
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Shanghai Fudan Microelectronics Group Company Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee, or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



**FUDAN
MICRO**

上海復旦微電子集團股份有限公司

Shanghai Fudan Microelectronics Group Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 1385)

PROPOSALS FOR

- (1) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE REVISION OF 2024 ANNUAL CAP AND THE NEW COOPERATION AGREEMENT;
- (2) EXTENSION OF THE VALIDITY PERIOD OF THE RESOLUTION IN RESPECT OF THE ISSUANCE OF A SHARE CONVERTIBLE CORPORATE BONDS TO NON-SPECIFIC INVESTORS;
- (3) EXTENSION OF 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;
- (4) POSSIBLE SUBSCRIPTION FOR A SHARE CONVERTIBLE CORPORATE BONDS BY CONNECTED PERSONS;
- (5) NOTICE OF THE EGM; AND
- (6) NOTICE OF THE H SHAREHOLDERS' CLASS MEETING

INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT SHAREHOLDERS

AMASSE CAPITAL

寶 積 資 本

A letter from the board of directors of Shanghai Fudan Microelectronics Group Company Limited is set out on pages 6 to 43 of this circular.

The notices of the EGM and the H Shareholders' Class Meeting of the Company to be held at Conference Room, Building 4, Fudan National University Science and Technology Park, 127 Guotai Road, Shanghai, the People's Republic of China at 1:30 p.m. and 2:30 p.m. respectively on Tuesday, 18 June 2024 are set out on pages EGM-1 and HCM-1 of this circular.

The respective form of proxy for use at the EGM and the H Shareholders' Class Meeting are enclosed with this circular and such form of proxy are also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.fmsh.com). Whether or not you are able to attend and/or vote at the EGM and the H Shareholders' Class Meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible but in any event not less than 24 hours before the time appointed for convening the EGM and the H Shareholders' Class Meeting.

9 May 2024

* For identification purposes only

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	6
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	44
LETTER FROM AMASSE CAPITAL LIMITED	46
APPENDIX I – GENERAL INFORMATION	86
NOTICE OF THE EGM	EGM-1
NOTICE OF THE H SHAREHOLDERS’ CLASS MEETING	HCM-1

DEFINITIONS

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

“2024 Annual Cap”	the annual cap for the year ending 31 December 2024 under the Old Cooperation Agreement
“2025 – 2027 Annual Caps”	the annual caps for the years ending 31 December 2025 and 2026, and period ending 11 June 2027 under the New Cooperation Agreement
“A Shares”	the ordinary share(s) of the Company of nominal value of RMB0.10 each subscribed and traded in RMB
“A Shareholder(s)”	holder(s) of A Shares
“A Shareholders’ Class Meeting”	the class meeting of A Shareholders
“A Share Convertible Corporate Bonds” or “A Share Convertible Bonds” or “Convertible Bonds”	the convertible corporate bonds with a total amount not exceeding RMB2 billion (RMB2 billion inclusive) that can be converted into new A Shares proposed to be issued by the Company in the PRC
“Administrative Measures”	The Administrative Measures for the Issuance and Registration of Securities by Listed Companies (上市公司證券發行註冊管理辦法) promulgated by the CSRC
“Articles”	articles of association of the Company, as amended, modified or otherwise supplemented from time to time
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Class Meetings”	the A Shareholders’ Class Meeting and the H Shareholders’ Class Meeting
“Company”	Shanghai Fudan Microelectronics Group Company Limited* (上海復旦微電子集團股份有限公司), a joint stock limited company incorporated in the PRC, whose A Shares are listed on the Sci-Tech Innovation Board of the Shanghai Stock Exchange and H Shares are listed on the Main Board of the Stock Exchange
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules
“Connected Transaction”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Conversion Price”	The price at which new A shares will be issued upon the conversion of A Share Convertible Bonds (subject to adjustment from time to time)
“Convertible Bondholders”	the holders of the A Share Convertible Corporate Bonds
“Convertible Bonds Offering Document” or “Offering Document”	the offering document on Issuance of A Share Convertible Corporate Bonds to non-specific investors of the Company
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the approval of, among others, (i) the continuing connected transactions in relation to the revision of 2024 Annual Cap and the New Cooperation Agreement; (ii) the extension of the validity period of the resolution in respect of the issuance of A Share Convertible Corporate Bonds to Non-Specific Investors; (iii) the extension of 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; and (iv) the Possible Subscription for A Share Convertible Corporate Bonds by Connected Persons
“Fudan Communication”	Shanghai Fudan Communication Company Limited* (上海復旦通訊股份有限公司), a 30%-controlled company (as defined under Rule 14A.06 of the Listing Rules) of Fudan Fukong
“Fudan Fukong”	Shanghai Fudan Fukong Technology Enterprise Holdings Limited* (上海復旦復控科技產業控股有限公司), a Substantial Shareholder of the Company
“Fuxin Fangao”	Shanghai Fuxin Fangao IC Technology Co. Ltd.* (上海復芯凡高集成電路技術有限公司)
“Group”	the Company and its subsidiaries from time to time
“H Share(s)”	overseas listed foreign share(s) of nominal value of RMB0.10 each in the share capital of the Company which are listed on Main Board of the Stock Exchange and subscribed and traded in HK\$
“H Shareholder(s)”	holders of H Share(s)
“H Shareholders’ Class Meeting”	the class meeting of H Shareholders

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Cao Zhongyong, Mr. Cai Minyong, Mr. Wang Pin and Ms. Zou Fuwen, has been formed to advise the Independent Shareholders in respect of the Proposed Continuing Connected Transactions and the Possible Subscription
“Independent Financial Advisor”	Amasse Capital Limited, registered with the Securities and Futures Commission in Hong Kong as a licensed corporation under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, and appointed as the independent financial adviser of the Company to provide advice to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Continuing Connected Transactions and the Possible Subscription
“Independent Shareholders”	any Shareholder(s) of the Company who is not required to abstain from voting at the extraordinary general meeting for the resolutions to approve (i) the Proposed Continuing Connected Transactions in relation to the revision of 2024 Annual Cap and the New Cooperation Agreement; (ii) the extension of the validity period of the resolution in respect of the issuance of A Share Convertible Corporate Bonds to Non-Specific Investors; (iii) the extension of 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; and (iv) the Possible Subscription for A Share Convertible Corporate Bonds by Connected Persons, respectively
“Independent Third Party(ies)”	any entity or person who, to the best of our Directors’ knowledge, information and belief having made all reasonable enquiries, is not a connected person of the Company within the meaning ascribed thereto under the Listing Rules
“Issuance of A Share Convertible Corporate Bonds” or “Issuance”	the proposal of the Company to apply to the Shanghai Stock Exchange and the CSRC for the Issuance of A Share Convertible Bonds to non-specific investors in the PRC with a total amount not exceeding RMB2 billion (RMB2 billion inclusive)
“Latest Practicable Date”	3 May 2024, being the latest practicable date prior to the issuance of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“New Cooperation Agreement”	the sales agency cooperation agreement in respect of reconfigurable devices and memory IC chips entered into between the Company and Fudan Communication on 22 March 2024 and effective on 12 June 2024 for a term of three years
“Old Cooperation Agreement”	the sales agency cooperation agreement in respect of reconfigurable devices and memory IC chips entered into between the Company and Fudan Communication on 26 March 2021 and effective on 12 June 2021 for a term of three years
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, Macau and Taiwan
“Possible Subscription”	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 the proposed Issuance of A Share Convertible Corporate Bonds, the specific subscription amount and Conversion Price on the exercise of the pre-emptive rights shall be subject to the determination of the Board as authorized by the EGM and the Class Meetings, based on the market conditions before the Issuance
“Proposed Continuing Connected Transactions”	the proposed continuing connected transactions in relation to the revision of 2024 Annual Cap and the New Cooperation Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Sci-Tech Innovation Board”	The Shanghai Stock Exchange Science and Technology Innovation Board
“SFO”	Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong)
“Shanghai Shenghao”	Shanghai Shenghao Corporate Management Consultant Partnership Enterprise (limited partnership)* (上海聖壕企業管理諮詢合夥企業 (有限合夥))
“Shanghai Yuhao”	Shanghai Yuhao Corporate Management Consultant Partnership Enterprise (limited partnership)* (上海煜壕企業管理諮詢合夥企業 (有限合夥))
“Shanghai Yuji”	Shanghai Yuji Enterprise Management Consulting Co., Ltd.* (上海煜冀企業管理諮詢有限公司), a general partner of Shanghai Shenghao and Shanghai Yuhao and having the de facto control of Shanghai Shenghao and Shanghai Yuhao

DEFINITIONS

“Share(s)”	A Share(s) and H Share(s)
“Shareholder(s)”	holders of the Company’s Shares including A Share(s) and H Share(s)
“Shanghai Stock Exchange”	Shanghai Stock Exchange of the PRC
“Sino IC”	Sino IC Technology Co., Ltd.* (上海華嶺集成電路技術股份有限公司), a subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder”	has the meaning ascribed to it under the Listing Rules
“Supervisor(s)”	supervisor(s) of the Company
“%”	percent.

LETTER FROM THE BOARD



上海復旦微電子集團股份有限公司

Shanghai Fudan Microelectronics Group Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 1385)

Executive Directors:

Mr. Jiang Guoxing (*Chairman*)
Mr. Shi Lei (*Managing Director*)
Mr. Yu Jun (*Deputy Managing Director*)

Registered office:

No. 220 Handan Road
Shanghai
The PRC

Non-Executive Directors:

Ms. Zhang Qianling
Mr. Sun Zheng

Principal Place of Business:

In the PRC:
Building 4, Lane 127, Guotai Road
Shanghai, the PRC

Independent Non-Executive Directors:

Mr. Cao Zhongyong
Mr. Cai Minyong
Mr. Wang Pin
Ms. Zou Fuwen

In Hong Kong:

Flat 6, 5/F., East Ocean Centre
98 Granville Road
Tsimshatsui East
Kowloon
Hong Kong

9 May 2024

Dear Sir or Madam:

- PROPOSALS FOR**
- (1) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE REVISION OF 2024 ANNUAL CAP AND THE NEW COOPERATION AGREEMENT;**
 - (2) EXTENSION OF THE VALIDITY PERIOD OF THE RESOLUTION IN RESPECT OF THE ISSUANCE OF A SHARE CONVERTIBLE CORPORATE BONDS TO NON-SPECIFIC INVESTORS;**
 - (3) EXTENSION OF 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;**
 - (4) POSSIBLE SUBSCRIPTION FOR A SHARE CONVERTIBLE CORPORATE BONDS BY CONNECTED PERSONS;**
 - (5) NOTICE OF THE EGM; AND**
 - (6) NOTICE OF THE H SHAREHOLDERS' CLASS MEETING**

INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT SHAREHOLDERS

AMASSE CAPITAL
寶 積 資 本

* for identification purpose only

LETTER FROM THE BOARD

1. INTRODUCTION

Reference is made to the announcements of the Company dated 22 March 2024 and 29 April 2024 concerning, among others, the Proposed Continuing Connected Transactions in relation to the revision of 2024 Annual Cap and the New Cooperation Agreement and the proposed extension of validity period of the resolution in respect of the issuance of A Share Convertible Corporate Bonds, respectively.

