned by Fudan University, a state-owned university established in Shanghai, China.

Mr. Jiang Guoxing is an executive Director of the Company and the Chairman of the Board, who holds 7,210,000 A Shares, representing approximately 0.88% of the issued share capital of the Company as at the Latest Practicable Date.

Mr. Shi Lei is an executive Director and the Managing Director of the Company who holds 7,210,000 A Shares, representing approximately 0.88% of the issued share capital of the Company as at the Latest Practicable Date.

Mr. Yu Jun is an executive Director and the Deputy Managing Director of the Company who holds 522,546 A Shares, representing approximately 0.06% of the issued share capital of the Company as at the Latest Practicable Date.

Shanghai Shenghao, a Shareholder of the Company, holds 2,253,750 A Shares, representing approximately 0.28% of the issued share capital of the Company as at the Latest Practicable Date. Shanghai Yuji is the general partner of Shanghai Shenghao which has the de facto control of Shanghai Shenghao. Ms. Zhang Yanfeng, being a Supervisor, and Ms. Fang Jing, being a supervisor of Sino IC, each held 40% interests in the issued share capital of Shanghai Yuji.

Shanghai Yuhao, a Shareholder of the Company, holds 366,000 A Shares, representing approximately 0.04% of the total issued share capital of the Company as at the Latest Practicable Date. Shanghai Yuji is the general partner of Shanghai Yuhao and has the de facto control of Shanghai Yuhao. Ms. Zhang Yanfeng, being a Supervisor, and Ms. Fang Jing, being a supervisor of Sino IC, each held 40% interests in the issued share capital of Shanghai Yuji.

2. THE PROPOSED CONTINUING CONNECTED TRANSACTIONS

2.1 Principal terms of the New Cooperation Agreement

(i) *Date*

22 March 2024 (after trading hours)

(ii) *Contracting parties*

- (a) the Company; and
- (b) Fudan Communication

(iii) *Nature of Agreement*

According to the New Cooperation Agreement, the Company agreed to continue the appointment of Fudan Communication as the qualified agent to sell the reconfigurable devices and memory IC chips manufactured by the Company. The Company will sell related chips to Fudan Communication, and Fudan Communication will then promote the chips and solutions to its end customers. The Company will set product sales guide prices of the products based on the principle of product costs and related expenses plus a certain profit. Fudan Communication shall purchase relevant products from the Company at the prices, policies and terms which are consistent with other agents and uniformly formulated by the Company. Meanwhile, Fudan Communication shall not sell the relevant products at a price higher than the product sales guide prices. The specific business of both parties shall be executed separately by signing a purchase and sale contract.

(iv) *Period*

From 12 June 2024 to 11 June 2027, for a period of three years.

(v) *Payment method*

Payment will be made before the delivery of the products to Fudan Communication's designated location. No credit period will be provided.

(vi) *Conditions Precedent*

The New Cooperation Agreement is subject to the approval at the general meeting of the Company.

2.2 Pricing Policy

The Company has established a product pricing system with a “Product Pricing Guide” which covers all products and is applicable to all customers, qualified agents and connected enterprises. The selling price of the products which are set in accordance with the terms and regulations of the Product Pricing Guide, will be based on the market situation, the acceptance by customers and the price set by competitors, and also with the consideration of product costs and related expenses plus profits of not less than 30%. The product selling prices and updated adjustments from time to time are set by the relevant divisions and approved by the management, then the unified product catalogs and prices will be offered to qualified agents respectively. All sales of products will be conducted in accordance with the ranges of profit ranges, the same prices and same terms offered to qualified agents. These procedures can ensure that the transactions will be conducted on normal commercial terms and on terms and prices no less favourable to the Company than those offered to independent qualified agents.

Our view on the pricing policy

We have reviewed the terms of the New Cooperation Agreement. Based on our review and advised by the Management, we understand that, as one of the terms of the New Cooperation Agreement, the pricing of the products will be followed the “Product Pricing Guide”. As advised by the Management, the Company has formulated an actual product price list based on the “Product Pricing Guide” which applies to both Fudan Communication and Independent Third Parties. We have reviewed the actual product price list and noted that the unit prices of the products would be different under different bulk purchase quantity which is applicable to both Fudan Communication as well as Independent Third Parties.

We have also reviewed a transaction list covering over 2,800 transaction records (setting out the date, name of customers, product name, product model number and price) of Fudan Communication and Independent Third Parties provided by the Company for the year ended 31 December 2023 (the “**Transactions Record**”) and we have reviewed all the transaction records under the transaction list. As advised by the Management, the said transaction list covered all the transaction records to Fudan Communication and Independent Third Parties during the aforesaid period of which approximately 34.7% of the transactions belong to Fudan Communication and the remaining approximately 65.3% of the transactions involves other Independent Third Parties, which is considered to be an exhaustive list and is fair and representative. Based on our review, we noted that the unit price of the products sold to Fudan Communication and the Independent Third Parties is based on the actual product price list and thus is no less favourable than that of Independent Third Parties.

2.3 Reasons for the transaction

It is the Company's overall business objective to become a leader in the IC design and system integration business in the PRC with keen determination to be one of the global leading application specific IC design companies. One of the business objectives of the Company is to develop diversified industrial chains. The Company vigorously invested in the research and development of reconfigurable devices and memory IC chips several years ago. With fully developed techniques and the expanding market demand, the Directors believe that these products will help to increase turnover and profits of the Company. Fudan Communication possesses a considerable proportion of market shares in the ultimate markets of relevant products with wide sales channels, and meanwhile the capability to provide application solutions. The Directors consider that the Company can save time for the lengthy market exploration and reduce cost of sales after entering into the New Cooperation Agreement. It also helps with the prompt penetration into relevant markets, increasing market shares and achievement of synergies.

The Board considers the transactions contemplated under the New Cooperation Agreement are in the ordinary course of business of the Group, are on normal commercial terms which are fair and reasonable and are in the interests of the Company and the Shareholders as a whole since (i) the turnover and profits of the Company can be raised with the help of the sales channel of reconfigurable devices and memory IC chips and application solutions provided by Fudan Communication; (ii) the Company can save selling costs; and (iii) the Company can shorten the time taken to marketing but penetrate into relevant markets promptly, increase market shares and help the long-term development of reconfigurable devices aspect.

2.4 Historical Amounts

With reference to the Letter from the Board, the historical transaction amounts for the provision of the aforesaid products to Fudan Communication were approximately RMB119,449,000, RMB236,196,000 and RMB262,334,000 for the three years ended 31 December 2023 respectively and approximately RMB56,792,000 for the three months ended 31 March 2024.

The utilisation rates of the historical annual caps for the three years ended 31 December 2023 were approximately 59.7%, 84.4% and 70.9%, respectively and for the year ending 31 December 2024 was approximately 28.4% (based on the existing annual caps of RMB200 million under the Old Cooperation Agreement).

2.5 Revision of the 2024 Annual Cap and the proposed 2025-2027 Annual Caps

The revised annual cap for the year ending 31 December 2024 and the proposed annual caps for the transaction amount to be paid by Fudan Communication to the Group for the three years ending 31 December 2026 and the period ending 11 June 2027 are set out in the table below:

	For the year ending 31 December			For the period ending
	2024	2025	2026	11 June 2027
	RMB'000	RMB'000	RMB'000	RMB'000
	(Revised)			(Note)
Annual caps of the Old Cooperation Agreement	200,000	–	–	–
Annual caps of the New Cooperation Agreement	<u>150,000</u>	<u>280,000</u>	<u>300,000</u>	<u>150,000</u>
	<u><u>350,000</u></u>	<u><u>280,000</u></u>	<u><u>300,000</u></u>	<u><u>150,000</u></u>

Note: The New Cooperation Agreement will be expired on 11 June 2027.

As advised by the Management, the proposed annual cap of RMB150,000,000 for the year ending 31 December 2027 only cover the expected transaction amount from 1 January 2027 to 11 June 2027 (being the ending date of the New Cooperation Agreement). On such basis, the annualised cap of the transactions for the year ending 31 December 2027 would be approximately RMB300,000,000.

Basis of caps

According to the Letter from the Board, the Board determines the above revised 2024 Annual Cap and the proposed 2025 – 2027 Annual Caps based on the following reasons:

1. According to the announcement dated 30 August 2021 of the Company, the 2024 Annual Cap proposed by the Directors for the Old Cooperation Agreement was RMB200,000,000. After entering into the New Cooperation Agreement, it is proposed to revise the 2024 Annual Cap to reflect the increase in the transaction amount under the New Cooperation Agreement.
2. The 2025 – 2027 Annual Caps proposed by the Directors were based on the sales history of the types of products, and were made after taking into account of information such as the number of products that have passed the evaluation and assessment of potential customers and the completion of required procedures for the supplier register, as well as the sales intentions between Fudan Communication and its customers.

