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

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

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Q Tech

Q TECHNOLOGY (GROUP) COMPANY LIMITED

丘鈦科技(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1478)

**(1) REVISION OF ANNUAL CAPS FOR
CONTINUING CONNECTED TRANSACTIONS;
(2) PROPOSED ADOPTION OF THE NEW SHARE SCHEME
AND TERMINATION OF THE EXISTING SHARE OPTION SCHEME;
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



Gram Capital Limited
嘉林資本有限公司

Terms used in this circular (including this cover page) are defined in the section headed “Definitions” of this circular.

A notice convening the EGM to be held at Room 901, 9/F, Block 4C, Software Industrial Base, Xuefu Road, Nanshan District, Shenzhen, the PRC on Friday, 28 June 2024 at 10:30 a.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use in connection with the EGM is enclosed with this circular. If you are not able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or its adjournment (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or its adjournment should you so wish. If you attend the EGM in person, the authority of your form of proxy will be revoked.

12 June 2024

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DEFINITIONS

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

“Actual Sale Proceeds”	the proceeds from the sale of the Award Shares net of brokerage, Stock Exchange trading fee, SFC transaction levy and any other applicable costs
“Adoption Date”	the date of fulfillment of the condition set out in the paragraph headed “24. CONDITION OF THE NEW SHARE SCHEME” of Appendix II to this circular
“Articles”	articles of association of the Company, as amended, supplemented or otherwise modified from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Automated Equipment and Software”	has the meaning ascribed to it under the section headed “2.3 The Xiamen Zhonghui Supplemental Agreement – Subject matter” in “Letter from the Board” of this circular
“Award”	an award granted under the New Share Scheme, which may be a Share Option or a Share Award
“Award Shares”	new or existing Shares underlying an Award, including treasury shares of the Company that are transferred out of treasury by the Company
“Board”	the board of Directors
“Business Day”	any day on which the Stock Exchange is open for the business of dealing in securities listed thereon
“CCT Renewal Announcement”	the announcement of the Company dated 18 December 2023 in relation to the Continuing Connected Transaction Agreements and the transactions contemplated thereunder
“CK Telecom Asia”	CK Telecom Asia Pacific Ltd., a company incorporated in the British Virgin Islands with limited liability which is wholly-owned by Mr. He as at the Latest Practicable Date
“close associate(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Company”	Q Technology (Group) Company Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1478)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transaction Agreements”	the Heyuan Youhua Purchase Agreement, the Huangshi C-Flex Electronic Purchase Agreement and the Xiamen Zhonghui Supply Agreement
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened at Room 901, 9/F, Block 4C, Software Industrial Base, Xuefu Road, Nanshan District, Shenzhen, the PRC on Friday, 28 June 2024 at 10:30 a.m., or any adjournment thereof
“EGM Notice”	the notice convening the EGM as set out on pages EGM-1 to EGM-3 of this circular
“Eligible Participant(s)”	an Employee Participant, and for the purposes of the New Share Scheme, the Offer may be made to a vehicle (such as a trust or a private company) or similar arrangement for the benefit of a specified Eligible Participant subject to the fulfilment of requirements of the Listing Rules (including but not limited to a waiver from the Stock Exchange, where applicable)
“Employee Participant(s)”	the directors and employees (whether full-time, part-time or other employment arrangement) of any member of the Group (including persons who are granted Awards under the New Share Scheme as inducement to enter into employment contracts with any member of the Group)

DEFINITIONS

“Exercise Period”	in respect of any Award, the period to be determined and notified by the Company to the Grantee thereof at the time of making an Offer provided that such period shall not go beyond the day immediately prior to the tenth (10th) anniversary of the offer date with respect of the relevant Award
“Exercise Price”	with respect to a particular Share Option, the price per Share at which the relevant Grantee may subscribe for the Shares on the exercise of the particular Share Option
“Exercised Award Shares”	such number of Award Shares that have been exercised by a Grantee upon vesting of an Award
“Existing Share Option Scheme”	the post-IPO share option scheme adopted by the Company on 13 November 2014
“Grantee”	any Eligible Participant who accepts the Offer in accordance with the terms of the New Share Scheme
“Group”	the Company and its subsidiaries
“Hangzhou CK”	西可通信技術設備(杭州)有限公司 (transliteration “CK Telecom (Hangzhou) Limited”), a company established in the PRC with limited liability which is wholly-owned by CK Telecom Asia as at the Latest Practicable Date
“Heyuan Youhua”	河源友華微機電科技有限公司 (transliteration “Heyuan Youhua Micro Electronic Technology Company Limited”), a company established in the PRC with limited liability which is owned as to approximately 0.25% by Mr. Hu, 0.99% by Mr. Fan, 66.11% by Westalgo Great China and 18.01% by Shenzhen Handi as at the Latest Practicable Date
“Heyuan Youhua Purchase Agreement”	the purchase agreement dated 18 December 2023 entered into between the Company (for itself and on behalf of its subsidiaries) and Heyuan Youhua (for itself and on behalf of its subsidiaries) for a term from 1 January 2024 to 31 December 2026 (both days inclusive)

DEFINITIONS

“Heyuan Youhua Supplemental Agreement”	the supplemental agreement dated 20 May 2024 entered into between the Company (for itself and on behalf of its subsidiaries) and Heyuan Youhua (for itself and on behalf of its subsidiaries) to amend and supplement the Heyuan Youhua Purchase Agreement
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Huangshi C-Flex Electronic”	黃石西普電子科技有限公司 (transliteration “C-Flex Electronic (Huangshi) Ltd.”), a company established in the PRC with limited liability which is wholly-owned by Shenzhen Handi
“Huangshi C-Flex Electronic Purchase Agreement”	the purchase agreement dated 18 December 2023 entered into between the Company (for itself and on behalf of its subsidiaries) and Huangshi C-Flex Electronic (for itself and on behalf of its subsidiaries) for a term from 1 January 2024 to 31 December 2026 (both days inclusive)
“Huangshi C-Flex Electronic Supplemental Agreement”	the supplemental agreement dated 20 May 2024 entered into between the Company (for itself and on behalf of its subsidiaries) and Huangshi C-Flex Electronic (for itself and on behalf of its subsidiaries) to amend and supplement the Huangshi C-Flex Electronic Purchase Agreement
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Chu Chia-Hsiang, Mr. Ko Ping Keung and Ms. Hui Hiu Ching, to advise the Independent Shareholders on the transactions contemplated under the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) and the adoption of the Revised Annual Caps