The purpose of this circular is to provide you with information in relation to the details of (i) the Proposed Continuing Connected Transactions in relation to the revision of 2024 Annual Cap and the New Cooperation Agreement; (ii) the extension of the validity period of the resolution in respect of the issuance of A Share Convertible Corporate Bonds to Non-Specific Investors; (iii) the extension of 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; (iv) the Possible Subscription for A Share Convertible Corporate Bonds by Connected Persons; (v) the letter from the Independent Financial Adviser to the Independent Shareholders; (vi) the recommendation of the Independent Board Committee as advised by the Independent Financial Adviser; and (vii) other information relevant to the proposals to be tabled at the EGM, the H Shareholders' Class Meeting (where applicable) and the A Shareholders' Class Meeting (where applicable) as required under the Listing Rules, in order to enable you to make an informed decision on whether to vote for or against the proposals at the EGM, the H Shareholders' Class Meeting (where applicable) and the A Shareholders' Class Meeting (where applicable).

2. PROPOSED CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE REVISION OF 2024 ANNUAL CAP AND THE NEW COOPERATION AGREEMENT

References are made to the announcements of the Company dated 26 March 2021, 30 August 2021, 5 November 2021 and 22 March 2024 respectively, and the circulars dated 29 April 2021 and 20 October 2021, 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 of the relevant annual caps.

The terms of the Old Cooperation Agreement will expire on 11 June 2024. The Company entered into the New Cooperation Agreement with Fudan Communication on 22 March 2024 after assessing the market demand, sales track record and product life cycle for reconfigurable devices and memory IC chips under the Old Cooperation Agreement. Details of the New Cooperation Agreement are as follows:

New Cooperation Agreement

(i) *Date*

22 March 2024 (after the trading hours)

LETTER FROM THE BOARD

(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) *Duration*

From 12 June 2024 to 11 June 2027, for a term 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 of the Shareholders at the general meeting of the Company.

Revision of the 2024 Annual Cap and the Proposed 2025-2027 Annual Caps

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. The actual transaction amount under the Old Cooperation Agreement with Fudan Communication as on 31 March 2024 was RMB56,792,400, whilst the outstanding sales under the Old Cooperation Agreement is approximately RMB149,299,400, which is expected to be completed on 31 December 2024. It is expected that transaction amount under the Old Cooperation Agreement for the period from 1 January 2024 to 30 June 2024 and before the date of EGM will not exceed the existing annual cap of RMB200,000,000. In signing the New Cooperation Agreement with Fudan Communication, Fudan Communication is interested in purchasing the Company's reconfigurable devices and memory IC chips, with an estimated transaction value

LETTER FROM THE BOARD

of approximately RMB150,000,000 from 12 June 2024 to 31 December 2024. The Board believes that the revised 2024 Annual Cap therefore corresponds to the estimated purchase amount under the New Cooperation Agreement with Fudan Communication and is a reasonable estimate compared with historical transaction data. 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 type 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.

The Directors expect that the market demand of such products will continue due to favorable factors such as industry recovery, customer demand and wide application. The Board believes that the semiconductor industry recovery has gradually emerged in 2023, and shall continue to increase in 2024 and subsequent years. In the medium and long term, the semiconductor industry has a solid foundation and is gradually improving its capacity in Mainland China. The Board believes that the shortage of middle and high-end chips represented by new energy vehicles, industrial control and high-performance computing is still continuing, and the wave of domestic substitution is also gradually moving towards the field of middle and high-end chips. Fudan Communication has entered into a letter of intent with the Company for the period from 2024 to 2027 in respect of its customers' requirements. Based on the amount of the sales contracts to be entered into under the letter of intent, the proposed revised 2024 Annual Cap and the 2025-2027 Annual Caps for the relevant three years from 2024 to 2027 covered by the Old Cooperation Agreement and the New Cooperation Agreement shall not exceed the amount shown in the below table:

	For the year ended 31 December			For the
	2024	2025	2026	period ended
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	11 June 2027
	<i>(Revised)</i>			<i>RMB'000</i>
	<i>(Note 1)</i>			<i>(Note 2)</i>
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 1: According to the Old Cooperation Agreement, the trading cap for the period from 1 January 2024 to 11 June 2024 is RMB200,000,000. According to the New Cooperation Agreement, the trading cap for the period from 12 June 2024 to 31 December 2024 is RMB150,000,000.

LETTER FROM THE BOARD

Note 2: The New Cooperation Agreement will expire on 11 June 2027.

3. The following table sets out the historical transaction amounts occurred during the period before entering into the Old Cooperation Agreement and up to 31 March 2024:

	For the year ended 31 December			For the
	2021	2022	2023	period ended 31 March 2024
	RMB'000	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Audited)	
Historical transaction amounts under the Old Cooperation Agreement	<u>119,449</u>	<u>236,196</u>	<u>262,334</u>	<u>56,792</u>
Annual caps of the Old Cooperation Agreement	<u>200,000</u>	<u>280,000</u>	<u>370,000</u>	<u>200,000*</u>

* The 2024 Annual Cap of RMB200,000,000 covers the period from 1 January 2024 to 11 June 2024.

Reasons for the Transactions

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.

In recent years, the cyclical fluctuation of semiconductor industry has increased due to the influence of fluctuating economic conditions, trade friction and other impacts. As a result, the domestic IC market was further affected by cost changes and delay of raw material supply and product delivery. Therefore, Fudan Communication has to lockup the Company's supply to meet its orders in coming years in order to secure the supply of goods and meet the growth of end-user demand. On the other hand, the Company also used to secure the orders placed by Fudan Communication in order to minimize its business risk in production.

LETTER FROM THE BOARD

The Board (including the independent non-executive Directors, who provide their opinions after having received the advice from the Independent Financial Adviser) considers the transactions contemplated under the New Cooperation Agreement to be 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.

Pricing Policies

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 product selling prices 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 margin, the same selling 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.

Internal Control

Pursuant to the internal control system established by the Company, the internal control division will be responsible to monitor and review the continuing connected transactions contemplated under 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. Also, it will also report the transactions to the independent non-executive Directors on a regular basis or from time to time, if necessary. In addition, the internal control division will pay close attention to the sales contracts in order to control the aggregate transaction amount under the annual caps or to alert the relevant division to publish revision announcement when the aggregate transaction amounts are close to the revised 2024 Annual Cap and the 2025 – 2027 Annual Caps in order to comply with the Listing Rules.

In respect of the pricing, 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.

LETTER FROM THE BOARD

In respect of monitoring the aggregate amount for transactions contemplated under the New Cooperation Agreement, the sales department would inform the financial department before entering into sales contracts with Fudan Communication and the financial department as well as the internal control division would monitor the remaining quota of the annual caps to ensure that the aggregated amounts will not exceed the revised 2024 Annual Cap and the 2025–2027 Annual Caps.

Information of the Company and Fudan Communication

The Company's principal activities are design, development and sales of IC products in the PRC.

Fudan Communication is mainly engaged in design, development and production of telecommunication devices in the PRC. 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% of its equity interest.

Information of the Connected Persons

To the best of the Directors' knowledge and belief, having made all reasonable enquiries and as at the Latest Practicable Date, Fudan Fukong holds 109,620,000 Shares of the Company, representing approximately 13.38% of the issued share capital of the Company and is a Substantial Shareholder of the Company. Fudan Fukong also holds 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 New Cooperation Agreement constitute connected transactions of the Company.

Other than the disclosure in the above section that Mr. Yu Jun has an equity interest in Fudan Communication, none of the Directors has any material interest in the connected transactions. Mr. Yu Jun holds 522,546 A Shares of the Company, representing approximately 0.06% of the issued share capital of the Company as at the Latest Practicable Date. Mr. Wu Ping, a non-executive Director of the Company who resigned on 18 April 2024, and Mr. Sun Zheng, a non-executive Director of the Company, are the representative of Fudan Fukong, and together with Mr. Yu Jun, have abstained from voting on the Board resolution approving the New Cooperation Agreement. Pursuant to the listing rules of the Shanghai Stock Exchange, Mr. Jiang Guoxing, the executive Director of the Company, is considered as a related party because the son of Mr. Jiang Guoxing is a director of Fudan Communication, and thus Mr. Jiang Guoxing has also abstained from voting on the Board resolution. At the Latest Practicable Date, Mr. Jiang Guoxing holds 7,210,000 A Shares of the Company representing approximately 0.88% of the issued share capital of the Company. In addition, no other Directors have abstained from voting on other Board resolutions at the abovementioned Board meeting.

LETTER FROM THE BOARD

Listing Rules Implications

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.

3. PROPOSED EXTENSION OF THE VALIDITY PERIOD OF THE RESOLUTION IN RESPECT OF THE ISSUANCE OF A SHARE CONVERTIBLE CORPORATE BONDS TO NON-SPECIFIC INVESTORS AND EXTENSION OF 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 AND POSSIBLE SUBSCRIPTION FOR A SHARE CONVERTIBLE CORPORATE BONDS BY CONNECTED PERSONS

Reference is made to the circular of the Company dated 12 June 2023 concerning (which includes) (i) 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 (ii) 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"). 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.

As at the 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.