As per advised by the Management, the Management had considered the following factors for proposing the 2025-2027 Annual Caps. The Management had considered the sales history of the products and conduct evaluation and assessment of potential customers. By analysing the sales history of the products, evaluation and assessment of potential customers, the Company would able to identify and evaluate the suitable downstream customers and gained insights into the demand of the end-customers and market trends of the reconfigurable devices and memory IC chips products. We understand from the Management that the Company had gradually completed the development of latest series of reconfigurable devices and IC chips products and two new products of those latest models had offered to Fudan Communication since January 2024.

We also understand from the Management that they also taken into account the number of products to be distributed by Fudan Communication and the sales potential of such products in determine the 2025 – 2027 Annual Caps. As advised by the Management, being one of the registered suppliers of Fudan Communication, the Company had completed the supplier register process provided by Fudan Communication and the Company’s products are eligible to promote by the sales channels of Fudan Communication with a shorten administrative procedure. Furthermore, Fudan Communication had entered into the Letter of Intent (as defined below) with the Company regarding its purchase intention for the three years ending 31 December 2026 and the approximately six months period ending 11 June 2027. According to the discussion between Fudan Communication and the Management, the intended purchasing amounts under the Letter of Intent was estimated based on the sales intentions of Fudan Communication and its customers which directly affect the purchasing amount of Fudan Communication.

Overview on the revised 2024 Annual Cap

We noted that the revision of the 2024 Annual Cap is RMB350,000,000 for the year ending 31 December 2024. In assessing the reasonableness of the revision of 2024 Annual Cap, we have discussed with the Management and understand that the revised 2024 Annual Cap are determined with reference to the following:

- (i) Utilisation of the existing annual cap for the year ended 31 December 2024

The 2024 Annual Cap proposed by the Directors for the Old Cooperation Agreement was RMB200,000,000. According to the Letter from the Board, the historical transaction amounts occurred for the three months ended 31 March 2024 was approximately RMB56.8 million. Furthermore, as per advised by the Management, the outstanding sales orders placed by Fudan Communication as at 31 March 2024 amounted to approximately RMB149.3 million which were expected to be completed by 31 December 2024. The aggregated transactions amount of the historical transactions and the outstanding sales orders amounted to approximately RMB206.1 million which represents approximately 103.1% of the existing 2024 Annual Cap of RMB200 million.

- (ii) New sales order to be entered by the Company for 2024

Apart from the aforesaid outstanding sales orders, as advised by the Management, as at the Latest Practicable Date, the Company was negotiating with Fudan Communication for new sales orders amounted to approximately RMB7 million which were expected to be delivered and completed in 2024. Considering the historical transactions amount and the outstanding sales orders as mentioned in the paragraph headed “*Utilisation of the existing annual cap for the year ended 31 December 2024*” above and the new sales orders under negotiation with Fudan Communication, the expected transaction amounts would be approximately RMB213.1 million which represents approximately 106.6% of the existing 2024 Annual Cap of RMB200 million.

- (iii) Purchase intention of Fudan Communication

On 22 March 2024, the Company had received a non-legally binding letter of intent (the “**Letter of Intent**”) from Fudan Communication regarding its purchase intention for the three years ending 31 December 2026 and the approximately six months period ending 11 June 2027. Pursuant to the Letter of Intent, Fudan Communication intended to purchase the reconfigurable devices and memory IC chips from the Company in an expected transaction amounts of approximately RMB150,000,000 for the period between 12 June 2024 to 31 December 2024 (the “**Estimated 2024 Purchasing Amount**”). The additional amount of the revised 2024 Annual Cap is therefore matched with the expected amounts to be purchased by Fudan Communication as set out in the Letter of Intent.

Based on (i) the historical transaction amount for the three months ended 31 March 2024 and the outstanding sales orders between the Group and Fudan Communication as at 31 March 2024 was approximately RMB206.1 million; (ii) the new sales order to be entered by the Company and Fudan Communication amounted to approximately RMB7 million which were expected to be delivered and completed in 2024; and (iii) the historical transaction amounts between Fudan Communication and the Company as mentioned in the subsection headed “*2.4 Historical Amounts*” above, we considered that the Estimated 2024 Purchasing Amount were reasonably estimated.

Overview on the proposed 2025 – 2027 Annual Caps

We noted that the 2025 – 2027 Annual Caps for the three years ending 31 December 2027 is RMB280,000,000, RMB300,000,000 and RMB150,000,000. As advised by the Management, for the year ending 31 December 2027, the proposed annual cap of RMB150,000,000 only cover the expected transaction amount from 1 January 2027 to 11 June 2027 (being the ending date of the New Cooperation Agreement), being approximately a six months period. On such basis, the annualised cap of the transactions for the year ending 31 December 2027 would be approximately RMB300,000,000.

In assessing the reasonableness of the 2025 – 2027 Annual Caps, we have discussed with the Management and understand that the 2025 – 2027 Annual Caps for the three years ending 31 December 2027 are determined with reference to the following:

(i) Prospect of the IC chips industry in the PRC

We have researched from the public domain as to the outlook of the IC chips industry in the PRC. In July 2020, the State Council of the PRC published 《新時期促進集成電路產業和軟件產業高質量發展的若干政策》 (Several Policies to Promote the High-quality Development of the IC Industry and the Software Industry in the New Era*), the PRC Government had encouraged the development of IC chips industry by creating a more favorable policy environment. Those favorable policies including, among others, investment and financing policy, import and export policy and application policy which provided incentives for the sales and purchases of IC chips.

According to the 《中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》 (The 14th Five-Year Plan for the National Economic and Social Development of the People's Republic of China*) suggested by The 19th Central Committee of the Communist Party of China and reported by Xinhua News Agency in November 2020, the development of IC industry was listed as a priority of the PRC Government. The PRC IC chips industry has experienced rapid growth in recent years and based on the statistics published by the National Bureau of Statistics of China, the total number of IC chips produced in the PRC increased from approximately 779.6 billion chips to 2,514.4 billion chips from 2012 to 2022, at a compound annual growth rate of 12.42%. These statistics demonstrate that the PRC IC chips industry has experienced a steady growth trend in recent years.

In view of the favorable policies and steady growth trend of the IC chips industry in the PRC, it would benefit the sales of Fudan Communication, and therefore may further strengthen the transactions under the New Cooperation Agreement.

(ii) Upgrading process of the reconfigurable devices and IC chips products

We understand from the Management that the major series of reconfigurable devices and memory IC chips purchased and to be promoted by Fudan Communication and other qualified agents were developed since 2019. The Management expected that the demand of the existing products will be gradually stable for two year ending 31 December 2025 based on the historical transaction records and the current orders. However, for the sake of prudence, the Management considered the unit price of such products may encounter downward adjustment due to intense market competition.

The Company had gradually completed the development of latest series of reconfigurable devices and IC chips products and small quantities of those latest models had been sold in January 2024. During the gradual introduction of the higher price new series of products, the Management expected that the orders volume of the new series of products would be relatively small in 2024 and 2025 when compared to

the total sales of the reconfigurable devices and IC chips products for two year ending 31 December 2025 whilst the Company will receive responses from client to modify the latest series of products. As the latest series of products will gradually introduce and gain wider acceptance in the market, benefiting from the improved features, increased efficiency and better compatibility with evolving technologies, the Management expected the new series of products will start replacing the existing models from 2026 and contributing to the gradual increase in sales since then.

(iii) Purchase intention of Fudan Communication

As mentioned above, the Company had received the Letter of Intent from Fudan Communication regarding its purchase intention for the three years ending 31 December 2026 and the approximately six months period ending 11 June 2027. As advised by the Management, the intended purchasing amounts for the three years ending 31 December 2026 and the approximately six months period ending 11 June 2027 under the Letter of Intent were determined by Fudan Communication and the Company with reference to (i) the historical transaction amounts for the three year ended 31 December 2023; (ii) the actual sales and sales intention between Fudan Communication and its customers for the first quarter of 2024 of approximately RMB76 million; and (iii) the industry outlook of the PRC IC industry. Pursuant to the Letter of Intent, Fudan Communication intended to purchase the reconfigurable devices and memory IC chips from the Company an expected transaction amounts of approximately RMB280,000,000 and RMB300,000,000 for the two years ending 31 December 2026 and RMB150,000,000 for the approximately six months period ending 11 June 2027 (the “**Estimated 2025 – 2027 Purchasing Amounts**”). The 2025 – 2027 Annual Caps are therefore matched with the expected amounts to be purchased by Fudan Communication as set out in the Letter of Intent.