DEFINITIONS

“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) and the adoption of the Revised Annual Caps
“Independent Shareholders”	all Shareholders other than the Shareholders with a material interest in the transactions contemplated under the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements)
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the Company or its connected persons
“IoT”	acronym for internet of things
“Latest Practicable Date”	6 June 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Minimum Period”	with respect to an Award, the period commencing on the offer date and ending on the day immediately prior to the expiry of the twelve (12)-month period thereof
“Mr. Fan”	Mr. Fan Fuqiang, an executive Director of the Company, who is interested in approximately 0.22% of the issued Shares as at the Latest Practicable Date
“Mr. He”	Mr. He Ningning, the chairman, an executive Director and a controlling shareholder of the Company, who is interested in approximately 63.63% of the issued Shares as at the Latest Practicable Date
“Mr. Hu”	Mr. Hu Sanmu, an executive Director and the chief executive officer of the Company, who is interested in approximately 0.25% of the issued Shares as at the Latest Practicable Date

DEFINITIONS

“Mr. Wang”	Mr. Wang Jianqiang, a director and a general manager of an indirect wholly-owned subsidiary of the Company, who is interested in approximately 1.01% of the issued Shares as at the Latest Practicable Date, and a step-brother of Mr. He
“New Share Scheme”	the share scheme proposed to be adopted by the Company at the EGM
“Offer”	an offer to an Eligible Participant for the grant of an Award
“PCBs”	has the meaning ascribed to it under the section headed “2.2 The Huangshi C-Flex Electronic Supplemental Agreement – Subject matter” in “Letter from the Board” of this circular
“PRC” or “China”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Purchase Price”	with respect to a particular Share Award, the price per Share at which the relevant Grantee is required to pay (which, for the avoidance of doubt, could be nil) to purchase or receive the Shares comprising the Share Award
“QT Investment”	Q Technology Investment Inc., a company incorporated in the British Virgin Islands with limited liability, which is a controlling shareholder of the Company and wholly-owned by Mr. He as at the Latest Practicable Date
“Remuneration Committee”	the remuneration committee of the Company
“Returned Shares”	unvested Award Shares held by a trustee of the Trust in respect of Share Awards which have lapsed or have been cancelled in accordance with the terms of the New Share Scheme

DEFINITIONS

“Revised Annual Caps”	the revised annual caps for the three years ending 31 December 2026 for the transactions contemplated under the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements), details of which are set out under the sections headed “2.1 The Heyuan Youhua Supplemental Agreement”, “2.2 The Huangshi C-Flex Electronic Supplemental Agreement” and “2.3 The Xiamen Zhonghui Supplemental Agreement” in “Letter from the Board” of this circular
“RMB”	Renminbi, the lawful currency of the PRC
“Scheme Mandate Limit”	has the meaning ascribed to it in the paragraph headed “7. SCHEME LIMITS AND ADDITIONAL APPROVALS” of Appendix II to this circular
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company, or, if there has been a sub-division, consolidation, re-classification or reconstruction of the share capital of the Company, shares forming part of the ordinary equity share capital of the Company of such other nominal amount as shall result from any such sub-division, consolidation, re-classification or re-construction
“Shareholder(s)”	the holder(s) of the Share(s)
“Share Award”	an Award which vests as a right to purchase or receive Award Shares pursuant to the New Share Scheme
“Share Option”	an Award which vests as an option carrying the right to subscribe for Award Shares pursuant to the New Share Scheme
“Shenzhen CK”	深圳市西可德信通信技術設備有限公司 (transliteration “Shenzhen Xike Dexin Telecom Equipment Co., Ltd.”), a company established in the PRC with limited liability which is owned as to 90% by Mr. He and 10% by Mr. Wang

DEFINITIONS

“Shenzhen Handi”	深圳市漢迪創業投資有限公司 (transliteration “Shenzhen Handi Venture Capital Investment Co., Ltd.”), a company established in the PRC with limited liability which is wholly-owned by Shenzhen CK as at the Latest Practicable Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Supplemental Agreements”	the Heyuan Youhua Supplemental Agreement, the Huangshi C-Flex Electronic Supplemental Agreement and the Xiamen Zhonghui Supplemental Agreement
“Termination Date”	close of business of the Company on the date which falls on the date immediately prior to the tenth (10th) anniversary of the Adoption Date, or such earlier date as the New Share Scheme is terminated in accordance of the terms thereunder
“treasury share(s)”	has the meaning ascribed to it under the Listing Rules
“Trust(s)”	has the meaning defined in the paragraph headed “2. ADMINISTRATION OF THE NEW SHARE SCHEME” of Appendix II to this circular
“VCM Components”	has the meaning ascribed to it under the section headed “2.1 The Heyuan Youhua Supplemental Agreement – Subject matter” in “Letter from the Board” of this circular
“Westalgo Great China”	Westalgo (Great China) Inc., a company incorporated in the British Virgin Islands with limited liability which is wholly-owned by QT Investment as at the Latest Practicable Date
“Xiamen Zhonghui”	廈門市眾惠微電子有限公司 (transliteration “Xiamen Zhonghui Microelectronics Co., Ltd.”), a company established in the PRC with limited liability which is owned as to 86.65% by Hangzhou CK as at the Latest Practicable Date

DEFINITIONS

“Xiamen Zhonghui Supplemental Agreement”	the supplemental agreement dated 20 May 2024 entered into between the Company (for itself and on behalf of its subsidiaries) and Xiamen Zhonghui (for itself and on behalf of its subsidiaries) to amend and supplement the Xiamen Zhonghui Supply Agreement
“Xiamen Zhonghui Supply Agreement”	the supply agreement dated 18 December 2023 entered into between the Company (for itself and on behalf of its subsidiaries) and Xiamen Zhonghui for a term from 1 January 2024 to 31 December 2026 (both days inclusive)
“%”	per cent.

This circular has been printed in English and Chinese. In the event of any inconsistency, the English text of this circular shall prevail over its Chinese text.