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. 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

LETTER FROM THE BOARD

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, the Company is of the view that extending the validity periods of the resolution relating to the A Share Convertible Corporate Bonds for 12 months is in compliance with the aforementioned relevant provisions of the CSRC.

The current cash flows condition of the Company is favourable. The projects to be invested by the proceeds raised have been funded by self-financing for the time being. All projects are progressing well, and thus extending the validity periods of the resolutions relating to the A Share Convertible Corporate Bonds will not have any material adverse impact on the Company’s operations and financial position.

The Company is of the view that, according to the Administrative Measures, and the approval by the Listing Committee of the Shanghai Stock Exchange, the Company has met the relevant provisions and conditions for the Issuance of A Share Convertible Corporate Bonds, and currently does not foresee any material legal impediment to completing the major work that still needs to be carried out.

The Board is of the view that the purpose of extending the validity periods of the resolutions relating to the A Share Convertible Corporate Bonds is primarily to ensure the smooth implementation of the Issuance of A Share Convertible Corporate Bonds. Extending the validity periods of such resolutions for 12 months is in compliance with the relevant provisions of the CSRC, and such extension and the proposed timetable are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

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.

Details of the A Share Convertible Corporate Bonds Issuance plan are as follows:

LETTER FROM THE BOARD

(1) Proposed Issuance of A Share Convertible Corporate Bonds

(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 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 Convertible 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 at the EGM and Class Meetings within the above range.

(iii) *Par value and issue price*

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

(iv) *Bonds term*

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

(v) *Bond rate*

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 Convertible 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.

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

The Convertible 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.

A. *Calculation of annual interest*

Annual interest means the interest accrued to a bondholder in each year on each anniversary of the date of Issuance of the Convertible Bonds which is calculated based on the aggregate nominal value of the Convertible Bonds held by him/her.

LETTER FROM THE BOARD

The formula for calculating the annual interest is as follows:

$$I=B \times i$$

Where: I denotes the annual interest; B denotes the aggregate nominal value of the Convertible Bonds under the Issuance held by a bondholder as at the record date for interest payment in an interest accrual year (“that year” or “each year”); i denotes the coupon rate of the Convertible Bonds of that year.

B. Method of repayment of principal and interest payment

- 1) Interest of the Convertible Bonds under the Issuance shall be paid annually, accruing from the date of the Issuance of the Convertible Bonds.
- 2) Interest payment date: the interest is payable annually on each anniversary of the date of Issuance of the Convertible Bonds. If such date falls on a statutory holiday or rest day, the interest payment date shall be postponed to the first working day immediately thereafter, provided that no additional interest will be accrued during the period of postponement. The period between an interest payment date and the immediately following interest payment date shall be an interest accrual year. Matters in relation to interest and the ownership of share dividend in the year of conversion shall be determined by the Board according to the relevant laws and regulations and the provisions of the Shanghai Stock Exchange.
- 3) Record date for interest payment: the record date for interest payment in each year shall be the last trading day preceding the interest payment date. The Company shall pay the interest accrued in that year within five trading days from the interest payment date. The Company shall not pay any interest for that year and subsequent interest accrual years to the bondholders who have applied to convert their Convertible Bonds into the A Shares on or before the record date for interest payment.
- 4) Tax payable on the interest income of a bondholder under the Issuance shall be borne by such bondholder.

(vii) Conversion period

The conversion period of the Convertible 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 of the Convertible Bonds, and end on the maturity date of the Convertible Bonds. Convertible Bondholders have the option to convert or not to convert the Convertible Bonds into A Shares and shall become the Shareholders on the day after the conversion.

LETTER FROM THE BOARD

(viii) Determination and adjustment of the Conversion Price

A. *Basis for determining the initial Conversion Price*

There is no requirement under the laws and regulations in the PRC on the initial Conversion Price of the Convertible Bonds under the Issuance to be not less than the audited net asset value per Share for the latest period. The latest consolidated net assets attributable to shareholders of the parent company per Share is approximately RMB6.47 as at 31 December 2023. The initial Conversion Price will be unlikely lower than the latest audited net asset value per Share. If the initial Conversion Price is lower than the latest audited net asset value per Share at the time of issuance, the Company and the sponsor will determine and fix the initial Conversion Price after considering the prevailing market condition.

The initial Conversion Price of the Convertible 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.

The average trading price of A Shares for the preceding 20 trading days = total trading amount of A Shares for the preceding 20 trading days/total trading volume of A Shares for such 20 trading days.

The average trading price of A Shares for the preceding trading day = total trading amount of A Shares for the preceding trading day/total trading volume of A Shares for such trading day.

For illustrative purpose, assuming that the A Share Convertible Corporate Bonds were issued at the maximum amount and taking into consideration the average trading price of A Shares for the 20 trading days prior to the Latest Practicable Date as well as the previous trading day prior to the Latest Practicable Date, the Conversion Price will be set at a minimum of RMB32.64 per A Share. Accordingly, the A Share Convertible Corporate Bonds may be converted into approximately 61,274,510 A Shares, representing approximately 11.46% and 7.48% of the total A Shares and total issued Shares before the conversion, respectively.

LETTER FROM THE BOARD

B. Method of adjustments and calculation formulas of the Conversion Price

Subsequent to 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, the Conversion Price will be adjusted subject to the occurrence order of the above conditions and based on the following formulas:

Distribution of share dividends or conversion or increase of share capital:

$$P_1 = P_0 / (1+n)$$

Issuance of new shares or rights issue: $P_1 = (P_0 + A \times k) / (1+k)$

The above two events occurring concurrently: $P_1 = (P_0 + A \times k) / (1+n+k)$

Distribution of cash dividends: $P_1 = P_0 - D$

The above three events occurring concurrently: $P_1 = (P_0 - D + A \times k) / (1+n+k)$

Where: “P₀” denotes the Conversion Price before adjustment; “n” denotes the rate of distribution of share dividends or conversion or increase of share capital; “k” denotes the rate of issuance of new shares or rights issue; “A” denotes the price of issuance of new shares or rights issue; “D” denotes the cash dividend per Share; “P₁” denotes the adjusted Conversion Price.

Upon occurrence of any of the abovementioned changes in shares and/or the Shareholder’s interests, the Company shall adjust the Conversion Price based on order of occurrence, and publish an announcement in relation to the adjustment of the Conversion Price on the website of Shanghai Stock Exchange (www.sse.com.cn) and the media designated by the CSRC for information disclosure of listed companies. Such announcement shall indicate the date of adjustment to the Conversion Price, adjustment method and suspension period of share conversion (if necessary). Meanwhile, the Company shall disclose the information to the Hong Kong market in accordance with the Listing Rules and the Articles (if necessary). If the Conversion Price adjustment date is on or after the date on which a bondholder applies for conversion of his/her Convertible Bonds under the Issuance but before the registration date of the A Shares to be issued upon conversion, then such conversion shall be executed based on the Conversion Price adjusted by the Company.

In the event that the creditor’s interests or the interests derived from the share conversion of the bondholders are affected by the change in the Company’s share class, quantity and/or the Shareholders’ interests due to any possible share repurchase, consolidation, division, capital reduction or any other circumstances, the Company shall adjust the Conversion Price based on the actual situations and

LETTER FROM THE BOARD

in accordance with the principles of fairness, justice and equality so as to fully protect the interests of the bondholders. The details of adjustment to the Conversion Price and its implementation measures shall be determined in accordance with prevailing applicable laws, regulations, the relevant requirements of the securities regulatory authorities and the Shanghai Stock Exchange.

C. *Regulatory requirements governing the Conversion Price*

The Conversion Price is subject to certain regulatory requirements in the PRC:

- 1) Article 64 of the Administrative Measures for the Issuance and Registration of Securities by Listed Companies (Order No. 206 of the China Securities Regulatory Commission) 《上市公司證券發行註冊管理辦法》(中國證券監督管理委員會令第206號) provides that the conversion price of convertible bonds issued to unspecified targets shall not be less than the average price of the shares of the listed company traded for twenty trading days prior to the announcement date of the prospectus and the average price of the previous trading day.
- 2) Article 9 of the Measures for the Administration of Convertible Corporate Bonds (Order No. 178 of the China Securities Regulatory Commission) 《可轉換公司債券管理辦法》(中國證券監督管理委員會令第178號) provides that the conversion price of convertible bonds issued by a listed company to an unspecified target shall not be less than the average price of the issuer's shares traded for the twenty trading days prior to the announcement date of the prospectus and the average price of the previous trading day, and shall not be revised upwards.
- 3) Article 10 of the Measures for the Administration of Convertible Bonds (Order No. 178 of the China Securities Regulatory Commission) 《可轉換公司債券管理辦法》(中國證券監督管理委員會令第178號) stipulates that the prospectus shall set out the agreed principles and manner of adjustment of the conversion price. After the issuance of convertible bonds, the conversion price shall be adjusted at the same time if there is a change in the shares of the issuer due to share allotment, issue of additional shares, share distribution, dividend payment, demerger, capital reduction and other reasons. If the prospectus of the convertible bonds of a listed company stipulates a downward revision clause of the conversion price, it shall also stipulate that: (a) the conversion price amendment proposal shall be submitted to the shareholders' meeting of the issuer for voting and shall be passed by at least two-thirds of the votes held by the shareholders present at the meeting, and shareholders holding convertible bonds of the issuer shall abstain from voting; (b) the amended conversion price shall not be lower than the average price of the shares of the issuer

LETTER FROM THE BOARD

traded for the twenty trading days prior to the date of the shareholders' meeting at which the preceding amendment proposal is adopted and the average price for the previous trading day.

- 4) Article 127 of the Company Law provides that the shares of a joint stock limited company established in the PRC cannot be issued below nominal value. As such, the Conversion Price must be more than or equal to the prevailing nominal value of the A Shares which is RMB0.1.

(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.

LETTER FROM THE BOARD

In any event, the Conversion Price must be more than or equal to the nominal value of the A Shares (please refer to paragraph (4) under the section headed “C. Regulatory requirements governing the Conversion Price” in page 19 of this circular).

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.

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

Where a bondholder applies to convert his/her Convertible 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 Convertible 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 Convertible 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.