Based on (i) the positive industry outlook and the steady growth trend of the PRC IC chips industry in recent years based on the data from statistics published by the National Bureau of Statistics of China as mentioned above; (ii) the expected upgrading process of the Company’s reconfigurable devices and IC chips products; and (iii) the historical transaction amounts between Fudan Communication and the Company as mentioned in the subsection headed “*2.4 Historical Amounts*” above, we considered that the Estimated 2025 – 2027 Purchasing Amounts were reasonably estimated.

(iv) Historical growth of transaction amounts

With reference to the Letter from the Board, we noted that the historical transaction amounts for the provision of the aforesaid products to Fudan Communication were approximately RMB236.2 million for the year ended 31 December 2022 represents an increase of approximately 97.8% when compared to that of approximately RMB119.4 for the year ended 31 December 2021. The transaction amounts with Fudan Communication further increase to approximately RMB262.3 million for the year ended 31 December 2023, represents an increase of approximately 11.0% as compared to that of approximately RMB236.2 million for the year ended 31 December 2022. As

per advised by the Management, the growth of the transaction amounts was mainly attributed to the launch of new reconfigurable devices and memory IC chips products and the increase of Company's market share and thus the revenue in relation to the field programmable gate array (FPGA) products and products applied in high-reliability scenarios which are included in the products that distributed by Fudan Communication under the Old Cooperation Agreement. With reference to the 2022 Annual Report and the 2023 Annual Report, we noted that the revenue recorded from external transactions regarding the non-volatile memory products, FPGA and other chips was approximately RMB1,743.5 million for the year ended 31 December 2022, represents an increase of approximately 48.6% when compared to that of approximately RMB1,173.5 million for the year ended 31 December 2021. The revenue recorded from external transactions regarding the non-volatile memory products, FPGA and other chips further increased to approximately RMB2,211.7 million, represents an increase of approximately 26.9% as compared to that of approximately RMB1,743.5 million for the year ended 31 December 2022. In view of above, we concur with the Management that the sales of the Group's FPGA products and non-volatile memory products applied in high-reliability scenarios maintained a growth trend during the past three years.

Taking into account the above, in particular (i) the historical growth of transaction amounts and the growth trend of the Group's FPGA products and non-volatile memory products for the three years ended 31 December 2023; (ii) the actual sales and sales intention between Fudan Communication and its customers for the first quarter of 2024 of approximately RMB76 million; (iii) the actual sales and outstanding sales order between Fudan Communication and the Company as at 31 March 2024 amounted to approximately RMB206.1 million, which exceeded the existing 2024 Annual Cap of RMB 200 million; (iii) the favorable policies and positive outlook of the IC chips industry in the PRC; and (iv) the Company has completed the development of latest series of reconfigurable devices and IC chips products and launched new series of products in January 2024, we are of the view that the revised 2024 Annual Cap and the 2025 – 2027 Annual Caps are fair and reasonable.

2.6 Internal control measures

As stated in the Letter from the Board, the Company has established an internal control system and pursuant to the system, an internal control division (the "**Internal Control Division**") will be responsible to monitor and review the continuing connected transactions contemplated under and the New Cooperation Agreement to ensure that the transactions are conducted in accordance with the terms of the agreements, on normal commercial terms and in accordance with the pricing policy of the Company. In addition, the Internal Control Division will pay close attention to the sales contracts so as to control the aggregate transaction amount under the annual cap or to alert the relevant division to publish revision announcement when the transaction amounts nearly reach the revised 2024 Annual Cap and 2025 – 2027 Annual Caps in order to comply with the Listing Rules.

In respect of the pricing, as discussed in the section headed “2.2 Pricing Policy – Our view on the pricing policy” above, the pricing for the products will be referred to the “Product Pricing Guide”. Based on the “Product Pricing Guide”, an actual price list for different products under different bulk purchase quantity will be decided by the sales department and then approved by the management of the Company to ensure the products prices are no less favourable to the Company than that to be sold to Independent Third Parties. As aforementioned, we have reviewed the Transactions Record. Based on our review, we noted that the unit price of the products sold to Fudan Communication and the Independent Third Parties is based on the actual product price list and thus is no less favourable to the Company than that to be sold to Independent Third Parties.

In respect of monitoring the aggregate amount for transactions contemplated under the New Cooperation Agreement, we understand from the Management that the sales department would inform the financial department before entering into sales contracts with Fudan Communication and the financial department would monitor the remaining quota of the annual caps by computing an aggregate transactions amount list which setting out actual transaction amounts and the utilised annual caps to ensure that the aggregated amounts have not exceeded the revised 2024 Annual Cap and the 2025 – 2027 Annual Caps. We have reviewed the aforementioned aggregate transactions amount list for the year ended 31 December 2023, based on our review, we noted that the aggregate actual transactions amounts for the year ended 31 December 2023 were matched with the Transactions Record between Fudan Communication and the Group.

In consideration of the above, we concur with the Management that the internal control system and the internal control adopted are sufficient to ensure transactions under the Old Cooperation Agreement and the New Cooperation Agreement will be conducted on normal commercial terms and shall safeguard the interests of the Independent Shareholders.

3. THE PROPOSED EXTENSIONS AND THE POSSIBLE SUBSCRIPTION

3.1 Reasons for and possible benefits of the Issuance, the Proposed Extensions and use of proceeds

With reference to the Letter from the Board, the proceeds raised from the Issuance of A Share Convertible Corporate Bonds shall be fully invested in the Company’s principal business, which is in line with the comprehensive strategic development and direction of the Company in the future.

As advised by the Management, the Company plans to continue to consolidate and enhance its comprehensive competitive advantages in technology, service, quality and branding, further expand its production capacity and product applications, as well as increase the coverage of the Company’s business in the industrial chain continuously, so as to maintain the sustainable development of the Company. At the same time, the Company will continue to consolidate its technological advantages through university-enterprise technical cooperation and continuous investment in research and development, and actively focus on advanced technologies and products overseas to build up its competitive edge in the international market.

After completion of implementing the projects to be invested by the proceeds raised, the Management considers that the overall competitiveness and sustainability of the Company will be effectively improved. The Issuance of A Share Convertible Corporate Bonds benefits the Company in expanding its business scales. The implementation of the projects to be invested by the proceeds raised can enhance the comprehensive research and development capability and independent innovation ability of the Company, which is of great significance in enriching the product mix, seeking new profit growth spots and improving sustainable profitability of the Company. The purposes of the projects and their benefits to the Company are set out under the subsection headed “(4) *Reasons for and benefits of the proposed Issuance of A Share Convertible Corporate Bonds and the Possible Subscription*” of Section 3 of the Letter from the Board.

In summary, the proceeds generated from the Issuance of A Share Convertible Corporate Bonds will be invested in the projects that are based on the existing major businesses of the Company, taking into account the market demand and future development trends. These are regarded as essential investments in the key products portfolio of the Company and are in accordance with the important research directions in the Company’s core business areas. Upon completion of the investment projects, the Company will enrich the spectrum of its product lines, further enhance the competitiveness and market share of its products and drive the synergistic development of the upstream and downstream of the semiconductor industry chain.

The total amount of proceeds proposed to be raised from the proposed Issuance of Convertible Corporate Bonds will not exceed RMB2 billion (RMB2 billion inclusive), all of which is proposed to be used for the following projects after deduction of issuance expenses: (a) as to RMB646.1 million for New generation Field Programmable Gate Array (FPGA) platform development and industrialization project (estimated total project investment of RMB661.0 million); (b) as to RMB633.3 million for Intelligent and reconfigurable SoC platform development and industrialization project (estimated total project investment of RMB643.3 million); (c) as to RMB418.8 million for New technical platform storage development and industrialization project (estimated total project investment of RMB443.8 million); (d) as to RMB178.1 million for New high-end security controller development and industrialization project (estimated total project investment of RMB188.1 million); and (e) as to RMB123.7 billion for Passive IoT basic chip development and industrialization projects (estimated total projects investment of RMB133.7 million).