LETTER FROM THE BOARD



Q Tech

Q TECHNOLOGY (GROUP) COMPANY LIMITED

丘鈦科技(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1478)

Executive Directors:

Mr. He Ningning (*Chairman*)
Mr. Hu Sanmu (*Chief Executive Officer*)
Mr. Fan Fuqiang

Independent non-executive Directors:

Mr. Chu Chia-Hsiang
Mr. Ko Ping Keung
Ms. Hui Hiu Ching

Registered office:

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Headquarters and principal place
of business in the PRC:*

No. 3 Taihong Road
Hi-tech Industry Park
Kunshan
Jiangsu Province
PRC

*Principal place of business in
Hong Kong:*

Room 828, 8/F, Topsail Plaza
11 On Sum Street
Shatin, New Territories
Hong Kong

12 June 2024

To the Shareholders:

Dear Sir or Madam,

**(1) REVISION OF ANNUAL CAPS FOR
CONTINUING CONNECTED TRANSACTIONS;
(2) PROPOSED ADOPTION OF THE NEW SHARE SCHEME
AND TERMINATION OF THE EXISTING SHARE OPTION SCHEME;
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 20 May 2024 in relation to, among others, the proposed adoption of the Revised Annual Caps for the transactions contemplated under the Continuing Connected Transaction Agreements for the three years ending 31 December 2026 and the proposed adoption of the New Share Scheme.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among others, (i) details of the transactions contemplated under the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) and the proposed adoption of the Revised Annual Caps, (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the proposed adoption of the Revised Annual Caps, (iii) a letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in respect of the proposed adoption of the Revised Annual Caps, (iv) details of the New Share Scheme, (v) a notice convening the EGM, (vi) other information as required under the Listing Rules, together with a notice convening the EGM.

2. REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

Reference is made to the CCT Renewal Announcement in relation to, among other matters, the Continuing Connected Transaction Agreements and the transactions contemplated thereunder.

Based on publicly available information and reports published by third-party research organizations since January 2024, the market trend since the fourth quarter of 2023 has been positive, providing strong impetus to drive the demand for camera modules and other products of the Group.

The “World Economic Outlook Report” released by International Monetary Fund (the “IMF”) on 30 January 2024 indicates that the global economic growth rate is expected to be 3.1% in 2024 (representing an increase of 0.2 percentage points from the 2.9% forecast made in October 2023) and 3.2% in 2025, with a stable mid-term development trend. Meanwhile, the IMF raised its forecast for China’s economic growth in 2024 to 4.6%, representing an increase of 0.4 percentage point from the 4.2% forecast made in October 2023, to reflect the continuation of the higher-than-expected growth momentum of China’s economy in 2023 and the driving force of the relevant policies introduced by the Chinese government. The resilience of economic growth will help restore the confidence of various industries and consumers, which will benefit the increased demand for consumer goods such as smart phones, smart cars and IoT terminals, and leading companies in these sectors will continue to enjoy better development opportunities.

LETTER FROM THE BOARD

In terms of smartphones, China's smartphone shipments in the fourth quarter of 2023 rebounded for the first time after 10 consecutive quarters of year-on-year decline. For the first quarter of 2024, the shipment of camera modules for use in smartphones within China's market increased by approximately 64% year-on-year. There was also a year-on-year increase of approximately 7.8% of the global smartphone shipment volume in the first quarter of 2024, according to the report published in April 2024 by International Data Corporation, an independent third-party research organization. Periscope camera modules, which are technically more advanced than typical camera modules and have a higher per unit price, are increasingly used in high-end smartphones, including Apple's iPhone 15 Pro Max that was debuted in September 2023 and Huawei's Pure 70 series that was first marketed in April 2024. The latest product trend is expected to drive the demand for motors for periscope camera modules and printed circuit boards. In terms of IoT terminals, it is expected that China's augmented reality (AR) device shipments will continue to grow rapidly with an expected growth rate of 101% in 2024, while China's smart home market is set to pick up gradually, with device shipments in 2024 expected to increase by 6.5% year-on-year in 2024. The rising demand for IoT intelligent terminals is expected to bring good market opportunities for camera modules. In terms of passenger vehicles, market data available since January 2024 revealed that retail sales of China's passenger car market in 2023 increased by approximately 5.6% year-on-year, with the retail sales of new energy passenger vehicles growing at a more rapid pace of approximately 36.2% year-on-year. The rapid development of new energy passenger cars has significantly accelerated the development of the autonomous driving industry, and the rapid development of autonomous driving and driving assistance has provided a good opportunity for the rapid development of the automotive camera module business.

Under the above background, and based on the latest information available to the Company, including the Group's projected demand for the VCM Components and the PCBs supplied by Heyuan Youhua and Huangshi C-Flex Electronic, respectively and Xiamen Zhonghui's projected demand for the Automated Equipment and Software supplied by the Group, as well as the Group's customer orders on hand and successful tenders on customers' smartphone and automotive vehicle production projects as of 30 April 2024, it is expected that the existing annual caps in respect of the transactions contemplated under the Continuing Connected Transaction Agreements for the three years ending 31 December 2026, which were determined in December 2023 at the time of entry into these agreements based on the then available information up to the third quarter of 2023, will not be sufficient.

On 20 May 2024, the Company entered into the Supplemental Agreements to revise the respective annual caps for the transactions contemplated under the Continuing Connected Transaction Agreements for the three years ending 31 December 2026, subject to approval by the Independent Shareholders at the EGM. Save for the adoption of the Revised Annual Caps in respect of the transactions contemplated under the Continuing Connected Transaction Agreements, the terms and conditions of the Continuing Connected Transaction Agreements have not been amended by the Supplemental Agreements.

LETTER FROM THE BOARD

2.1 The Heyuan Youhua Supplemental Agreement

Date

20 May 2024

Parties

- (i) the Company (for itself and on behalf of its subsidiaries), as purchaser
- (ii) Heyuan Youhua (for itself and on behalf of its subsidiaries), as supplier

Subject matter

Pursuant to the Heyuan Youhua Purchase Agreement which has a contract period from 1 January 2024 to 31 December 2026 (both days inclusive), the Group will from time to time purchase, and Heyuan Youhua and/or its subsidiaries will from time to time supply to the Group electronic components, such as open-loop motors, closed-loop motors, bi-directional voice coil motors, motors for periscope camera modules, optical image stabilization motors, variable aperture motors, etc. (collectively, the “**VCM Components**”) in the ordinary and usual course of business.