LETTER FROM THE BOARD

(xi) *Terms of redemption*

A. *Terms of redemption upon maturity*

Within five trading days upon the maturity of the Convertible Bonds under the Issuance, the Company shall redeem all of the outstanding Convertible Bonds by then. It is proposed at the EGM and Class Meetings to authorise the Board or its authorised persons to determine the actual redemption price upon negotiation with the sponsor (the lead underwriter) with reference to the market conditions upon the Issuance.

B. *Terms of conditional redemption*

During the conversion period of Convertible Bonds under the Issuance, where either of the two scenarios mentioned below occurs, the Company shall have the right to redeem all or part of the outstanding Convertible Bonds, at a price equal to the nominal value of Convertible Bonds plus then accrued interest:

- 1) The closing prices of A Shares during at least 15 trading days out of any 30 consecutive trading days in the conversion period are not less than 130% (130% inclusive) of the prevailing Conversion Price; or
- 2) The balance of the outstanding Convertible Bonds is lower than RMB30 million.

Formula for calculating the accrued interest for the current period is:
 $I_A = B \times i \times t / 365$

I_A denotes the accrued interest for the current period

B denotes the aggregate nominal value of the Convertible Bonds to be redeemed

i denotes the coupon rate of the Convertible Bonds for the current year

t denotes the number of days on which interest is accrued, i.e. the actual number of calendar days from the last interest payment date (inclusive) up to the redemption date of the current interest accrual year (excluding the redemption date)

In the event that an adjustment to the Conversion Price by the Company is made due to ex-right and ex-dividend during the aforementioned 30 consecutive 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 date of adjustment and 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.

LETTER FROM THE BOARD

Redemption period of the A Share Convertible Corporate Bonds under the Issuance is the same as the conversion period, i.e., to commence from the first trading day immediately following the expiry of the six-month period after the date of the Issuance, and to end on the maturity date of the A Share Convertible Corporate Bonds.

(xii) 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 paragraph headed “(xi) Terms of redemption”. Upon the satisfaction of the condition of sale back, the Convertible Bondholders may sell their Convertible 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 Convertible 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 their Convertible Bonds to the Company at par plus the then accrued interest. The formula for calculating the then accrued interest is set out in the paragraph headed “(xi) Terms of redemption”.

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 Convertible 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.

LETTER FROM THE BOARD

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 Convertible 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.

(xiii) Entitlement to dividend upon conversion

The new A Shares to be issued as a result of the conversion of Convertible Bonds under the Issuance shall rank pari passu with all the existing A Shares, and all ordinary A Shareholders (including those derived from the conversion of the Convertible Bonds) whose names are recorded on the register of members of the Company on the record date for dividend distribution shall be entitled to receive the dividend of that period and enjoy equal rights and interests.

(xiv) Method of the Issuance and target subscribers

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 specific method of the Issuance of the Convertible Bonds. The target subscribers of the Convertible Bonds are natural persons, legal persons, securities investment funds and other investors in compliance with the requirements of applicable laws and regulations who have maintained securities accounts at the China Securities Depository and Clearing Corporation Limited Shanghai Branch.

(xv) Subscription arrangement for the existing A Shareholders

The existing A Shareholders have the pre-emptive rights to subscribe for the Convertible Bonds under the Issuance and are entitled to surrender such rights. The amount and proportion of subscription under the pre-emptive rights shall be determined by the Board or its authorised persons in accordance with the conditions upon the Issuance, subject to the authorisation by the Shareholders at the EGM, and shall be disclosed in the issuance announcements of the Convertible Bonds under the Issuance. The subscription in priority will be subject to the Company Law and the Listing Rules or all applicable laws, regulations and rules of other governmental or regulatory authorities (including but not limited to any relevant rules and requirements of connected transactions).

The A Share Convertible Corporate Bonds which are not subject to the abovementioned pre-emptive rights of the existing A Shareholders and are not subscribed by the existing A Shareholders in priority will be offered to institutional investors offline and/or issued by way of online pricing through the trading system of the Shanghai Stock Exchange. It is proposed that the Board or its authorised persons shall be authorised at the EGM to

LETTER FROM THE BOARD

negotiate with the sponsor (the lead underwriter) of the Issuance for determining the specific method of the Issuance. The remaining balance will be underwritten by the underwriters in case of under-subscription.

(xvi) Rights, Obligations and Meetings of Convertible Bondholders

A. Rights of Convertible Bondholders:

- 1) receive agreed interests in accordance with the number of the A Share Convertible Bonds held;
- 2) receive the principal and interest of the Convertible Bond at maturity in accordance with the agreed period and by the agreed manner set out in the Offering Document;
- 3) attend or appoint a representative to attend Convertible Bondholders' meetings and exercise voting rights in accordance with the rules of Convertible Bondholders' meetings; when the Convertible Bond trustee should convene but fails to convene a Convertible Bondholders' meeting, holders of convertible bonds holding more than 10% of the total amount of Convertible Bonds, either individually or collectively, have the right to convene a Convertible Bondholders' meeting on their own;
- 4) supervise the Company's relevant behaviors involving the interests of Convertible Bondholders, and when matters that may harm their interests occur, have the right to exercise or authorize the bond trustee to exercise the relevant rights of Convertible Bondholders on their behalf through the resolution of the Convertible Bondholders' meetings in accordance with the provisions of laws, regulations and rules and the Offering Document;
- 5) supervise the fiduciary performance of the bond trustee and have the right to propose the replacement of the trustee;
- 6) when the redemption conditions and sale back conditions are met, the Company is required to implement the terms of redemption and sale back;
- 7) when the conditions for conversion are met, may choose to convert the Convertible Bonds into A share and become a Shareholder on the day after the conversion;
- 8) assign, bestow or pledge the A Share Convertible Bonds held by the Convertible Bondholders in accordance with the provisions of laws, administrative regulations and the Articles; and
- 9) other rights of them as creditors of the Company ascribed by laws, rules and the Articles.

LETTER FROM THE BOARD

B. Obligations of Convertible Bondholders:

- 1) abide by the relevant terms of the A Share Convertible Corporate Bonds under the Issuance by the Company;
- 2) not to request the Company to make prepayment of the principal and interest of the A Share Convertible Bonds, unless otherwise required by laws and regulations, or otherwise agreed in the Offering Document;
- 3) pay the subscription amount in accordance with the number of A Share Convertible Bonds subscribed by the Convertible Bondholders;
- 4) the legal consequences of the trustee's fiduciary management acts pursuant to the trustee management agreement shall be borne by the Convertible Bondholders; any act of the bond trustee who does not have the right of agency, exceeds the right of agency or engages in acts after the termination of the right of agency, and is not ratified by the resolution of the Convertible Bondholders' meeting, will not be effective against all Convertible Bondholders, and the bond trustee shall bear the consequences and responsibilities thereof;
- 5) accept and be bound by the resolutions of the Convertible Bondholders' meetings;
- 6) do not engage in any activities that harm the legitimate rights and interests of the Company, bond trustees and other Convertible Bondholders;
- 7) if the bond trustee initiates litigation, arbitration, application for property preservation or other legal proceedings against the Company in accordance with the trustee management agreement, the Convertible Bondholder shall bear the relevant expenses (including but not limited to litigation fees, lawyer fees, notary fees, various types of security deposits, guarantee fees, and other reasonable expenses or expenditures required by the bond trustee due to the relevant actions taken by the Convertible Bondholder), and shall not require the bond trustee to advance for him; and
- 8) other obligations that convertible bondholder should undertake in accordance with laws, regulations and rules and the Offering Document.

C. Holding of Convertible Bondholders' Meetings:

During the term of the Convertible Bonds and redemption, a Convertible Bondholders' Meeting shall be convened upon the occurrence of any of the following:

- 1) the Company proposes to change the terms of the Offering Document;

LETTER FROM THE BOARD

- 2) the Company defaults in paying the principal and interests of Convertible Bonds on time;
- 3) the Company undertakes a capital reduction (other than a capital reduction resulting from an employee stock ownership scheme, share incentive scheme, or share repurchase necessary to maintain the Company's value and Shareholders' equity), merger, division or dissolution, or files for bankruptcy;
- 4) any material adverse change arises from the guarantors (if any) or the collaterals (if any);
- 5) any proposal to amend the rules of Convertible Bondholders' meetings;
- 6) any proposal to amend the main content of the bond trustee or the trustee agreement;
- 7) the written proposal by Convertible Bondholder individually or collectively holding 10% or more of the total par value of the outstanding bonds of the Convertible Bonds to the Company for convening a meeting;
- 8) measures shall be taken in accordance with laws when the Company's capability of solvency of its debt faces great uncertainties due to the failure of the Company's management to fulfill its responsibilities and duties;
- 9) the Company proposes a debt restructuring plan;
- 10) other matters which may significantly and materially affect the interests of the Bondholders occur; or
- 11) other matters required to be considered and approved at the Convertible Bondholders' Meetings in accordance with the provisions of laws, regulations, the CSRC, the Shanghai Stock Exchange and the rules for Convertible Bondholders' meetings.

The following institutions or persons may propose a Bondholders' Meeting:

- 1) the Board of the Company;
- 2) the Convertible Bondholder, individually or jointly, holding 10% or more of the total par value of the outstanding Convertible Bonds;
- 3) bond trustee; or

LETTER FROM THE BOARD

- 4) other institutions or persons stipulated by relevant laws, regulations, the CSRC or the Shanghai Stock Exchange.

(xvii) Use of proceeds

The total amount of proceeds to be raised from the proposed Issuance of Convertible Corporate Bonds will not exceed RMB2 billion (RMB2 billion inclusive). The proceeds, after deduction of issuance expenses, are proposed to be used for the following projects:

Unit: RMB0'000

Name of project to be invested	Total project investment	Amount of proceeds raised to be invested	Expected timeline for utilising the proceeds since the commencement of the projects			
			First year	Second year	Third year	Fourth year
New generation Field Programmable Gate Array (FPGA) platform development and industrialization project	66,100	64,610	25,877	22,776	15,957	-
Intelligent and reconfigurable SoC platform development and industrialization project	64,330	63,330	14,741	21,412	16,926	10,251
New technical platform storage development and industrialization project	44,380	41,880	16,048	14,279	11,553	-
New high-end security controller development and industrialization project	18,810	17,810	9,627	8,183	-	-
Passive IoT basic chip development and industrialization projects	13,370	12,370	7,195	5,175	-	-
Total	206,990	200,000	73,488	71,825	44,436	10,251

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 the 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 proposed 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

LETTER FROM THE BOARD

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 projects. For example, there may be material changes in the relevant laws and regulations, policies or prevailing market conditions. In addition, 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.