As per advised by the Management, set out below is the expected timeline for the use of proceeds of each project:

Name of project to be invested	Total project investment <i>RMB'million</i>	Amount of proceeds raised to be invested <i>RMB'million</i>	Expected timeline for utilising the proceeds since the commencement of the projects			
			First year <i>RMB'million</i>	Second year <i>RMB'million</i>	Third year <i>RMB'million</i>	Fourth year <i>RMB'million</i>
New generation Field Programmable Gate Array (FPGA) platform development and industrialization project	661.0	646.1	258.8	227.8	159.6	-
Intelligent and reconfigurable SoC platform development and industrialization project	643.3	633.3	147.4	214.1	169.3	102.5
New technical platform storage development and industrialization project	443.8	418.8	160.5	142.8	115.5	-
New high-end security controller development and industrialization project	188.1	178.1	96.3	81.8	-	-
Passive IoT basic chip development and industrialization projects	133.7	123.7	72.0	52.8	-	-
Total	2,069.9	2,000.0	734.9	718.3	444.4	102.5

Note: Any discrepancies between totals and sums of amounts listed herein are due to rounding adjustments.

With reference to the Letter from the Board, before the receipt of the proceeds from the Issuance of A Share Convertible Corporate Bonds, the Company will invest with its own or self-raised funds as required based on the actual progress of the projects to be invested. When the proceeds are available, such funds used will be replaced by the proceeds so raised according to the procedures stipulated by relevant laws and regulations. In the event that the actual amount of proceeds from the Issuance after deducting issuance expenses is less than the amount of proceeds to be invested in the projects above, the Board may arrange the actual uses of the raised funds based on the importance and urgency of their respective purposes, and any shortfall will be made up by the Company with its own or self-raised funds. The Board may, without altering the projects to be invested by the proceeds raised, make appropriate adjustment to the sequence and amount of the proceeds proposed to be invested in the above projects according to the actual needs of the project. As advised by the Management, such arrangement may due to material changes in the relevant laws and regulations, policies or prevailing market conditions. In addition, the Management considered that it is impractical to accurately estimate the research and development progress of the projects. The Group may experience unexpected breakthroughs or encounter abnormal difficulties, which are not entirely

within the control of the Group. In such events, it may be beneficial for the Group to (i) speed up or slow down the pace of certain projects; or (ii) adjust the investment size of the projects, which in turn affects the sequence and amount of the use of proceeds.

As at the Latest Practicable Date, taking into account the current regulatory policies, requirements and the conditions of the capital markets, the Board is of the view that the chance of making the aforementioned adjustment is low.

With reference to the 2023 Annual Report, the Group is engaged in the design, development and testing of large integrated circuits as well as provision of system solutions to customers. The Group has established and improved product lines such as security and identification IC chips, non-volatile memory, smart meter chips, FPGA chips and testing services for IC products, and the products are widely used in numerous fields such as finance, social security, anti-counterfeiting and traceability, network communications, home appliances, automotive electronics, industrial control, signal processing, data centers, artificial intelligence and many other aspects.

According to the 2023 Annual Report, in order to achieve a sustainable, rapid and healthy development of the Group, the Group intends to consolidate and enhance its comprehensive competitive advantages in technology, services, quality and branding, further expand its production capacity and product applications, as well as continuously increase the coverage of the Group's business in the industrial chain. Meanwhile, the Group will continue to consolidate the Group's technological advantages through technical cooperation between colleges and enterprises and continuous investment in research and development, and actively focus on advanced technologies and products overseas to build up the Group's competitive advantages in the international market.

As advised by the Management, the investment projects would serve the purpose of the Groups for developing advantages on the IC chips industry and will further enrich the pedigree of the Company's product series to continuously meet the needs of customers in various application fields.

Based on the above factors, we consider that the Group's proposed use of proceeds are in line with the Group's development strategies. Having also considered the estimated total project investment amounts, we are of the view that the proposed use of proceeds to be acceptable.

Financing methods available to the Company

As advised by the Management, the Board has considered various fund raising alternatives apart from the Issuance of A Share Convertible Corporate Bonds such as debt financing or equity financing.

In respect of debt financing or bank borrowings from commercial banks, the Management considered that such alternatives were more time consuming and relatively uncertain as they will subject to the due diligence, the bank's internal risk assessment and negotiations with commercial banks that the requirement of collateral by the borrower.

In respect of equity financing, the Management consider that (i) rights issue/open offer is time-consuming for a company with A shares listed on the Shanghai Stock Exchange and H shares listed on the Stock Exchange; and (ii) placing/subscription of new Shares will have immediate dilution effect on the shareholding interests of the existing Shareholders.

In view of (i) the external debt financing may relatively uncertain and more time-consuming than the Issuance and may require of collateral; (ii) the time-consuming procedures for conducting rights issue/open offer; and (iii) the immediate dilution effect to the shareholding of the existing Shareholders if the Company conducts a fund raising exercise by issuance of new Shares, we concur with the Management's view that it is in the interests of the Company and the Shareholders as a whole to raise funds by the Issuance of A Share Convertible Corporate Bonds (including the Possible Subscriptions).

According to the Letter from the Board, the 2023 Resolutions have been passed in the extraordinary general meeting and class meetings which were held on 5 July 2023. The application relating to the Issuance of A Share Convertible Corporate Bonds submitted to the Shanghai Stock Exchange has been approved by the Listing Committee of the Shanghai Stock Exchange on 26 January 2024. According to the Management, as at Latest Practicable Date, the major work yet to be undertaken for the Issuance of A Share Convertible Corporate Bonds includes: (i) carrying out the registration procedures with CSRC; and (ii) executing the relevant issuance procedures.

As mentioned in the Letter from the Board, pursuant to the stipulations in the relevant laws and regulations in the Administrative Measures, the implementation of the Issuance of A Share Convertible Corporate Bonds shall also be subject to the decision on consent to registration by the CSRC. As advised by the Management, the relevant application documents had been submitted to the Shanghai Stock Exchange, and will be submitted by the Shanghai Stock Exchange to the CSRC. The Company is in the process of liaison with the relevant authority on the progress of the application. Whilst the registration procedures with CSRC shall commence soon, there is still uncertainty to obtain the consent of registration with the CSRC and the timing thereof. The decision on whether the Company can obtain the consent of registration of the CSRC and the final time to obtain it will depend on the examination of the CSRC. Whilst the Company has actively promoted the application process, the Company is not possible to accurately predict when the aforementioned consent registration decision can be obtained, and is unable to determine whether the Issuance of A Share Convertible Corporate Bonds can be completed on 5 July 2024 which is the end of the validity of the 2023 Resolutions. As a result, in order to ensure the smooth implementation of the relevant work on the Issuance of A Share Convertible Corporate Bonds, the Board seeks permission from Shareholders to further extend the validity period of the resolutions for twelve months from the date of expiry (5 July 2024), i.e., until 5 July 2025.

According to the "Guidelines for Application of Regulatory Rules – Issuance Category No. 6" issued by the CSRC, "if a listed company intends to apply for re-financing, it is required to table the re-financing matter to the shareholders' general meeting for consideration, and the resolution of the shareholders' general meeting must specify the validity period, which in practice is generally one year, except for the issuance of preference shares in installments. In

principle, a board of directors meeting and a shareholders' general meeting should be held before the expiration of the resolution of the shareholders' general meeting to extend the validity period." In light of the aforesaid guidance, we concur with the view of the Management that extending the validity period of the resolutions relating to the Issuance of A Share Convertible Corporate Bonds for twelve months is in compliance with the aforementioned relevant provisions of the CSRC.

Furthermore, having considered (i) the Issuance of A Share Convertible Corporate Bonds will be applied to all A Shareholders, including both connected persons (who are A Shareholders) and existing public A Shareholders; (ii) participation by the Connected Subscribers will demonstrate its solid confidence in the prospect of the Group; (iii) the proposed use of proceeds from the Issuance is in line with the Group's strategy; (iv) the financing alternatives as considered by the Company; (v) the extension of the validity period of the resolutions relating to the Issuance of A Share Convertible Corporate Bonds is in compliance with the relevant provisions of the CSRC; and (vi) the extension of the validity periods of the resolutions relating to the Issuance of A Share Convertible Corporate Bonds is to ensure the smooth implementation of the relevant work on the Issuance of A Share Convertible Corporate Bonds, we consider that although the Proposed Extensions and the Possible Subscriptions (being part of the Issuance) are not conducted in the ordinary and usual course of business of the Group, the Proposed Extensions and the Possible Subscriptions are in the common interests of the Company and the Shareholders as a whole.