The price of the VCM Components will be determined with reference to the price at which comparable types of electronic components are sold to the Group by suppliers which are Independent Third Parties on normal commercial terms and in the ordinary and usual course of business and such price shall be no less favourable to the Group than that available from suppliers which are Independent Third Parties. In considering whether to purchase from Heyuan Youhua, the Group will seek quotations from at least two suppliers which are Independent Third Parties offering the same or comparable products. The Group will purchase the VCM Components from Heyuan Youhua if the price and quality of the products offered are comparable to or more favourable to the Group than those offered by such Independent Third Parties for the same or comparable products.

LETTER FROM THE BOARD

Pursuant to the Heyuan Youhua Supplemental Agreement, the annual caps for the transactions contemplated under the Heyuan Youhua Purchase Agreement for the years ending 31 December 2024, 2025 and 2026 will be revised as follows:

(in RMB)

	For the year ending 31 December		
	2024	2025	2026
Existing annual caps	120,000,000	120,000,000	120,000,000
Revised annual caps	280,000,000	280,000,000	280,000,000

The adoption of the revised annual caps pursuant to the Heyuan Youhua Supplemental Agreement will be subject to approval by the Independent Shareholders at the EGM.

Save for the adoption of the revised annual caps in respect of the transactions contemplated under the Heyuan Youhua Purchase Agreement, the terms and conditions of the Heyuan Youhua Purchase Agreement have not been amended by the Heyuan Youhua Supplemental Agreement.

Basis of determination of the revised annual caps

The above revised annual caps are determined with reference to the following:

- (i) the historical transaction amounts for the purchases of the VCM Components by the Group from Heyuan Youhua and its subsidiaries for each of the years ended 31 December 2022 and 2023 and the four months ended 30 April 2024 of RMB39,379,000, RMB163,864,000 and RMB70,934,000, respectively. In particular, the historical transaction amount for the four months ended 30 April 2024 of approximately RMB70.9 million (a) represented an increase of approximately 130.0% as compared to that for the four months ended 30 April 2023, and (b), when annualized for the year ending 31 December 2024, would amount to approximately RMB212.7 million, exceeding the existing annual cap of RMB120 million;

LETTER FROM THE BOARD

- (ii) the Group's projected demand for the VCM Components required for its production based on: (a) an analysis of the macro-environment and industry trends based on publicly available information and third-party research reports, including (i) the increase in demand for high-end camera modules for use in mid to high-end smartphones, including the increased use of periscope camera modules in the latest high-end smartphone series of major brands, (ii) the increase in China's smartphone shipments in the fourth quarter of 2023 which rebounded for the first time after 10 consecutive quarters of year-on-year decline, (iii) the increase in shipment of camera modules for use in smartphones within China's market for the first quarter of 2024 of approximately 64% year-on-year, and (iv) the year-on-year increase of approximately 7.8% of the global smartphone shipment volume in the first quarter of 2024; (b) the recent breakthrough in terms of cooperation with the Group's customers, including a significant increase in the projected demand for the Group's optical image stabilization (OIS) camera modules and periscope camera modules for use in the high-end smartphone series of certain major smartphone brands in the PRC, and significant progress in obtaining the accredited supplier status of a global IoT technology company; (c) the Group's customer orders on hand and successful tenders on customers' smartphone and automotive vehicle production projects as of 30 April 2024; and (d) the Group's business development plan and cost control expectations. In this regard, in furtherance of the Company's five-year strategic planning for 2021 to 2025, the Group will strive to achieve the following targets in 2024: (i) the combined sales volume of camera modules with resolutions of 32 megapixels and above applied to mobile phones and camera modules applied to other fields accounting for more than 45% of the total sales volume of camera modules, which was approximately 40% during the year ended 31 December 2023; (ii) a year-on-year increase of not less than 50% in the sales volume of camera modules applied to the non-handset fields such as automotive and IoT; and (iii) a year-on-year increase of not less than 5% in the sales volume of camera modules applied to mobile phones. Based on the sales volume of major products of the Group for the four months ended 30 April 2024, the sales volume of camera modules for mobile phones increased by approximately 27.2% year-on-year, and the sales volume of camera modules for other fields increased by approximately 131% year-on-year. An upward revision of the annual caps is in line with the Company's strategic planning and recent developments;
- (iii) the prevailing market prices and historical price fluctuations of the VCM Components; and

LETTER FROM THE BOARD

- (iv) the Group's expectation regarding the future market supply of the VCM Components and the available suppliers of the VCM Components. In this regard, the Company expects that, while the Group will endeavour to maintain cooperation with multiple available suppliers of the VCM Components, given the long-term relationship with Heyuan Youhua and its track record of supplying VCM Components that could meet the design, quality and delivery requirements of the Group, the Group expects to continue to purchase the VCM Components from Heyuan Youhua in the foreseeable future.

2.2 The Huangshi C-Flex Electronic Supplemental Agreement

Date

20 May 2024

Parties

- (i) the Company (for itself and on behalf of its subsidiaries), as purchaser
- (ii) Huangshi C-Flex Electronic (for itself and on behalf of its subsidiaries), as supplier

Subject matter

Pursuant to the Huangshi C-Flex Electronic Purchase Agreement which has a contract period from 1 January 2024 to 31 December 2026 (both days inclusive), the Group will from time to time purchase, and Huangshi C-Flex Electronic and/or its subsidiaries will from time to time supply to the Group flexible printed circuit boards and rigid-flex printed circuit boards (collectively, the "PCBs") in the ordinary and usual course of business.

The price of the PCBs will be determined with reference to the price at which comparable types of the PCBs are sold to the Group by suppliers which are Independent Third Parties on normal commercial terms and in the ordinary and usual course of business and such price shall be no less favourable to the Group than that available from suppliers which are Independent Third Parties. In considering whether to purchase the PCBs from Huangshi C-Flex Electronic, the Group will seek quotations from at least two suppliers which are Independent Third Parties offering the same or comparable products. The Group will purchase the PCBs from Huangshi C-Flex Electronic if the price and quality of the products offered are comparable to or more favourable to the Group than those offered by such Independent Third Parties for the same or comparable products.