(xviii) Management and deposit account for proceeds raised

The Company has formulated the Administrative Rules for Use of Proceeds from Fund Raising. The proceeds raised from the Issuance shall be deposited into a specific account designated by the Board. The Board or its authorised persons shall determine specific matters relating to the opening of the accounts before the Issuance, and disclose the relevant information of such specific account in the Issuance announcement.

(xix) Guarantee

No guarantee will be provided for the Issuance of Convertible Bonds.

(xx) Rating

A credit rating agency engaged by the Company will issue a credit rating report in respect of the Issuance.

(xxi) Validity period of the resolution

The resolutions on validity period of the plan for the Issuance of A Share Convertible Corporate Bonds were approved by the Shareholders at the EGM and Class Meetings on 5 July 2023 and the validity period lasts for twelve months from 5 July 2023 and will be expired by 5 July 2024. 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.

(2) Connected Transaction in relation to the Possible Subscription for A Share Convertible Corporate Bonds by connected persons

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

LETTER FROM THE BOARD

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.

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.

LETTER FROM THE BOARD

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.

Assuming that 100% of the A Share Convertible Bonds under the Issuance will be firstly placed to the existing A Shareholders, and Substantial Shareholders of the Company, Fudan Fukong and Fuxin Fangao, certain Directors, Shanghai Shenghao and Shanghai Yuhao will exercise their pre-emptive rights in full, based on the shareholding proportion of the abovementioned parties on the Latest Practicable Date and the maximum amount of the Convertible Bonds of RMB2 billion to be issued by the Company, the maximum amounts of the A Share Convertible Bonds to be subscribed by the abovementioned parties are as follows:

Connected Shareholders	Number of A Shares held <i>(share)</i>	Percentage of number of A Shares held to the total number of issued A Share <i>%</i>	Maximum subscription amount of A Share Convertible Bonds proposed to be subscribed <i>(RMB0'000)</i>
Fudan Fukong	109,620,000	20.50	41,000
Fuxin Fangao	106,730,000	19.96	39,919
Mr. Jiang Guoxing	7,210,000	1.35	2,697
Mr. Shi Lei	7,210,000	1.35	2,697
Shanghai Shenghao	2,253,750	0.42	843
Mr. Yu Jun	522,546	0.10	195
Shanghai Yuhao	366,000	0.07	137
Total	233,912,296	43.75	87,488

(3) Authorisation to be granted to the Board

Subject to approval of the Shareholders at the EGM and the Class Meetings, the Board shall be authorised to make such decisions, execute such documents, amend the Articles, carry out such procedures and take any other such actions as are in its discretion necessary to effect and complete the Issuance of A Share Convertible Corporate Bonds.

(4) Reasons for and benefits of the proposed Issuance of A Share Convertible Corporate Bonds and the Possible Subscription

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. In particular, the Company plans to

LETTER FROM THE BOARD

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 overall competitiveness and the sustainability of the Company will be effectively improved. The Issuance of 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 as follows:

(i) ***New Generation FPGA Platform Development and Industrialization Project***

The purpose of the project is to develop new generation FPGA based on the advanced manufacturing process of 1xnm FinFET for computer vision, machine learning, high-speed digital processing and other application scenarios, providing low-cost, low-power, high-performance, and high-reliability product series for intelligent cockpits, video surveillance, medical imaging, network communications and other industry sectors. Upon completion of the project, the Company will be able to enrich its FPGA lineup, meet the market demand for next-generation FPGA products for artificial intelligence and digital communications, and further enhance its market position and overall competitiveness.

(ii) ***Intelligent and Reconfigurable SoC Platform Development and Industrialization Project***

The purpose of the project is to develop a new-generation intelligent reconfigurable SoC technology platform and intelligent communication chip RFSoc, which will provide high performance, low power-consumption and high security product series for field sensing and other edge computing application scenarios in intelligent cockpit, intelligent communication, industrial control and other industrial fields. Intelligent communication chip RFSoc adopts 1xnm advanced process and realizes RF direct acquisition, signal processing, AI acceleration and other functions on a single chip, which will provide low power consumption, high performance, high integration, high security and high reliability product series for 5G small base stations, intelligent communication and other industrial fields. Upon completion of the project, the Company will launch domestic reconfigurable SoC chips with strong competitiveness. This will comprehensively improve the overall performance of the new-generation edge computing chips, allow the Company to closely follow the international leading level

LETTER FROM THE BOARD

of intelligent reconfigurable technology, meet the market demand for high-performance, highly integrated AI chips for edge computing and intelligent communications, and further enhance the Company's market position and comprehensive competitiveness.

(iii) *New Technical Platform Storage Development and Industrialization Project*

The purpose of the project is to develop niche non-volatile memory based on a new process platform, specifically including four product series, i.e. EEPROM, NOR Flash, NAND Flash and system-level memory products, for automotive electronics, consumer electronics, computers, network communications, industrial electronics, security monitoring and other applications, providing product series with various capacity range, several adaptable interfaces, high reliability, low power consumption, good compatibility and low cost. Upon completion of the project, the competitiveness of the Company's niche non-volatile memory product line will be enhanced and the Company will be able to meet the broad market demands of various electronic information products for niche non-volatile memory products.

(iv) *New High-end Security Controller Development and Industrialization Project*

The purpose of the project is to develop a security controller with our existing security chip product line, optimize the existing security algorithm, including two product series of low power consumption and high performance, and provide security chip product series with low power consumption, high performance and extensibility to meet the demand for information security in intelligent card, consumable anti-counterfeiting, eSIM, T-BOX and financial POS markets. Upon completion of the project, the Company's security chip product line will be enriched, the Company will be able to meet the growing market demands for information security in the IOT, and further enhance its market position and overall competitiveness.

(v) *Passive IoT Basic Chip Development and Industrialization Projects*

The purpose of the project is to develop passive IoT basic chips based on the existing RFID chip product line, and upgrade the technology of the existing products, including three product series, i.e. ultra-high frequency RFID tag chips, ultra-high frequency RFID reader chips and microwave frequency RFID tag chips, providing identification chip product series with high sensitivity, anti-interference, low power consumption, low cost and high reliability for footwear management, library management, airport luggage, intelligent manufacturing and other scenarios in the retail, office, storage, medical care, industry and other industries. Upon completion of the project, the Company's identification chip product line will be enriched, the Company will be able to meet the market demand for high-performance, low-cost and passive identification chip products in the IoT era, and further improve its market position and comprehensive competitiveness.

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.

In addition, although the Company will be required to pay interest and redeem the A Share Convertible Corporate Bonds upon maturity, the Board considers the Issuance to be in the interests of the Company and the Shareholders as a whole on the grounds that (i) the A Share Convertible Corporate Bonds, being a financial product with both equity and debt characteristics, give the Convertible Bondholders the right to convert the A Share Convertible Corporate Bonds into A Shares, which is more attractive to long-term investors and with less stringent financing difficulties than other debt financing methods; (ii) the coupon rate of the A Share Convertible Corporate Bonds is lower than other debt financing methods under the same conditions; (iii) the Company will be able to retain the raised funds upon maturity of the A Share Convertible Corporate Bonds if the Convertible Bondholders exercise the right of conversion; and (iv) original A Shareholders will be able to enjoy the pre-emptive rights for preferential subscription of the A Share Convertible Corporate Bonds.

On the other hand, the Board has considered various fund raising alternatives apart from the Issuance of A Share Convertible Corporate Bonds, including debt financing and equity financing. In respect of debt financing or bank borrowings from commercial banks, the Board is concerned about the uncertainties involved in the time management of financing plan since the internal procedures to be carried out by the commercial banks are generally beyond the Company's control. Also, commercial banks and other financial institutions usually offer loans and facilities with higher interest rates. In respect of equity financing, the Board considers that (i) rights issue or open offer is time-consuming for the Company with its A Shares listed on the Shanghai Stock Exchange and H Shares listed on the Stock Exchange; and (ii) placing or subscription of new Shares will have immediate dilution effect on the shareholding interests of the existing Shareholders. Meanwhile, the Board considers that the Issuance of A Share Convertible Corporate Bonds shall have lower interest rates and will not have an immediate impact on the rights of existing shareholders, so the Board considers that the Issuance of A Share Convertible Corporate Bonds is more beneficial to the Company than other financing methods. Therefore, the Board is of the view that the Issuance of A Share Convertible Corporate Bonds is a more suitable option for the Company under the prevailing market conditions. Nonetheless, the Company will consider alternative fund raising methods and determine whether to implement other financing plans in the future with reference to its overall business development strategies and the market conditions at that time.

LETTER FROM THE BOARD

With the reasons for and benefits of the proposed Issuance of A Share Convertible Corporate Bonds and the Possible Subscription as aforementioned, the Board considers that the extension of the validity period of the A Share Convertible Corporate Bonds for another twelve months instead of suspending the issuance, will be in the interests of the Company and its shareholders as a whole.

(5) Impact of the proposed Issuance of A Share Convertible Corporate Bonds on the shareholding structure of the Company

Based on the plan for the Issuance of A Share Convertible Corporate Bonds, the initial Conversion Price of the A Share Convertible 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 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.

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 Bonds into A Shares (assuming that (i) the Company has issued the A Share Convertible 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 Bonds on pro-rata basis on their current shareholding; (iii) all A Share Convertible Bonds are converted into A Shares at the minimum initial Conversion Price of RMB32.64 per Share, which shall not be lower than average trading price of A Shares for the 20 trading days preceding the Latest Practicable Date and the average trading price of A shares on the preceding trading day; and (iv) the Company does not issue and allot any Shares before all the A Share Convertible Bonds are converted into A Shares) are as follows:

LETTER FROM THE BOARD

Name/Class of Shareholders	Number of Shares	Approximate percentage of the number of issued A Shares as at the Latest Practicable Date	Approximate percentage of the number of issued Shares	Immediately after completion of the proposed Issuance of A Share Convertible Bonds and conversion of all the A Share Convertible Bonds into A Shares		
				Number of Shares	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	585,148,104	-	71.45%	619,618,712	-	70.38%
- A Shareholders	300,818,104 (A)	56.25%	36.73%	335,288,712 (A)	56.25%	38.08%
- H Shareholders	284,330,000 (H)	-	34.72%	284,330,000 (H)	-	32.30%
Total	819,060,400	100.00%	100.00%	880,334,910	100.00%	100.00%

Note: The letter “A” denotes A Shares and the letter “H” denotes H Shares.