3.2 The Terms of the Issuance of A Share Convertible Corporate Bonds and the Possible Subscriptions

3.2.1 Principal terms of the Issuance of A Share Convertible Corporate Bonds

The terms and conditions of the possible subscriptions for A Share Convertible Corporate Bonds by Fudan Fukong, Fuxin Fangao, Mr. Jiang Guoxing, Mr. Shi Lei, Shanghai Shenghao and Shanghai Yuhao are the same as the terms and conditions which are set out in the proposal on the Issuance to other public A Share Shareholders.

Set out below are the summary of key terms and conditions of the Possible Subscriptions (being part of the Issuance) as extracted from the Circular. Shareholders may refer to Appendix II to the Previous CT Circular for the full set of the terms and conditions of the Issuance.

(i) Type of securities to be issued

The type of the securities to be issued is convertible corporate bonds which can be converted into A Shares of the Company. The A Share Convertible Corporate Bonds and the A Shares to be converted will be listed on the Sci-Tech Innovation Board of Shanghai Stock Exchange.

(ii) *Size of issuance*

The total amount of the A Share Convertible Corporate Bonds proposed to be issued will not exceed RMB2 billion (RMB2 billion inclusive). The actual amount of the Proceeds raised shall be determined by the Board and its authorised persons under the authorisation of the EGM and Class Meetings within the above range.

(iii) *Par value and issue price*

The A Share Convertible Corporate Bonds under the Issuance will be issued at par with a nominal value of RMB100 each.

(iv) *Bonds term*

The term of the A Share Convertible Corporate Bonds under the Issuance will be six years from the date of the Issuance.

(v) *Bond rate*

With reference to the Letter from the Board, it is proposed to authorise the Board and its authorised persons at the EGM and Class Meetings to determine the method for determination of coupon rate of the A Share Convertible Corporate Bonds and the final interest rate for the interest accrual year upon negotiation with the sponsor (the lead underwriter) in accordance with national policies, market conditions and the actual conditions of the Company, prior to the Issuance.

We understood from the Management that the above basis for the determination of coupon rate of the A Share Convertible Corporate Bonds was in compliance with the relevant PRC rules and regulations. In this respect, we noted from Article 61 of the Administrative Measures that the coupon rate of a convertible corporate bond shall be determined by the issuer and the leading underwriter through negotiations according to the relevant regulations. Further, we also noted from Article 44 of 《公司債券發行與交易管理辦法》 (Administrative Measures for the Issuance and Trading of Corporate Bonds, the “**Issuance and Trading Measures**”) that the issuer and the lead underwriter shall negotiate and determine the coupon rate of corporate bonds by market-based methods. As such, we consider that the basis for the determination of coupon rate of the A Share Convertible Corporate Bonds is in compliance with the Administrative Measures and the Issuance and Trading Measures.

According to the table as set out under the subsection headed “3.2.2 *Comparison with other market issues of the A Share convertible corporate bonds*” below, the coupon rate of the convertible corporate bonds under the issuance of A share convertible corporate bonds by companies listed on the Stock Exchange and the

Shanghai Stock Exchange or the Shenzhen Stock Exchange of the PRC (i) are not fixed before its relevant shareholders meeting; and (ii) shall be determined by their respective board of directors with reference to the government policies, market conditions and the actual conditions of the Company before the issuance.

After considering the above, we concur with the Management that it is acceptable that the coupon rate of the A Share Convertible Corporate Bonds was undetermined as at the Latest Practicable Date and the basis for the determination of the coupon rate is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

(vi) *Term and method of principal and interest payment*

The A Share Convertible Corporate Bonds under the Issuance adopt the payment method that interest shall be paid on an annual basis. When the A Share Convertible Corporate Bonds mature, the outstanding principal of the A Share Convertible Corporate Bonds shall be repaid and the interest for the last year shall be paid.

(vii) *Conversion period*

The conversion period of the A Share Convertible Corporate Bonds under the Issuance shall commence on the first trading day immediately following the expiry of the six-month period after the date of the Issuance, and end on the maturity date of the A Share Convertible Corporate Bonds. Convertible Bondholders have the option to convert or not convert shares and shall become the Shareholders on the day after the conversion.

(viii) *Determination and adjustment of the Conversion Price*

Basis for determining the initial Conversion Price

The initial Conversion Price of the A Share Convertible Corporate Bonds under the Issuance shall not be lower than the average trading price of A Shares for the 20 trading days preceding the date of publication of the Offering Document (in the event that the A Share price was adjusted due to ex-right and ex-dividend in the preceding 20 trading days, the average trading price of A Shares on the trading days prior to the adjustment shall be calculated based on the price after such ex-right and ex-dividend) and the average trading price of the A Shares on the preceding trading day, with no upward adjustment. It is proposed that the Board and its authorised persons shall be authorised at the EGM and Class Meetings to negotiate with the sponsor (the lead underwriter) for determining the actual initial Conversion Price prior to the Issuance in accordance with the prevailing market conditions.

As advised by the Management, we understood that the above basis for determining of the initial conversion price was in compliance with the relevant PRC rules and regulations. We noted from the Article 64 of the Administrative Measures that the conversion price of a convertible corporate bond issued to unspecified targets shall not be lower than the average trading price of the company's shares in 20 trading days prior to the announcement date of the respective offering document and the average trading price on the trading day preceding the announcement date of the offering document. We also noted from Article 9 of 《可轉換公司債券管理辦法》 (Measures for the Administration of Convertible Corporate Bonds, the “**Convertible Corporate Bonds Measures**”) that the conversion price of a convertible corporate bond issued to unspecified targets shall not be lower than the average trading price of the company's shares in 20 trading days prior to the announcement date of the respective offering document and the average trading price on the trading day preceding the announcement date of the offering document, and shall not be amended upward. Accordingly, we consider that the basis for determining the initial conversion price is in compliance with the relevant provisions of the Administrative Measures and the Convertible Corporate Bonds Measures.

Furthermore, according to the table as set out under the subsection headed “3.2.2 *Comparison with other market issues of the A Share convertible corporate bonds*” below, we noted that the above basis for determining the initial Conversion Price of the A Share Convertible Corporate Bond is in line with the basis for determining the initial conversion price under the issuance of A share convertible corporate bonds by the A Share Comparables (as defined below).

We noted from the A Share Comparables that all of their basis for determining the initial conversion price included a term that the conversion price shall not be lower than the audited net asset value per share for the latest period. We also noted that, (i) the closing price of the A Share recorded between RMB24.36 and RMB59.23 for a period from 4 May 2023 up to the date of the Latest Practicable Date (i.e. approximately an approximate one-year period); and (ii) the latest consolidated net assets attributable to shareholders of the parent company per Share of approximately RMB6.47 (the “**Latest Net Asset Value per Share**”), calculated based on the Group's audited consolidated net assets attributable to shareholders of the parent company of approximately RMB5,303 million as at 31 December 2023 and total of 819,060,400 Shares in issue as at the Latest Practicable Date.

Despite that the initial Conversion Price is not fixed at this stage, for illustration purpose, set out below is the minimum illustrative initial conversion price (the “**Minimum Illustrative Initial Conversion Price**”) arrived at on the basis for determining the initial Conversion Price as abovementioned assuming the date of publication of the Offering Document is the Latest Practicable Date (i.e. 3 May 2024):

Basis for determining the initial Conversion Price

RMB

Not be lower than the higher of:

- | | |
|---|-------|
| (i) the average trading price of A Shares for the 20 trading days preceding the date of publication of the Offering Document | 30.75 |
| (ii) the average trading price of the A Shares on the preceding trading day of the date of publication of the Offering Document | 32.64 |

Based on the above, the Minimum Illustrative Initial Conversion Price would be RMB32.64, which represents huge premium over the Latest Net Asset Value per Share.

As per advised by the Management, although the basis for determining the initial Conversion Price does not contain a term that the initial Conversion Price shall not be lower than the audited net asset value per Share for the latest period of the Group, the Management considered that, based on (i) the historical closing price of the A Shares; (ii) the Minimum Illustrative Initial Conversion Price; (iii) the Latest Net Asset Value per Share, the initial Conversion Price (to be determined subject to the negotiation with the sponsor (the lead underwriter)) will be unlikely lower than the Latest Net Asset Value per Share. As such, we concur with the Management's view that the basis for determining the initial Conversion Price does not include a term that the initial Conversion Price shall not be lower than the audited net asset value per Share for the latest period of the Group is acceptable.