LETTER FROM THE BOARD

Pursuant to the Huangshi C-Flex Electronic Supplemental Agreement, the annual caps for the transactions contemplated under the Huangshi C-Flex Electronic Purchase Agreement for the years ending 31 December 2024, 2025 and 2026 will be revised as follows:

	(in RMB)		
	For the year ending 31 December		
	2024	2025	2026
Existing annual caps	90,000,000	90,000,000	90,000,000
Revised annual caps	200,000,000	200,000,000	200,000,000

The adoption of the revised annual caps pursuant to the Huangshi C-Flex Electronic Supplemental Agreement will be subject to approval by the Independent Shareholders at the EGM.

Save for the adoption of the revised annual caps in respect of the transactions contemplated under the Huangshi C-Flex Electronic Purchase Agreement, the terms and conditions of the Huangshi C-Flex Electronic Purchase Agreement have not been amended by the Huangshi C-Flex Electronic Supplemental Agreement.

Basis of determination of the revised annual caps

The above revised annual caps are determined with reference to the following:

- (i) the historical transaction amounts for the purchases of the PCBs by the Group from Huangshi C-Flex Electronic and its subsidiaries for each of the years ended 31 December 2022 and 2023 and the four months ended 30 April 2024 of RMB120,379,000, RMB136,673,000 and RMB58,910,000, respectively. In particular, the historical transaction amount for the four months ended 30 April 2024 of approximately RMB58.9 million (a) represented an increase of approximately 86.7% as compared to that for the four months ended 30 April 2023, and (b) when annualized for the year ending 31 December 2024, would amount to approximately RMB176.7 million, exceeding the existing annual cap of RMB90 million;

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- (ii) the Group's projected demand for the PCBs required for its production based on: (a) an analysis of the macro-environment and industry trends based on publicly available information and third-party research reports, including (i) the increase in demand for high-end camera modules for use in mid to high-end smartphones, including the increased use of periscope camera modules in the latest high-end smartphone series of major brands, (ii) the increase in China's smartphone shipments in the fourth quarter of 2023 which rebounded for the first time after 10 consecutive quarters of year-on-year decline, (iii) the increase in shipment of camera modules for use in smartphones within China's market for the first quarter of 2024 of approximately 64% year-on-year, and (iv) the year-on-year increase of approximately 7.8% of the global smartphone shipment volume in the first quarter of 2024; (b) the recent breakthrough in terms of cooperation with the Group's customers, including a significant increase in the projected demand for the Group's optical image stabilization (OIS) camera modules and periscope camera modules for use in the high-end smartphone series of certain major smartphone brands in the PRC, and significant progress by the Group in obtaining the accredited supplier status of a global IoT technology company; (c) the Group's customer orders on hand and successful tenders on customers' smartphone and automotive vehicle production projects as of 30 April 2024; and (d) the Group's business development plan and cost control expectations. In this regard, in furtherance of the Company's five-year strategic planning for 2021 to 2025, the Group will strive to achieve the following targets in 2024: (i) the combined sales volume of camera modules with resolutions of 32 megapixels and above applied to mobile phones and camera modules applied to other fields accounting for more than 45% of the total sales volume of camera modules, which was approximately 40% during the year ended 31 December 2023; (ii) a year-on-year increase of not less than 50% in the sales volume of camera modules applied to the non-handset fields such as automotive and IoT; and (iii) a year-on-year increase of not less than 5% in the sales volume of camera modules applied to mobile phones. Based on the sales volume of major products of the Group for the four months ended 30 April 2024, the sales volume of camera modules for mobile phone increased by approximately 27.2% year-on-year, and the sales volume of camera modules for other fields increased by approximately 131% year-on-year. An upward revision of the annual caps is in line with the Company's strategic planning and recent developments;
- (iii) the prevailing market prices and historical price fluctuations of the PCBs, including an increase of approximately 15% in the average price of PCBs offered by the Group's suppliers for the four months ended 30 April 2024 as compared to that for the four months ended 30 April 2023; and

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- (iv) the Group's expectation regarding the future market supply of the PCBs and available suppliers of the PCBs. In this regard, the Company expects that, while the Group will endeavour to maintain cooperation with multiple available suppliers of the PCBs, given the long-term relationship with Huangshi C-Flex Electronic and its track record of supplying PCBs that could meet the design, quality and delivery requirements of the Group, the Group expects to continue to purchase PCBs from Huangshi C-Flex Electronic in the foreseeable future.

2.3 The Xiamen Zhonghui Supplemental Agreement

Date

20 May 2024

Parties

- (i) the Company (for itself and on behalf of its subsidiaries), as supplier
- (ii) Xiamen Zhonghui (for itself and on behalf of its subsidiaries), as purchaser

Subject matter

Pursuant to the Xiamen Zhonghui Supply Agreement which has a contract period from 1 January 2024 to 31 December 2026 (both days inclusive), the Group will from time to time supply, and Xiamen Zhonghui and/or its subsidiaries will from time to time purchase from the Group semi-automated and automated equipment and related software, algorithms and after-sales services (collectively, the “**Automated Equipment and Software**”) in the ordinary and usual course of business.

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The price of the Automated Equipment and Software will be determined with reference to the cost of raw materials, production costs of the Group's Automated Equipment and Software and profit margin, and with reference to the cost of materials and manpower required in the after-sale services and profit margin, which is expected to be comparable to the level of profit to be derived from the sales to the customers who are Independent Third Parties, subject to adjustments based on the expected quantity, quality, delivery schedule, specifications and market competition. It is envisaged that from time to time and as required, the Group will provide quotation and estimated delivery time of the specific products to Xiamen Zhonghui according to factors such as the specification and delivery schedule of the Automated Equipment and Software required to be purchased by Xiamen Zhonghui by comprehensively considering the factors such as cost of raw materials, production time, development time, the comparable price of the same or similar products selling to two or more Independent Third Parties, the expected gross profit margin of the same or similar products selling to Independent Third Parties, settlement period, and scale of order of specific products. After acceptance of the quotation and estimated delivery time, Xiamen Zhonghui will place order(s) to the Group or sign specific contract(s) for the purchase of the Automated Equipment and Software, and then the Group will fulfill the order and the contract. For orders with no comparable price from an Independent Third Party, the Group will provide quotations by considering the average gross profit margin of the Group comprehensively.