The Conversion Price shall be adjusted upon the Issuance of A Share Convertible Corporate Bonds in case of certain events of the Company, such as distribution of share dividends, conversion or increase of share capital, issuance of new shares or rights issue or distribution of cash dividends (excluding any increase in the share capital as a result of conversion of the A Share Convertible Corporate Bonds).

(6) General

(i) Information of the Company

The Company is a joint stock company incorporated in the PRC with limited liability, the H Shares and A Shares of which are listed on the Main Board of the Stock Exchange and the Sci-Tech Innovation Board of the Shanghai Stock Exchange, respectively. The Company’s main businesses are the design, development and sales of IC products in China.

(ii) Information of the connected persons

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

LETTER FROM THE BOARD

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.

The above Connected Persons are required to abstain from voting at the EGM for the resolution regarding to the Possible Subscription for A Share Convertible Corporate Bonds by Connected Persons.

(7) Basis of determination of coupon rate of the A Share Convertible Bonds

In determining the coupon rate of the A Share Convertible Bonds, the Company and the underwriter will make reference to, among others, (i) the interest rates of the convertible bonds issued by other PRC issuers (the “Market Comparables”) with a size comparable to that of the Company around the time of determination of coupon rate; (ii) the then trading price of A

LETTER FROM THE BOARD

Shares; (iii) the then condition and investment sentiment of the PRC bond market; and (iv) the credit rating of the Company and the A Share Convertible Bonds. The Company expects that the coupon rate of the A Share Convertible Bonds will not substantially deviate from that of the Market Comparables.

Taking into account that (i) the determination mechanism of the coupon rate is subject to the approval of the Shareholders at the EGM and the Class Meetings; (ii) the Company and the underwriter will make reference to other factors as set out in the previous paragraph when determining the coupon rate; (iii) the final coupon rate is expected not to deviate substantially from that of the Market Comparables; (iv) the determination mechanism of the coupon rate is in compliance with the applicable laws and regulations in the PRC, the Company therefore considers that the proposed determination mechanism of the coupon rate of the A Share Convertible Bonds is fair and reasonable and in the interest of the Shareholders and the Company as a whole.

(8) Equity financing activities in the past 12 months

On 19 December 2023, the Company issued 2,403,900 A Shares under the 2021 Restricted A Share Incentive Scheme at an issue price of RMB17.8 per share. The aggregate proceeds and the actual net amount of proceeds from the issuance after deducting issuance expenses was RMB42,789,420. The proceeds have been used for daily working capital in 2023.

Save as mentioned above, in the past 12 months prior to the Latest Practicable Date, the Company has not conducted any equity financing activities involving the issuance of equity securities.

(9) Relevant risks of the Issuance of A Share Convertible Bonds

The Issuance of A Share Convertible Bonds is subject to certain risks, including but not limited to the risk of changes in politics, laws, regulations and policies, management risk, risk in approvals, etc. When evaluating the Issuance of A Share Convertible Corporate Bonds issued by the Company, investors shall take the aforementioned risk factors into due consideration.

(10) The Issuance and the Possible Subscription not leading to changes in the right of control of the Company

As of the Latest Practicable Date, the Company does not have any Controlling Shareholder. Therefore, the Issuance of A Share Convertible Bonds and the Possible Subscription will not lead to changes in the right of control of the Company, and will not lead to a distribution of its shareholding which cannot satisfy relevant listing conditions.

LETTER FROM THE BOARD

(11) Implications on the proposed Issuance of A Share Convertible Corporate Bonds under the PRC regulatory requirements and the Possible Subscriptions for A Share Convertible Corporate Bonds by connected person(s)

Under the requirements of the Rules Governing the Listing of Stocks on the Sci-Tech Innovation Board of the Shanghai Stock Exchange, the consideration and disclosure of the subscription for the Issuance of A Share Convertible Corporate Bonds of the Company by the connected persons aforesaid may be waived from the requirements in the form of Connected Transaction.

The A Share Convertible Corporate Bonds proposed to be issued by the Company may lead to the issuance of new A Shares upon the exercise of the conversion rights of the A Share Convertible Bonds, the actual number of which depends on a number of factors, including the Conversion Price of the A Share Convertible Corporate Bonds.

The Board considers that the conversion of A Share Convertible Corporate Bonds into new A Shares will dilute the interests of the existing A Shareholders and H Shareholders in the Company's share capital. Pursuant to the Articles and the provisions of the relevant PRC laws and regulations, the Proposed Issuance of A Share Convertible Corporate Bonds shall be subject to, among others, the Shareholders' approvals at the EGM and the Class Meetings, and approvals from the relevant PRC regulatory authorities.

(12) Implications under the Listing Rules

Pursuant to Rule 19A.38 of the Listing Rules, the proposed Issuance of A Share Convertible Corporate Bonds shall be subject to the Shareholders' approvals at the EGM.

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

LETTER FROM THE BOARD

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.

In respect of the proposed resolution to approve the Possible Subscription for A Share Convertible Corporate Bonds, connected persons who are directly and indirectly holding an aggregate of 233,912,296 Shares (representing approximately 28.56% of the issued share capital of the Company) as at the Latest Practicable Date, are required to abstain from voting at the EGM.

No Directors have abstained from voting on the Board resolutions approving the 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 extension of 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. Mr. Jiang Guoxing, Mr. Shi Lei, Mr. Yu Jun (the Directors who held 14,942,546 A Shares in aggregate) abstained from voting in respect of the Board resolution regarding to the Possible Subscription for A Share Convertible Corporate Bonds by Connected Persons. In addition, no other Directors have abstained from voting on other Board resolutions at the abovementioned Board meeting.

The Company has formed an Independent Board Committee to give recommendations to the Independent Shareholders in respect of the Possible Subscription and the transactions contemplated thereunder. The Company has also appointed an Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms of the Possible Subscription are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group so far as the Independent Shareholders are concerned and are in the common interest of the Company and the Shareholders as a whole.

The independent non-executive Directors are of the view that based on the abovementioned arrangement, the Connected Persons (including the Substantial Shareholders of the Company and certain Directors or Supervisors and their associates) are subject to the same price and terms as those of other subscribers in their participation in the subscriptions for the A Share Convertible Bonds to be issued under the Issuance in cash within the scope of their pre-emptive rights. They will not receive any preferential treatment, and the interests of the Company and other Shareholders will not be prejudiced.

All existing A Shareholders at the registration date when the existing A Shareholders have the right of placement in priority shall have pre-emptive rights to subscribe for the A Share Convertible Corporate Bonds. No Shareholder shall enjoy any privilege by virtue of being a connected person of the Company.

LETTER FROM THE BOARD

The Board expects that the Company will maintain sufficient public float to meet the applicable minimum requirement under the Listing Rules.

(13) Risk warnings

Investors should be aware that the proposed Issuance of A Share Convertible Corporate Bonds is subject to the approvals of the Shareholders at the EGM and the Class Meetings, the issuance of listing approval by the Shanghai Stock Exchange and registration with the CSRC. As the proposed Issuance of A Share Convertible Corporate Bonds is still subject to the fulfillment of various conditions, the Issuance of A Share Convertible Corporate Bonds may not proceed or may not become effective. Connected Persons including Fudan Fukong, Fuxin Fangao, certain Directors, Shanghai Shenghao and Shanghai Yuhao may or may not subscribe for the A Share Convertible Corporate Bonds. Investors and Shareholders are advised by the Board to exercise caution when dealing in the securities of the Company.

4. THE EGM AND THE CLASS MEETINGS

The EGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting will be held at 1:30 p.m., 2:00 p.m. and 2:30 p.m. respectively on Tuesday, 18 June 2024 at Conference Room, Building 4, Fudan National University Science and Technology Park, 127 Guotai Road, Shanghai, the People's Republic of China. The notices of convening the EGM and the H Shareholders' Class Meeting are set out on pages EGM-1 and HCM-1 of this circular. The respective form of proxy for use at the EGM and the H Shareholders' Class Meeting are enclosed with this circular and such form of proxy are also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.fmsh.com).

Connected persons including Fudan Fukong (including its ultimate beneficial owners), Mr. Jiang Guoxing, Mr. Yu Jun and their associates shall abstain from voting in respect of the resolutions relating to the Proposed Continuing Connected Transactions in relation to the revision of 2024 Annual Cap and the New Cooperation Agreement at the EGM.

Connected persons including Fudan Fukong, Fuxin Fangao, Mr. Jiang Guoxing, Mr. Shi Lei, Mr. Yu Jun, Shanghai Shenghao, Shanghai Yuhao and their associates shall abstain from voting in respect of the resolution regarding to the Possible Subscription for A Share Convertible Corporate Bonds by Connected Persons at the EGM.

Save for the above, to the best of the knowledge, information and belief of the Directors, no other Shareholders have material interests in the proposed transactions, and are hence required to abstain from voting at the EGM, relevant Class Meetings in respect of relevant resolutions to approve such transactions. In addition, to the best of the knowledge, information and belief of the Directors, no Shareholders are required to abstain from voting in respect of other resolutions.

LETTER FROM THE BOARD

5. BOOK CLOSURE PERIOD

For the purpose of EGM and/or the Class Meetings (as the case may be), the register of members of H Shares will be closed from 14 June 2024 to 18 June 2024 (both days inclusive) and during which no transfer of H Shares will be effected.

For holders of H shares whose names appear on the register of members of the Company as at 18 June 2024 shall be entitled to attend the EGM and the H Shareholders' Class Meeting. To be qualified to attend the EGM and the H Shareholders' Class Meeting, all transfers of H Shares accompanied by the relevant share certificates must be lodged at the Company's share registrar in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 13 June 2024.