Despite that the initial conversion price does not fix at this stage, in light of the above factors including (i) the basis for the determination of the initial conversion price is in compliance with the Administrative Measures and the Convertible Corporate Bonds Measures; and (ii) in line with basis for determining the initial conversion prices under the issuance of A share convertible corporate bonds by A Share Comparables, we concur with the Management that it is acceptable that the conversion price was undetermined as at the Latest Practicable Date and the basis for the determination of initial conversion price is on normal commercial terms and fair and reasonable.

The initial Conversion Price will be adjusted according to the formula as set out under the subsection headed “(1) Proposed Issuance of A Share Convertible Corporate Bonds – (viii) Determination and adjustment of the Conversion Price – B. Method of adjustments and calculation formula of the Conversion Price” of Section 3 of the Letter from the Board upon the Issuance in case of certain events, such as distribution of share dividends, conversion or increase of share

capital, issuance of new shares (excluding any increase in the share capital as a result of conversion of the Convertible Bonds under the Issuance) or rights issue or distribution of cash dividends. We noted that the adjustment formula was in line with the market practice (i.e. adjustment method for the issuance of A share convertible corporate bonds by the A Share Comparables).

(ix) *Terms of downward adjustment to Conversion Price*

A. Authorisation and magnitude of adjustment

If, during the term of the Convertible Bonds under the Issuance, the closing prices of A Shares of the Company on at least 15 trading days out of any 30 consecutive trading days are lower than 85% of the prevailing Conversion Price, the Board of the Company is entitled to propose a downward adjustment to the Conversion Price and submit it to the Shareholders at the Shareholders' general meetings and Class Meetings for their consideration and voting.

The abovementioned proposal is subject to approvals of more than two-thirds of the Shareholders with voting rights who attend the Shareholders' general meetings and Class Meetings. Shareholders who hold the Convertible Bonds under the Issuance shall abstain from voting at the Shareholders' general meetings and Class Meetings. The adjusted Conversion Price should be no less than the higher of the average trading price of A Shares of the Company during the 20 trading days immediately preceding the date of such a general meeting and Class Meetings (in the event that during such 20 trading days, the share price has been adjusted due to ex-rights or ex-dividend, the closing price for the trading day before the adjustment shall be calculated based on the adjusted share price following the ex-rights or ex-dividend) the average trading price of A Shares of the Company on the trading day immediately preceding the date of the aforementioned general meeting and Class Meetings.

In the event that there is an adjustment to the share price due to ex-rights or ex-dividend during the aforementioned 30 consecutive trading days, in respect of the trading days prior to the adjustment to the Conversion Price, the calculation shall be based on the unadjusted Conversion Price and the closing price of the A Shares on each such day, and in respect of the days on which adjustment to the Conversion Price is made and the trading days afterwards, the calculation shall be based on the adjusted Conversion Price and the closing price of the A Shares on each such day.

In any event, the Conversion Price must be more than or equal to the nominal value of the A Shares with reference to Article 127 of the Company Law as stated in paragraph (4) under the subsection headed "(1)

Proposed Issuance of A Share Convertible Corporate Bonds – (viii) Determination and adjustment of the Conversion Price – C. Regulatory requirements governing the Conversion Price” of Section 3 of the Letter from the Board.

B. Procedures of adjustment

In the event that the Company decides to adjust the Conversion Price downwards, the Company shall publish an announcement in connection therewith on the website of Shanghai Stock Exchange (www.sse.com.cn) and media designated by the CSRC for information disclosure of listed companies. Such announcement shall disclose information including the magnitude of the adjustment, the registration date of shares, the suspension period of share conversion, if necessary, and other relevant information. Meanwhile, the Company shall disclose such information to the Hong Kong market in accordance with the Listing Rules and the Articles (if necessary). Application for conversion at adjusted Conversion Price shall be resumed upon the first trading day after the registration date, i.e. the Conversion Price adjustment date.

If the Conversion Price adjustment date is on or after the date on which a bondholder applies for conversion of his/her A Share Convertible Corporate Bonds but before the registration date of the A Shares to be issued upon conversion, then such conversion shall be executed based on the adjusted Conversion Price.

We noted from the A Shares Comparables that all of them have conversion price downward mechanisms. As mention above, the Board is entitled to propose a downward adjustment to the Conversion Price if the closing price of A Share of the Company on at least 15 trading days out of any 30 consecutive trading days are lower than 85% of the prevailing Conversion Price which is within the range of the thresholds ranging from 75% to 90% of the prevailing conversion price of the A Shares Comparables.

We also noted from the A Share Comparables that all of their terms of downward adjustment to the conversion price included a term that the adjusted conversion price shall not be lower than the audited net asset value per share for the latest period. As per advised by the Management, they considered that, based on (i) the historical closing price of the A Shares; (ii) the Minimum Illustrative Initial Conversion Price; and (iii) the Latest Net Asset Value per Share, the adjusted Conversion Price will be unlikely lower than the Latest Net Asset Value per Share. As such, we concur with the Management’s view and based on the above, the terms of

downward adjustment to the Conversion Price does not include a term that the adjusted Conversion Price shall not be lower than the audited net asset value per Share for the latest period of the Group is acceptable.

Furthermore, we also noted from Article 10 of the Convertible Corporate Bonds Measures that the conversion price shall be adjusted at the time when any change in the shares of the issuer is resulted from the allotment of shares, the issuance of rights issue, seasoned offering, share donation, dividends, split-up, capital reduction or any other event after the issuance of convertible corporate bonds, as long as the principle and method for adjusting the conversion price were stipulates in the offering document. Accordingly, we consider that the basis for the adjustment criteria is in compliance with the relevant provision of the Convertible Corporate Bonds Measures.

After considering that (i) same A Share Convertible Corporate Bonds terms applied to all bondholders (including the Connected Subscriber); (ii) the adjustment provisions to the Conversion Price are similar to those of the A Share Comparables; (iii) the downward adjustment to the Conversion Price if the closing price of A Share of the Company on at least 15 trading days out of any 30 consecutive trading days are lower than 85% of the prevailing Conversion Price is within the range of the A Share Comparables; and (iv) the basis for the adjustment criteria is in compliance with the relevant provision of the Convertible Corporate Bonds Measures, we are of the view that the downward adjustment mechanism is fair and reasonable.

(x) *Method for determining the number of A Shares for conversion*

Where a bondholder applies to convert his/her A Share Convertible Corporate Bonds under the Issuance during the conversion period, the formula for calculating the number of A Shares to be issued upon conversion is: $Q = V/P$, any fractional A Share shall be rounded down to the nearest whole number, where “Q” denotes the number of A Shares to be converted; “V” denotes the aggregate nominal value of A Share Convertible Corporate Bonds in respect of which the bondholder applies for conversion; and “P” denotes the prevailing Conversion Price as at the date of application for conversion.

The number of A Shares to be converted shall be in whole number where the bondholder applied for converting his/her A Share Convertible Corporate Bonds under the Issuance. Within five trading days from the date of conversion by the bondholder, the Company shall pay the bondholder in cash an amount equal to the remaining balance of such A Share Convertible Corporate Bonds which is insufficient to be converted into one A Share and the interest accrued on such balance in accordance with the relevant requirements of CSRC, the Shanghai Stock Exchange and other authorities.

(xi) *Terms of sale back*

A. Additional terms of sale back

If the actual use of the proceeds raised from the Issuance significantly differs from the undertakings of the use of proceeds set out by the Company in the Offering Document, and such change is considered as a change in the use of proceeds pursuant to the relevant requirements of the CSRC or the Shanghai Stock Exchange, the bondholders shall be entitled to a one-off right to sell all or part of their Convertible Bonds back to the Company at par plus the then accrued interest. The formula for calculating the then accrued interest is set out in the subsection headed “(1) *Proposed Issuance of A Share Convertible Corporate Bonds – (xi) Terms of redemption*” of Section 3 of the Letter from the Board. Upon the satisfaction of the condition of sale back, the Convertible Bondholders may sell their A Share Convertible Corporate Bonds back to the Company during the sale back declaration period. If the Convertible Bondholders do not exercise their sale back rights during such period, they shall not exercise such rights later.

B. Terms of conditional sale back

During the last two interest accrual years within the term of the A Share Convertible Corporate Bonds under the Issuance, if the closing prices of the A Shares on any 30 consecutive trading days are lower than 70% of the prevailing Conversion Price, the bondholders are entitled to sell back all or part of the A Share Convertible Corporate Bonds to the Company at par plus the then accrued interest.