Pursuant to the Xiamen Zhonghui Supplemental Agreement, the annual caps for the transactions contemplated under the Xiamen Zhonghui Supply Agreement for the years ending 31 December 2024, 2025 and 2026 will be revised as follows:

	(in RMB)		
	For the year ending 31 December		
	2024	2025	2026
Existing annual caps	20,000,000	20,000,000	20,000,000
Revised annual caps	80,000,000	40,000,000	40,000,000

The adoption of the revised annual caps pursuant to the Xiamen Zhonghui Supplemental Agreement will be subject to approval by the Independent Shareholders at the EGM.

Save for the adoption of the revised annual caps in respect of the transactions contemplated under the Xiamen Zhonghui Supply Agreement, the terms and conditions of the Xiamen Zhonghui Supply Agreement have not been amended by the Xiamen Zhonghui Supplemental Agreement.

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Basis of determination of the revised annual caps

The above revised annual caps are determined with reference to the following:

- (i) the projected amount of purchases of Automated Equipment and Software by Xiamen Zhonghui from the Group based on the preliminary discussion with Xiamen Zhonghui, taking into account: (a) Xiamen Zhonghui's own study on the future macro-environment and industry trends and its own development plan, and (b) the orders secured by Xiamen Zhonghui from an overseas multinational electronics corporation and other customers for the production of motors;
- (ii) the amount of orders that have been delivered but subject to inspection and acceptance according to the terms of the contract for the supply of Automated Equipment and Software by the Group to Xiamen Zhonghui and its subsidiaries for the four months ended 30 April 2024 of approximately RMB14,708,000;
- (iii) the prevailing market price in the open market in the PRC for the Automated Equipment and Software that the Group intends to supply to Xiamen Zhonghui, including a comparison with the gross profit margins of other listed companies which are principally engaged in sales of automated equipment and software or comparable products; and
- (iv) the Group's cycle for the development and sale of such Automated Equipment and Software and its delivery capability to meet such demands. In this regard, as at the Latest Practicable Date, the Group has provided quotations to Xiamen Zhonghui for potential purchases of Automated Equipment and Software of approximately RMB45.4 million. Subject to acceptance of quotations and signing of specific contracts, and depending on the development and delivery schedule of the Group which could be up to three to six months after the signing of specific contracts, the Company expects that the amount of orders from Xiamen Zhonghui for Automated Equipment and Software could amount to approximately RMB60.1 million for the nine months ending 30 September 2024 based on completion of inspection and acceptance work.

2.4 Reasons for and benefits of entering into the Supplemental Agreements and adoption of the Revised Annual Caps

The transactions contemplated under the Continuing Connected Transaction Agreements are beneficial to the business development of the Group.

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In particular, maintaining the quality of the VCM Components and PCBs supplied to the Group is crucial to the Group's current and future production needs. In view of the Group's past purchasing experience with Heyuan Youhua and Huangshi C-Flex Electronic, the Board takes the view that Heyuan Youhua and Huangshi C-Flex Electronic can effectively fulfill the Group's requirements in product quality. Given the latest industry trends, orders on hand and business plan of the Group, the Board expects that the existing annual caps for the transactions contemplated under the Heyuan Youhua Purchase Agreement and the Huangshi C-Flex Electronic Purchase Agreement will be insufficient. The revised annual caps for the transactions contemplated under the Heyuan Youhua Purchase Agreement and the Huangshi C-Flex Electronic Purchase Agreement will provide the Group with flexibility to purchase the VCM Components and PCBs that it may require from Heyuan Youhua and Huangshi C-Flex Electronic, respectively, at competitive market prices to meet the Group's production needs from time to time during the three years ending 31 December 2026.

Xiamen Zhonghui is a leading intelligent manufacturing company in the industry, which is engaged in the research and development, manufacture and sales of periscope motors and optical image stabilization motors and other relevant motors, and is in good business development. The cooperation with Xiamen Zhonghui would strengthen the Group's understanding and practice in semi-automated and automated equipment production lines with optical automated inspection and algorithm integration as the focus, which would in turn further enhance the Group's ability to design, develop and manufacture automated equipment with optical automated inspection and algorithm integration as the focus. Given the latest industry trends, orders on hand of Xiamen Zhonghui and business plan of the Group, the Board expects that the existing annual caps for the transactions contemplated under the Xiamen Zhonghui Supply Agreement will be insufficient. The revised annual caps for transactions contemplated under the Xiamen Zhonghui Supply Agreement will provide the Group with the flexibility to supply the Automated Equipment and Software to Xiamen Zhonghui during the three years ending 31 December 2026.

In light of the above, the Board (including the members of the Independent Board Committee whose view is set forth in "Letter from the Independent Board Committee" of this circular after having been advised by Gram Capital in this regard) considers that: (i) the transactions contemplated under the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) are conducted on normal commercial terms which are no less favourable to the Group than those available from Independent Third Parties, are entered into in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the Revised Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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2.5 Information on the Group

The Group is principally engaged in the design, research and development, manufacture and sales of camera modules and fingerprint recognition modules, with a focus on mid-to-high end camera modules and fingerprint recognition modules markets for intelligent mobile terminals such as global smartphone and tablet brands, IoT and smart vehicles. At the same time, the Group is also engaged in the research and development, production, sales and after-sales service of automated equipment and software.

2.6 Information on the related parties

Heyuan Youhua

Heyuan Youhua is principally engaged in the development, production and sales of auto-focusing voice coil motors, linear motors, precise electronic products, domestic trade, import and export of goods and technologies.

Heyuan Youhua is owned as to approximately 0.25% and approximately 0.99% by Mr. Hu and Mr. Fan, respectively, both of whom are executive Directors of the Company, and as to approximately 66.11% by Westalgo Great China (a wholly-owned subsidiary of QT Investment, the controlling shareholder of the Company, which in turn is owned as to 100% by Mr. He) and as to approximately 18.01% by Shenzhen Handi (a company wholly-owned by Shenzhen CK, which in turn is owned as to 90% by Mr. He and 10% by Mr. Wang). Accordingly, Heyuan Youhua is a connected person of the Company under the Listing Rules.