6. VOTING BY WAY OF POLL

Pursuant to Rule 13.39 of the Listing Rules, all votes of the Shareholders at the general meetings must be taken by poll. The chairman of the meeting will therefore demand a poll for every resolution put to vote at the EGM and the Class Meetings in accordance with the Articles. An announcement on the poll results will be made by the Company after the EGM and the Class Meetings in the manner prescribed under Rule 13.39(5) of the Listing Rules.

7. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Board has formed the Independent Board Committee comprising all the independent non-executive Directors to give advice to the Independent Shareholders in respect of the following matters: (i) whether or not the terms of the Proposed Continuing Connected Transactions and Possible Subscription are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether or not the Proposed Continuing Connected Transactions and the Possible Subscription are in the interest of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Company.

As required by the Listing Rules, the Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the Proposed Continuing Connected Transactions and the Possible Subscription. The Independent Financial Adviser had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they were included.

8. RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the view that (i) the terms of the Proposed Continuing Connected Transactions and the Possible Subscription are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the Proposed Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Company, and they are in the interests of the Company and the Shareholders as a whole; and (iii) although the Possible Subscription is not conducted in the ordinary and usual course

LETTER FROM THE BOARD

of business of the Company, it is in the interests of the Company and the Shareholders as a whole. Your attention is drawn to the letter from the Independent Board Committee, the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders which are set out on pages 46 to 85 of this circular.

The Directors consider that the proposals for (i) the continuing connected transactions in relation to the revision of 2024 Annual Cap and the New Cooperation Agreement; (ii) the extension of the validity period of the resolution in respect of the issuance of A Share Convertible Corporate Bonds to Non-Specific Investors; (iii) the extension of 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; and (iv) the Possible Subscription for A Share Convertible Corporate Bonds by Connected Persons are in the best interests of the Company and its Shareholders and, accordingly, recommend that all Shareholders to vote in favour of the above proposed resolutions in the EGM and Class Meetings.

9. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular. The Company will publish further announcement(s) upon the determination of the Conversion Price, the number of A Shares to be converted and the coupon rate of the A Share Convertible Corporate Bonds.

Yours faithfully,

By order of the Board

Shanghai Fudan Microelectronics Group Company Limited*

Jiang Guoxing

Chairman

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



上海復旦微電子集團股份有限公司

Shanghai Fudan Microelectronics Group Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 1385)

9 May 2024

To the Independent Shareholders

Dear Sir/Madam

**(I) CONTINUING CONNECTED TRANSACTION IN RELATION TO
THE REVISION OF 2024 ANNUAL CAP AND
THE NEW COOPERATION AGREEMENT; AND
(II) CONNECTED TRANSACTION IN RELATION TO
THE POSSIBLE SUBSCRIPTION FOR A SHARE
CONVERTIBLE CORPORATE BONDS BY CONNECTED PERSONS**

We refer to the circular dated 9 May, 2024 (the “Circular”) issued by Shanghai Fudan Microelectronics Group Company Limited* (上海復旦微電子集團股份有限公司) (the “Company”), of which this letter forms a part. Terms defined in the Circular shall have the same meanings herein.

We have been appointed to constitute the Independent Board Committee to make a recommendation to you as to whether the (i) Proposed Continuing Connected Transactions in relation to the revision of 2024 Annual Cap and the New Cooperation Agreement and (ii) Possible Subscription for A Share Convertible Corporate Bonds by Connected Persons are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

Amasse Capital Limited has been appointed as the Independent Financial Adviser of the Company to give its advice to us and you in this regard. Details of the advice together with principal factors and reasons considered in arriving at such advice are set out in the letter from Amasse Capital Limited as set out on pages 46 to 85 of the Circular.

Your attention is also drawn to the letter from the Board as set out on pages 6 to 43 of the Circular.

Having considered the information set out in the letter from the Board, the interests of the Independent Shareholders and the advice and recommendations from Amasse Capital Limited, we believe (i) the terms of the Proposed Continuing Connected Transactions and the Possible Subscription are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the Proposed Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Company, and they are in the interests of the Company and the Shareholders as a whole; and (iii) although 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. We therefore recommend that you vote in favour of the relevant resolution(s) to be proposed at the EGM to approve (i) the Proposed Continuing

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Connected Transactions in relation to the revision of 2024 Annual Cap and the New Cooperation Agreement; and (ii) the Possible Subscription for A Share Convertible Corporate Bonds by Connected Persons.

Yours faithfully,
The Independent Board Committee of
Shanghai Fudan Microelectronics Group Company Limited*
Mr. Cao Zhongyong
Mr. Cai Minyong
Mr. Wang Pin
Ms. Zou Fuwen
Independent Non-executive Directors

* *For identification purpose only*

LETTER FROM AMASSE CAPITAL LIMITED

Set out below is the text of a letter received from Amasse Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the Proposed Continuing Connected Transactions, the proposed extension of the validity period of the resolution and the validity period of the relevant authorisation of the Issuance and the Possible Subscription, which has been prepared for the purpose of incorporation in this circular.

AMASSE CAPITAL
寶 積 資 本

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

LETTER FROM AMASSE CAPITAL LIMITED

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

LETTER FROM AMASSE CAPITAL LIMITED

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

LETTER FROM AMASSE CAPITAL LIMITED

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.

LETTER FROM AMASSE CAPITAL LIMITED

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.

LETTER FROM AMASSE CAPITAL LIMITED

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

LETTER FROM AMASSE CAPITAL LIMITED

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

LETTER FROM AMASSE CAPITAL LIMITED

	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.

LETTER FROM AMASSE CAPITAL LIMITED

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.

LETTER FROM AMASSE CAPITAL LIMITED

(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.

LETTER FROM AMASSE CAPITAL LIMITED

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.

LETTER FROM AMASSE CAPITAL LIMITED

(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.

LETTER FROM AMASSE CAPITAL LIMITED

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).

LETTER FROM AMASSE CAPITAL LIMITED

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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Revised)</i>			<i>(Note)</i>
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.

LETTER FROM AMASSE CAPITAL LIMITED

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.

LETTER FROM AMASSE CAPITAL LIMITED

- (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.

LETTER FROM AMASSE CAPITAL LIMITED

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

LETTER FROM AMASSE CAPITAL LIMITED

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

LETTER FROM AMASSE CAPITAL LIMITED

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.

LETTER FROM AMASSE CAPITAL LIMITED

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.

LETTER FROM AMASSE CAPITAL LIMITED

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).

LETTER FROM AMASSE CAPITAL LIMITED

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	Second year	Third year	Fourth year
			<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<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

LETTER FROM AMASSE CAPITAL LIMITED

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.

LETTER FROM AMASSE CAPITAL LIMITED

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

LETTER FROM AMASSE CAPITAL LIMITED

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.

LETTER FROM AMASSE CAPITAL LIMITED

(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

LETTER FROM AMASSE CAPITAL LIMITED

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.

LETTER FROM AMASSE CAPITAL LIMITED

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):

LETTER FROM AMASSE CAPITAL LIMITED

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

LETTER FROM AMASSE CAPITAL LIMITED

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)

LETTER FROM AMASSE CAPITAL LIMITED

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

LETTER FROM AMASSE CAPITAL LIMITED

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.

LETTER FROM AMASSE CAPITAL LIMITED

(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.

LETTER FROM AMASSE CAPITAL LIMITED

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:

LETTER FROM AMASSE CAPITAL LIMITED

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.* (紫金矿业集团股份有限公司) (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 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

LETTER FROM AMASSE CAPITAL LIMITED

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)

LETTER FROM AMASSE CAPITAL LIMITED

- 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.

LETTER FROM AMASSE CAPITAL LIMITED

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%
	819,060,400	-	100%	880,334,910	-	100%

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

LETTER FROM AMASSE CAPITAL LIMITED

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

LETTER FROM AMASSE CAPITAL LIMITED

*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.*

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS BY DIRECTORS AND SUPERVISORS AND CHIEF EXECUTIVES IN THE COMPANY

As at the Latest Practicable Date, the interests and short positions of the Directors or Supervisors or chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules (“Model Code”) to be notified to the Company and the Stock Exchange, were as follows:

Long positions in A shares of the Company:

	Number of issued shares held, capacity and nature of interest				Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation			
Directors						
Mr. Jiang Guoxing	7,210,000	–	–	7,210,000	0.88	
Mr. Shi Lei	7,210,000	–	–	7,210,000	0.88	
Mr. Yu Jun	522,546	–	–	522,546	0.06	
	14,942,546	–	–	14,942,546		
Supervisor						
Ms. Zhang Yanfeng	–	–	220,500	220,500	0.03	

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or Supervisors or the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

3. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at the Latest Practicable Date, so far as any Directors are aware, the interests or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Long positions in shares of the Company:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Class of shares	Percentage of shareholding on relevant class of shares	Percentage of the Company's issued share capital
Shanghai Fudan Fukong Technology Enterprise Holdings Limited ("Fudan Fukong")	(2)	Directly beneficially owned	109,620,000	A shares	20.50	13.38
Shanghai Commerce and Invest (Group) Corporation ("SCI")	(2)	Interest of corporation controlled	109,620,000	A shares	20.50	13.38
Bailian Group Company Limited ("Bailian Group")	(2)	Interest of corporation controlled	109,620,000	A shares	20.50	13.38
Shanghai Fuxin Fangao IC Technology Co. Ltd. ("Fuxin Fangao")	(3)	Directly beneficially owned	106,730,000	A shares	19.96	13.03
Shanghai Fudan Asset Management Co., Ltd. ("Fudan Asset")	(3)	Interest of corporation controlled	106,730,000	A shares	19.96	13.03
Fudan University	(3)	Interest of corporation controlled	106,730,000	A shares	19.96	13.03
Shanghai Zhengben Corporate Management Consultant Partnership Enterprise ("Shanghai Zhengben")	(4)	Directly beneficially owned	38,882,011	A shares	7.27	4.75
Shanghai Yikun Investment Consultant Partnership Enterprise ("Shanghai Yikun")	(4)	Interest of corporation controlled	42,514,525	A shares	7.95	5.19
Zhang Yong	(4)	Interest of corporation controlled	42,514,525	A shares	7.95	5.19
Tenbagger Capital Management Co. Ltd.		Investment manager	19,912,000	H shares	7.00	2.43

Notes:

- (1) Bailian Group is a state-owned enterprise wholly owned by the Shanghai Municipal Government and wholly owned SCI, and SCI held 70.2% of the equity interest of Fudan Fukong. Accordingly, each of SCI and Bailian Group is deemed to be interested in Fudan Fukong's interest in the Company.