In the event that an adjustment to the Conversion Price by the Company is made due to distribution of share dividends, conversion or increase of share capital, issuance of new shares (excluding any increase in the share capital as a result of conversion of the A Share Convertible Corporate Bonds under the Issuance) or rights issue, distribution of cash dividends during the aforementioned 30 trading days, in respect of the trading days prior to the adjustment, the calculation shall be based on the unadjusted Conversion Price and the closing price of the A Shares on each such day, and in respect of the trading days after the adjustment, the calculation shall be based on the adjusted Conversion Price and the closing price of the A Shares on each such day. In the event that there is a downward adjustment to the Conversion Price, the aforesaid “30 trading days” shall be re-counted from the first trading day following the adjustment to the Conversion Price.

The bondholders can exercise their sale back rights once every year when the sale back conditions are initially satisfied according to the abovementioned agreed terms in the last two interest accrual years within the term of the A Share Convertible Corporate Bonds. If the sale back conditions are initially satisfied, but the bondholders do not apply for and exercise their sale back rights during the sale back declaration period then announced by the Company, they shall not exercise the sale back rights during such interest accrual year. The bondholders are not allowed to exercise part of their sale back rights for multiple times.

(xii) Other terms

We also reviewed other terms of the Issuance and were not aware of any abnormal term based on the A Share Comparables.

In light of the above and that the terms of the A Share Convertible Corporate Bonds will be the same to all potential subscribers (including the Connected Subscribers), we are of the view that the terms of the Possible Subscriptions are fair and reasonable so far as the Independent Shareholders are concerned.

3.2.2 Comparison with other market issues of the A Share convertible corporate bonds

In assessing the terms of the Proposed Extensions and the Possible Subscription, which is part of the Issuance, we have, on a best effort basis, searched on the website of the Stock Exchange and identified an exhaustive list of the proposal for issuance of A share convertible corporate bonds initially announced or proposed to extend the validity period of the relevant resolutions and authorisation and not terminated by companies which are listed on both (i) the Shanghai Stock Exchange or the Shenzhen Stock Exchange of the PRC; and (ii) the Stock Exchange, from 4 May 2021 (being approximately three years) prior to and until the Latest Practicable Date for comparison purpose. To the best of our knowledge and endeavour, we found four companies (the “**A Share Comparables**”) which meet the said criteria and they are exhaustive as far as we are aware of. Shareholders should note that the businesses, operations and prospects of the Group are not exactly the same as the A Share Comparables. We consider that the basis of selecting comparables with the criteria of companies had issued proposal announcement for issuance of A share convertible corporate bonds and not terminated within the period from 4 May 2021 to the Latest Practicable Date is fair and reasonable given that (i) such criteria and period is sufficiently recent to demonstrate the prevailing market practices for issuance of A share convertible bonds; and (ii) able to identify sufficient relevant market issues for comparison within such period.

The following table sets out the key terms of those issuance as extracted from the respective announcements and offering documents (if applicable) of the A Share Comparables:

The Comparables	Date of the announcement	Date of offering document	Term (years)	Size of issuance	Par value and issue price	Basis for determining bond rate	Bond Rate	Conversion Period	Basis for determining initial conversion price	Term of downward adjustment to the conversion price	Initial conversion price	Term of sale back	Extension period of the relevant resolutions and authorisation (if applicable)
Zijin Mining Group Co., Ltd.* (紫金礦業集團股份有限公司) (2899.HK) ("Zijin Mining")	(i) 21/10/2022; and (ii) 22/3/2024	Not published yet (Note 1)	6	Not exceed RMB10 billion	Same as the A Share Convertible Corporate Bonds and issue at par with a nominal value of RMB100 each	Same as the Issuance	Not announced yet (Note 1)	Same basis as the terms of the A Share Convertible Corporate Bonds which commence on the first trading day immediately following the expiry of the six-month period from the date of issuance, and end on the maturity date of the convertible bonds	Same as the Issuance, except the initial conversion price shall not be lower than the audited net asset value per share for the latest period of Zijin Mining	Same as the Issuance, except the threshold is 75% of the prevailing conversion price and the adjusted conversion price shall not be lower than the audited net asset value per share for the latest period of Zijin Mining	Not announced yet (Note 1)	Same as the Issuance, except that the threshold is the closing prices of the A shares of Zijin Mining on any 30 consecutive trading days are lower than 65% of the prevailing conversion price	12 months
China Galaxy Securities Co., Ltd. (6881.HK) ("China Galaxy") (Note 2)	30/8/2021	22/3/2022	6	RMB7.8 billion (Note 3)	Same as the A Share Convertible Corporate Bonds and issue at par with a nominal value of RMB100 each	Same as the Issuance	First year: 0.2% Second year: 0.4% Third year: 0.6% Fourth year: 1.0% Fifth year: 1.8% Sixth year: 2.0%	Same basis as the terms of the A Share Convertible Corporate Bonds. Commence on 30 September 2022 to 23 March 2028, being the first trading day immediately following the expiry of the six-month period from the date of issuance, and end on the maturity date of the convertible bonds	Same as the Issuance, except the initial conversion price (i) shall not be lower than the average trading price of A shares of China Galaxy during the 30 trading days immediately preceding the date of publication of the offering document; and (ii) shall be no lower than the latest audited net assets per share of China Galaxy	Same as the Issuance, except the threshold is 80% of the prevailing conversion price and the adjusted conversion price shall not be lower than the average trading price of A shares during the 30 trading days immediately preceding the shareholder's general meeting and shall be no lower than the latest audited net assets per share of China Galaxy	RMB10.24 per A share, not higher of (i) the average trading price of A shares of China Galaxy during the (a) 30 and (b) 20 trading days immediately preceding the date of publication of the offering document; and (ii) the average trading price of the A shares on the preceding trading day, and shall not be lower than the latest audited net asset value per share and the par value per share of China Galaxy	If the actual usage of the proceeds from the issuance of the A share convertible bonds materially differs from the undertakings of the use of proceeds set out by China Galaxy in the offering document, and such change is deemed as a deviation in the use of the proceeds under the relevant requirements of the CSRC, the holders of A share convertible bonds shall have a one-off sale back right to sell all or part of their A share convertible bonds back to China Galaxy at a price equal to the nominal value of such bonds plus the then accrued interest	N/A

The Comparables	Date of the announcement	Date of offering document	Term (years)	Size of issuance	Par value and issue price	Basis for determining bond rate	Bond Rate	Conversion Period	Basis for determining initial conversion price	Term of downward adjustment to the conversion price	Initial conversion price	Term of sale back	Extension period of the relevant resolutions and authorisation (if applicable)
Dynagreen Environmental Protection Group Co., Ltd.* (綠色動力環保集團股份有限公司) (1330.HK) ("Dynagreen Environmental")	23/7/2021	23/2/2022	6	RMB2.36 billion (Note 3)	Same as the A Share Convertible Corporate Bonds and issue at par with a nominal value of RMB100 each	Same as the Issuance	First year: 0.2% Second year: 0.4% Third year: 0.6% Fourth year: 1.5% Fifth year: 1.8% Sixth year: 2.0%	Same basis as the terms of the A Share Convertible Corporate Bonds. Commence on 5 September 2022 to 24 February 2028, being the first trading day immediately following the expiry of the six-month period from the date of issuance, and end on the maturity date of the convertible bonds	Same as the Issuance, except the initial conversion price shall not be lower than the latest audited net asset value per share of Dynagreen Environmental	Same as the Issuance, except the adjusted conversion price shall not be lower than the latest audited net asset value per share of Dynagreen Environmental	RMB9.82 per A share, not lower than the higher of (i) the average trading price of A Shares for the 20 trading days preceding the publication date of the offering document; and (ii) the average trading price of the A shares on the preceding trading day, and shall not be lower than the latest audited net asset value per share and the par value per share of Dynagreen Environmental	Same as the Issuance	N/A
Flat Glass Group Co., Ltd.* (福萊特玻璃集團股份有限公司) (6865.HK) ("Flat Glass")	16/6/2021	23/2/2022	6	Not exceed RMB4 billion (Note 3)	Same as the A Share Convertible Corporate Bonds and issue at par with a nominal value of RMB100 each	Same as the Issuance	First year: 0.3% Second year: 0.5% Third year: 1.0% Fourth year: 1.5% Fifth year: 1.8% Sixth year: 2.0%	Same basis as the terms of the A Share Convertible Corporate Bonds. Commence on 28 November 2022 to 19 May 2028, being the first trading day immediately following the expiry of the six-month period from the date of issuance, and end on the maturity date of the convertible bonds	Same as the Issuance	Same as the Issuance, except the threshold is 90% of the prevailing conversion price and the adjusted conversion price shall not be lower than the latest audited net assets per share of Flat Glass	RMB43.94 per A share, not lower than the average trading price of A shares for the 20 trading days preceding the date of publication of the publication date of the offering document	Same as the Issuance	N/A