In addition, as at the Latest Practicable Date, the remaining 14.64% interests of Heyuan Youhua are owned by the following parties respectively (Mr. Liu Zhiyong (劉智勇) is interested in approximately 8.50%, Mr. Li Jingsong (李勁松) is interested in approximately 5.00%, Mr. Zhang Xuyao (張需要) is interested in approximately 0.62% and Mr. Wen Tingwei (溫廷偉) is interested in approximately 0.52%), who, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are Independent Third Parties.

Huangshi C-Flex Electronic

Huangshi C-Flex Electronic is principally engaged in the production, development and sales of self-produced mobile phones, mobile communications systems, communications terminals, digital electronic systems, portable micro calculators, precision moulds, new electronic components, third generation mobile communications systems mobile phones, flexible printed circuit boards and relevant parts and auxiliary products.

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Huangshi C-Flex Electronic is wholly-owned by Shenzhen Handi, a wholly-owned subsidiary of Shenzhen CK, which in turn is owned as to 90% by Mr. He and as to 10% by Mr. Wang. Accordingly, Huangshi C-Flex Electronic is a connected person of the Company under the Listing Rules.

Xiamen Zhonghui

Xiamen Zhonghui is principally engaged in the research and development, manufacture and sales of optoelectronic components such as periscope motors and optical image stabilization motors.

Xiamen Zhonghui is owned as to 86.65% by Hangzhou CK, which in turn is wholly-owned by CK Telecom Asia. CK Telecom Asia is wholly-owned by Mr. He. Accordingly, Xiamen Zhonghui is a connected person of the Company under the Listing Rules.

In addition, as at the Latest Practicable Date, the remaining 13.35% interests of Xiamen Zhonghui are owned by the following parties respectively (Yunxiao Huhui Optoelectronic Technology Co., Ltd. is interested in approximately 9.75%, Mr. Chen Guihua (陳貴華) is interested in approximately 1.86%, Mr. Shu Xueliang (束學良) is interested in approximately 0.81%, Mr. Zhu Laijin (朱來金) is interested in approximately 0.66% and Mr. Hu Yulin (胡玉林) is interested in approximately 0.27%), who, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are Independent Third Parties.

2.7 Listing Rules implications

As each of Heyuan Youhua, Huangshi C-Flex Electronic and Xiamen Zhonghui is a connected person of the Company, the transactions contemplated under the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the highest of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Revised Annual Caps, on an aggregated basis, exceeds 5%, the adoption of the Revised Annual Caps pursuant to the Supplemental Agreements is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

As Mr. He is interested in Huangshi C-Flex Electronic, Heyuan Youhua and Xiamen Zhonghui, he is interested in the Continuing Connected Transaction Agreements and the Supplemental Agreements and is required to abstain from voting on the Board resolutions approving the Supplemental Agreements and the transactions contemplated thereunder. As Mr. Hu and Mr. Fan are interested in Heyuan Youhua, they are interested in the Heyuan Youhua Purchase Agreement and are required to abstain from voting on the Board resolutions approving the Heyuan Youhua Supplemental Agreement and the transactions contemplated thereunder.

Save as disclosed above, none of the other Directors has a material interest in the Continuing Connected Transaction Agreements or the Supplemental Agreements or is required to abstain from voting on the Board resolutions in relation to the Supplemental Agreements and the transactions contemplated thereunder.

An Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chu Chia-Hsiang, Mr. Ko Ping Keung and Ms. Hui Hiu Ching, has been established to advise the Independent Shareholders in relation to the transactions contemplated under the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) and the adoption of the Revised Annual Caps. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

Mr. He, Mr. Hu, Mr. Fan, Mr. Wang and their respective associates (holding in aggregate 771,213,000 Shares, representing 65.11% of the issued share capital of the Company as at the Latest Practicable Date) will abstain from voting in respect of the relevant resolution(s) to approve the adoption of the Revised Annual Caps at the EGM. Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no other Shareholder will be required to abstain from voting on the relevant resolution(s) to approve the adoption of the Revised Annual Caps at the EGM.

LETTER FROM THE BOARD

2.8 Internal control

The following internal control policies and procedures are adopted by the Company to ensure that the transactions contemplated under the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) (the “**Continuing Connected Transactions**”) are conducted on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as whole:

- (i) the finance department and the legal compliance department of the Company will review all execution contracts under the Continuing Connected Transactions in order to ensure that (a) the terms and conditions of the Continuing Connected Transactions are fair and reasonable; (b) the terms and conditions of the Continuing Connected Transactions are in the interests of the Company and the Shareholders as whole; (c) the terms and conditions of the Continuing Connected Transactions are comparable with terms and conditions of transactions with Independent Third Parties and; (d) the terms and conditions of the Continuing Connected Transactions are capable of being executed. The finance department and the legal compliance department of the Company will regularly review the implementation of the Continuing Connected Transaction Agreements;
- (ii) in considering whether to purchase products from the related parties, the purchase department of the Company will seek quotations from at least two suppliers which are Independent Third Parties offering the same or comparable products and compare them with the quotations provided by the related parties. The Group will purchase from the related parties if the price and quality of the products offered by them are comparable to or more favourable to the Group than those offered by such Independent Third Parties for the same or comparable products;
- (iii) the price of the products produced by the Group selling to the related parties will be determined by the sales and finance departments of the Company with reference to the cost of raw materials and production costs of the Group as well as the profit margin, which is expected to be comparable to the level of profit to be derived from the same or similar products selling to the customers who are Independent Third Parties, subject to adjustments based on the delivery schedule, specifications and market competition. If the Group did not provide similar or comparable products to any Independent Third Party, the price will be determined by the Group with reference to the selling price of the same or comparable products in market;