- (2) Fuxin Fangao is a state-owned enterprise wholly owned by Fudan Asset and Fudan Asset is wholly owned by Fudan University.
- (3) Zhang Yong held 95% of the equity interest in Shanghai Yikun, and Shanghai Yikun held 99.81% of the equity interest in Shanghai Zhengben. Accordingly, each of Shanghai Yikun and Zhang Yong is deemed to be interested in Shanghai Zhengben's interest in the Company. Shanghai Yikun and Zhang Yong further held the Company's interest through another controlled corporation.

Save as disclosed above, the Directors and the chief executive of the Company are not aware of any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares or underlying Shares which fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the issued voting shares of any member of the Group or had any option in respect of such capital.

4. MATERIAL ADVERSE CHANGE

As of the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2023, being the date to which the latest published audited consolidated financial statements of the Company have been made up.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract or service agreement with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, controlling shareholders or their respective associates (as defined in the Listing Rules) had any interests in businesses which competed or might compete with the businesses of the Group or had any other conflict of interests with the Group.

7. DIRECTORS' INTEREST IN ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had any interest, directly or indirectly, in any asset which had been, since 31 December 2023 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

There was no contract or arrangement subsisting at the date of this circular in which a Director was materially interested and which was significant in relation to the business of the Group.

8. EXPERTS AND CONSENTS

The following is the qualifications of the expert who has given opinions or advice, which is contained in this circular:

Names	Qualifications
Amasse Capital Limited	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporation finance) regulated activities under the SFO
(i)	Amasse Capital Limited did not have any shareholding, directly or indirectly, in the Company or any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any member of the Group as at the Latest Practicable Date;
(ii)	Amasse Capital Limited has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its letter/report and reference to its name in the form and context in which they are included; and
(iii)	Amasse Capital Limited did not have any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to the Company or any members of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2023, the date to which the latest published audited consolidated accounts of the Company were made up.

9. LITIGATION

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

10. MISCELLANEOUS

- (a) The secretary of the Company is Mr. Chong Hing Cheong, who is a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is located at No. 220, Handan Road, Shanghai, the People's Republic of China.
- (c) The principal place of business of the Group in Hong Kong is located at Flat 6, 5/F., East Ocean Centre, 98 Granville Road, Tsimshatsui East, Kowloon, Hong Kong.
- (d) The H Share share registrar and transfer office of the Company is Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

- (e) This circular has been prepared in both English and Chinese. In the case of any discrepancies, the English text shall prevail over their respective Chinese text.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.fmsh.com) for a period of not less than 14 days from the date of this circular up to and including the date of the EGM and H Shareholders' Class Meeting:

- (a) New Cooperation Agreement;
- (b) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the full text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;
- (c) the letter of advice from Amasse Capital Limited to the Independent Board Committee and the Independent Shareholders, the full text of which is set out in the section headed "Letter from Amasse Capital Limited" of this circular;
- (d) the written consent referred to in the paragraph headed "Experts and Consents" in this appendix; and
- (e) this circular.

NOTICE OF THE EGM



上海復旦微電子集團股份有限公司

Shanghai Fudan Microelectronics Group Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 1385)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “EGM”) of Shanghai Fudan Microelectronics Group Company Limited (the “Company”) will be held at Conference Room, Building 4, Fudan National University Science and Technology Park, 127 Guotai Road, Shanghai, the People’s Republic of China (the “PRC”) on Tuesday, 18 June 2024 at 1:30 p.m. for the following purposes:–

1. Ordinary Resolution: “(i) To consider and approve and confirm the New Cooperation Agreement and the transactions contemplated thereunder and any other accompanying documents, (ii) to consider and approve and confirm the 2025-2027 Annual Caps of the transactions contemplated under the New Cooperation Agreement and to revise the 2024 Annual Cap of the transactions contemplated under the Old Cooperation Agreement and the New Cooperation Agreement, and (iii) to consider and authorize any Director on behalf of the Company to give effect to the New Cooperation Agreement and the transactions contemplated thereunder or to do such acts and things as the Director in his/her discretion may consider appropriate, necessary or desirable to implement, and sign or seal to execute any agreement, deed, written form and other documents or to make relevant arrangements, under the circumstances in the interests of the Company and its shareholders as a whole, to approve and make the relevant insignificant adverse change, revise, supplement or waive insignificant issues”;
2. Special Resolution: “To consider and approve the proposal in relation to the extension of the validity period of the resolution in respect of the Issuance of A Share Convertible Corporate Bonds to Non-Specific Investors”;
3. Special Resolution: “To consider and approve the proposal in relation to the extension of 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”;
4. Ordinary Resolution: “To consider and approve the proposal in relation to the Connected Transaction in relation to Possible Subscription for A Share Convertible Corporate Bonds by Connected Persons”.

By order of the Board

Shanghai Fudan Microelectronics Group Company Limited*

Jiang Guoxing

Chairman

Hong Kong, 9 May 2024

Notes:

1. Persons who hold shares of the Company and whose names appear on the Register of Members of the Company as at 18 June 2024 shall be entitled to attend the EGM.

NOTICE OF THE EGM

2. Any member entitled to attend and vote at the EGM is entitled to appoint one or more person(s) as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
3. The instrument appointing a proxy must be in writing of a Shareholder or his attorney duly authorized in writing. If the Shareholder is a legal person, that instrument must be executed either under its seal or in writing by its director or other attorney duly authorized to sign the same. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power of attorney, must be deposited not less than 24 hours before the time appointed for the holding of the EGM at the Company's principal place of business in the PRC at Building 4, Lane 127, Guotai Road, Shanghai, the PRC (for holders of A Shares) or the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for holders of H Shares) as stipulated in the proxy form.
4. For holders of H Shares, the Register of Members of H Shares of the Company will be closed from 14 June 2024 to 18 June 2024 (both dates inclusive) during which period no transfer of H Shares will be registered. To be qualified to attend the EGM, all transfers of H Shares accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on 13 June 2024.
5. Shareholders or their proxies shall provide their identification documents when attending the EGM. If corporate Shareholders appoint authorised representative to attend the EGM, the authorised representative shall produce his/her identity documents and a notarially certified copy of the relevant authorisation instrument signed by the board of directors or other authorised parties of the corporate Shareholders or other notarially certified documents allowed by the Company. Proxies shall produce their identity documents and the proxy form signed by the Shareholders or their attorney when attending the EGM.
6. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the EGM if the member so desires, and in such event, the instrument appointing a proxy shall be deemed to be revoked.
7. Shareholders attending the EGM shall be responsible for their own travel and accommodation expenses.
8. Information containing further details regarding the proposed resolutions set out in the above notice as required by the Listing Rules are set out in this circular.

* *For identification purpose only*

NOTICE OF THE H SHAREHOLDERS' CLASS MEETING



**FUDAN
MICRO**

上海復旦微電子集團股份有限公司

Shanghai Fudan Microelectronics Group Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 1385)

NOTICE OF H SHAREHOLDERS' CLASS MEETING

NOTICE IS HEREBY GIVEN that the class meeting of H Shareholders (the "H Shareholders' Class Meeting") of Shanghai Fudan Microelectronics Group Company Limited (the "Company") will be held at Conference Room, Building 4, Fudan National University Science and Technology Park, 127 Guotai Road, Shanghai, the People's Republic of China (the "PRC") on Tuesday, 18 June 2024 at 2:30 p.m. (or as soon as the extraordinary general meeting and the class meeting of A Shareholders of the Company shall have been concluded or adjourned) for the following purposes:—

1. Special Resolution: "To consider and approve the proposal in relation to the extension of the validity period of the resolution in respect of the Issuance of A Share Convertible Corporate Bonds to Non-Specific Investors"; and
2. Special Resolution: "To consider and approve the proposal in relation to the extension of 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".

By order of the Board

Shanghai Fudan Microelectronics Group Company Limited*

Jiang Guoxing

Chairman

Hong Kong, 9 May 2024

Notes:

1. Persons who hold H Shares of the Company and whose names appear on the H Shares Register of Members of the Company as at 18 June 2024 shall be entitled to attend the H Shareholders' Class Meeting.
2. Any member entitled to attend and vote at the H Shareholders' Class Meeting is entitled to appoint one or more person(s) as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
3. The instrument appointing a proxy must be in writing of a Shareholder or his attorney duly authorized in writing. If the Shareholder is a legal person, that instrument must be executed either under its seal or in writing by its director or other attorney duly authorized to sign the same. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power of attorney, must be deposited not less than 24 hours before the time appointed for the holding of the H Shareholders' Class Meeting at the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as stipulated in the proxy form.

NOTICE OF THE H SHAREHOLDERS' CLASS MEETING

4. For holders of H Shares, the Register of Members of H Shares of the Company will be closed from 14 June 2024 to 18 June 2024 (both dates inclusive) during which period no transfer of H Shares will be registered. To be qualified to attend the H Shareholders' Class Meeting, all transfers of H Shares accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on 13 June 2024.
5. Shareholders or their proxies shall provide their identification documents when attending the H Shareholders' Class Meeting. If corporate Shareholders appoint authorised representative to attend the H Shareholders' Class Meeting, the authorised representative shall produce his/her identity documents and a notorially certified copy of the relevant authorisation instrument signed by the board of directors or other authorised parties of the corporate Shareholders or other notorially certified documents allowed by the Company. Proxies shall produce their identity documents and the proxy form signed by the Shareholders or their attorney when attending the H Shareholders' Class Meeting.
6. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the H Shareholders' Class Meeting if the member so desires, and in such event, the instrument appointing a proxy shall be deemed to be revoked.
7. Shareholders attending the H Shareholders' Class Meeting shall be responsible for their own travel and accommodation expenses.
8. Information containing further details regarding the proposed resolutions set out in the above notice as required by the Listing Rules are set out in this circular.

* *For identification purpose only*