Source: the website of the Stock Exchange and 巨潮資訊網 (Cninfo*, www.cninfo.com.cn)

- Note:*
1. Zijin Mining had issued an announcement in relation to the extension of the validity period of the resolution of the shareholders' general meetings on the issuance of A share convertible corporate bonds and the validity period of the relevant authorisation on 22 March 2024 and a circular in relation to, among others, the same had been despatched on 16 April 2024. As at the Latest Practicable Date, the offering document of the proposed issuance of A share convertible corporate bonds by Zijin Mining was yet to be published, therefore, the bond rate and the initial conversion price were not yet announced.
 2. Pursuant to the offering document for the A share convertible corporate bonds of China Galaxy, during the conversion period of the A share convertible corporate bonds, the Company shall have the right to redeem all or part of the outstanding A share convertible corporate bonds at a price equal to the nominal value of the A share convertible corporate bonds plus the then accrued interest when certain circumstances occur. According to the announcement of China Galaxy dated 24 November 2023 and 2 December 2023, the board of directors of China Galaxy has determined to exercise the right of early redemption and redeemed all the outstanding A share convertible corporate bonds. After the completion of the redemption, the A shares convertible bonds were delisted from the Shanghai Stock Exchange effective from 19 December 2023.
 3. The size of issuance representing the amount announced on their respective offering documents.

As depicted by the above table, the extension period of twelve months of the validity period of the resolutions relating to the Issuance of A Share Convertible Corporate Bonds is in line with the market practice and also in compliance with the relevant provisions of the CSRC as mentioned in the subsection headed “*3.1 Reasons for and possible benefits of the Issuance, the Proposed Extensions and use of proceeds*” above.

As depicted by the above table, the Issuance is not exceptional based on comparison with the A Share Comparables. Moreover, the key terms of the A Share Convertible Corporate Bonds are largely the same as those of the other convertible bonds proposed to be issued by A Share Comparables. In view of the above, we consider that the terms of the A Share Convertible Corporate Bonds are in line with market practice.

In light of the above factors, in particular (i) it is acceptable that the coupon rate of the A Share Convertible Corporates Bonds was undetermined as at the Latest Practicable Date and the basis for the determination of the coupon rate is on normal commercial terms and fair and reasonable; (ii) the terms of the A Share Convertible Corporates Bonds are in line with market practice; and (iii) the terms of the A Share Convertible Corporates Bonds will be the same for all potential subscribers (including the Connected Subscribers), we are of the view that the terms of Possible Subscriptions are fair and reasonable.

3.3 Potential dilution to the shareholding of the existing Shareholders upon the conversion of A Share Convertible Corporate Bonds

With reference to the Letter from the Board, the shareholding structures of the Company as at the Latest Practicable Date and after completion of the proposed Issuance of A Share Convertible Bonds and conversion of all the A Share Convertible Corporate Bonds into A Shares (assuming that (i) the Company has issued the A Share Convertible Corporate Bonds at the maximum issuance amount of RMB2 billion; (ii) all the A Shareholders have subscribed for the respective maximum subscription amount of the A Share Convertible Corporate Bonds on pro-rata basis on their current shareholding; (iii) all A Share Convertible Corporate Bonds are converted into A Shares at the minimum initial conversion price of approximately RMB32.64 per A Share, which shall not be lower than average trading price of A Shares of the Company for the 20 trading days preceding the date of the Latest Practicable Date and the average trading price of A shares of the Company on the preceding trading day; and (iv) the Company does not issue and allot any Shares before all the A Share Convertible Corporate Bonds are converted into A Shares) are as follows:

Name/Class of Shareholders	As at the Latest Practicable Date			Immediately after completion of the Issuance and conversion of all the A Share Convertible Corporate Bonds into A Shares		
	Number of Shares (Note)	Approximate percentage of the number of issued A Shares	Approximate percentage of the number of issued Shares	Number of Shares (Note)	Approximate percentage of the number of issued A Shares	Approximate percentage of the number of issued Shares
Fudan Fukong	109,620,000 (A)	20.50%	13.38%	122,181,305 (A)	20.50%	13.88%
Fuxin Fangao	106,730,000 (A)	19.96%	13.03%	118,960,141 (A)	19.96%	13.51%
Mr. Jiang Guoxing	7,210,000 (A)	1.35%	0.88%	8,036,191 (A)	1.35%	0.91%
Mr. Shi Lei	7,210,000 (A)	1.35%	0.88%	8,036,191 (A)	1.35%	0.91%
Shanghai Shenghao	2,253,750 (A)	0.42%	0.28%	2,512,006 (A)	0.42%	0.29%
Mr. Yu Jun	522,546 (A)	0.10%	0.06%	582,424 (A)	0.10%	0.07%
Shanghai Yuhao	366,000 (A)	0.07%	0.04%	407,940 (A)	0.07%	0.05%
Public Shareholders (A Shares)	300,818,104 (A)	56.25%	36.73%	335,288,712 (A)	56.25%	38.08%
Public Shareholders (H Shares)	284,330,000 (H)	-	34.72%	284,330,000 (H)	-	32.30%
	<u>819,060,400</u>	<u>-</u>	<u>100%</u>	<u>880,334,910</u>	<u>-</u>	<u>100%</u>

Note: The letter "A" denotes A Shares and the letter "H" denotes H Shares.

As shown in the table above, for illustration purpose, assuming the Issuance is completed and all A Share Convertible Corporate Bonds are converted into A Shares, (i) the shareholding of the A Shareholders will be increased from approximately 65.28% to approximately 67.70%; and (ii) the shareholding of the H Shareholders will be decreased from approximately 34.72% to approximately 32.30%. Meanwhile, the overall shareholding of the public Shareholders will be slightly decreased from approximately 71.45% as at the Latest Practicable Date to

approximately 70.38% immediately after the completion of the Issuance of A Share Convertible Corporate Bonds and conversion of all the A Share Convertible Corporate Bonds, assuming (i) the Company has issued the A Share Convertible Corporate Bonds at the maximum issuing amount of RMB2 billion; (ii) all the A Shareholders have subscribed for the respective maximum subscription amount of the A Share Convertible Corporate Bonds on pro-rata basis on their current shareholding; (iii) all A Share Convertible Corporate Bonds are converted into A Shares at the minimum initial conversion price of RMB32.64 per A Share; and (iv) the Company does not issue, allot and repurchase any Shares before all the A Share Convertible Corporate Bonds are converted into A Shares.

Taking into account of (i) the reasons for and benefits of the Issuance of A Share Convertible Corporate Bonds and Subscriptions as set out in the section headed “3.1 Reasons for and possible benefits of the Issuance, the Proposed Extensions and use of proceeds” in this letter; and (ii) the fairness and reasonableness of the principal terms of the Issuance, we are of the view that the dilution effect of the overall shareholding of the public Shareholders is acceptable.

RECOMMENDATION

In respect of the Proposed Continuing Connected Transactions

Having considered the above principal factors and reasons, we consider that the New Cooperation Agreement and the transactions contemplated thereunder (including the revision of 2024 Annual Cap and the proposed 2025 – 2027 Annual Caps) are (i) in the ordinary and usual course of business of the Group; and (ii) on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the resolution(s) to be proposed at the EGM to approve the New Cooperation Agreement and the transactions contemplated thereunder (including the revision of 2024 Annual Cap and the proposed 2025 – 2027 Annual Caps).

In respect of the Proposed Extensions and the Possible Subscription

Having considered the above principal factors and reasons, we are of the opinion that (i) the terms of the Proposed Extensions and the Possible Subscription are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the Proposed Extensions and the Possible Subscription is not conducted in the ordinary and usual course of business of the Company, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the resolutions to be proposed at the EGM to approve the Proposed Extensions and the Possible Subscription.

Yours faithfully,
For and on behalf of
Amasse Capital Limited


Stephen Lau
Director

Mr. Stephen Lau ("Mr. Lau") is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Amasse Capital Limited to carry out Type 6 (advising on corporate finance) and a representative of Amasse Capital Limited to carry out Type 1 (dealing in securities) regulated activities under the SFO. Mr. Lau is also a representative of Amasse Asset Management Limited licensed to carry our Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO and he has over 10 years of experience in the finance industry.