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- (iv) the finance department will maintain monthly statistics on the transaction amounts of the Continuing Connected Transactions, and will communicate with the sales and purchase department of the Group in time for possible future changes in the maximum amount of each Continuing Connected Transaction and reasons for such changes. In order to ensure that the transaction amounts of the Continuing Connected Transactions will not exceed the relevant annual caps, the Company will set up the annual caps in its enterprise resource planning system. A buffer will be maintained for each Continuing Connected Transaction to allow the management to monitor and control the actual transaction amount of each Continuing Connected Transaction. If the cumulative actual transaction amount of the Continuing Connected Transactions reaches 80% of the annual caps, the finance department will maintain weekly statistics on the actual transaction amounts instead and will give risk warnings to the sales and purchase departments of the Group and the senior management in time. In the event of the need to revise the annual caps of the Continuing Connected Transactions due to market environment and business development needs, the finance department will report to the Board immediately for the Board to consider and arrange the relevant Listing Rules compliance procedures in time. In the event that any terms or conditions of the Continuing Connected Transactions (including but not limited to pricing) is discovered to be unfair or not in accordance with normal commercial terms, the finance department will immediately report to the Board and the audit committee of the Company for amendment and rectification;
- (v) the independent non-executive Directors of the Company and the external auditor of the Company will conduct annual review of the Continuing Connected Transactions to ensure compliance with the Listing Rules;
- (vi) the audit committee, which comprised of all the independent non-executive Directors of the Company, and the external auditor of the Company will review and analyze the implementation of the Continuing Connected Transactions in the annual reports of the Company to ensure that the Continuing Connected Transactions are fair and reasonable; and
- (vii) the Company will arrange compliance trainings by its legal adviser, external auditor or other external consultants for the Directors, senior management and staff from the relevant departments of the Company from time to time, primarily focusing on the rules relating to connected transactions under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

3. PROPOSED ADOPTION OF THE NEW SHARE SCHEME AND TERMINATION OF THE EXISTING SHARE OPTION SCHEME

3.1 Introduction

As the Existing Share Option Scheme will expire on 12 November 2024, the Board proposes to adopt the New Share Scheme to enable the Company to grant share options and/or share awards to selected eligible persons as incentives or rewards for their contribution or potential contribution to the development and long-term growth of the Group, as well as to attract and retain talents. The ability to grant share awards (in addition to share options) under the New Share Scheme is expected to provide greater flexibility to the Company to provide non-cash incentives to selected eligible persons as share awards may be granted at any or nil consideration. The Company may issue new Shares and/or utilize existing Shares and/or treasury shares (if any) to satisfy grants of the share awards and/or share options under the New Share Scheme.

In view of the amendments of Chapter 17 of the Listing Rules which took effect on 1 January 2023 and as the scheme mandate limit is required to apply to all share schemes of the Company, the Company proposes to terminate the Existing Share Option Scheme upon the adoption of the New Share Scheme.

The adoption of the New Share Scheme is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM. Application will be made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, the Shares which may fall to be issued and allotted by the Company in respect of the share options and share awards that may be granted pursuant to the New Share Scheme.

The Existing Share Option Scheme will, prior to the adoption of the New Share Scheme, remain in full force and effect. For details of the Existing Share Option Scheme, please refer to the section headed “Directors’ Report – Share Option Schemes” of the Company’s annual report for the year ended 31 December 2023.

On 5 June 2024, the Company granted a total of 10,280,000 share options (each carrying the right to subscribe for one Share) under the Existing Share Option Scheme (the “**June 2024 Options**”) to certain directors and employees of the Group. The June 2024 Options have an exercise price of HK\$3.518 per Share, and will vest in two tranches of 5,140,000 share options each subject to fulfillment of the Group’s corporate performance target for the financial year of 2024 and 2025, respectively. In addition, for each grantee of the June 2024 Options, if his or her performance appraisal result for the calendar year immediately preceding the exercise period falls below the required standard, his or her 2024 June Options (in whole or in part) may be cancelled. Details of the June 2024 Options are set out in the table below, and further details are set out in the Company’s announcements dated 5 and 7 June 2024.

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Grantee	Tranche	Number of June 2024 Options	Exercise price per Share	Vesting period	Exercise period
(A) Directors or chief executives of the Company or their respective associates					
Mr. Hu	First	87,500	HK\$3.518	5 June 2024 to 31 March 2025	1 April 2025 to 31 December 2025
	Second	87,500	HK\$3.518	5 June 2024 to 31 March 2026	1 April 2026 to 31 December 2026
Mr. Fan	First	87,500	HK\$3.518	5 June 2024 to 31 March 2025	1 April 2025 to 31 December 2025
	Second	87,500	HK\$3.518	5 June 2024 to 31 March 2026	1 April 2026 to 31 December 2026
Mr. Wang	First	90,000	HK\$3.518	5 June 2024 to 31 March 2025	1 April 2025 to 31 December 2025
	Second	90,000	HK\$3.518	5 June 2024 to 31 March 2026	1 April 2026 to 31 December 2026
Sub-total of (A)		<u>530,000</u>			
(B) Other grantees					
Employees of the Group	First	4,875,000	HK\$3.518	5 June 2024 to 31 March 2025	1 April 2025 to 31 December 2025
	Second	4,875,000	HK\$3.518	5 June 2024 to 31 March 2026	1 April 2026 to 31 December 2026
Sub-total of (B)		<u>9,750,000</u>			
Total of (A) and (B)		<u><u>10,280,000</u></u>			

As at the Latest Practicable Date:

- (i) save for the June 2024 Options, there are no outstanding share options granted under the Existing Share Option Scheme;
- (ii) the number of share options available for grant under the Existing Share Option Scheme is 68,070,130 (representing approximately 5.75% of the existing issued share capital of the Company); and
- (iii) the Board has no specific intention of granting any further share options under the Existing Share Option Scheme during the period from the Latest Practicable Date up to the date of the EGM.

A summary of the principal terms of the New Share Scheme is set out in Appendix II to this circular.

LETTER FROM THE BOARD

3.2 Purpose

The purpose of the New Share Scheme is set out in the paragraph headed “1. PURPOSE” in Appendix II to this circular.

3.3 Condition

The adoption of the Share Scheme is conditional upon the passing of an ordinary resolution to approve and adopt the New Share Scheme by the Shareholders in a general meeting of the Company.

3.4 Eligible Participants

The Eligible Participants and the criteria for determination of their eligibility are set out in the paragraph headed “3. ELIGIBLE PARTICIPANTS AND THE BASIS OF ELIGIBILITY” in Appendix II to this circular.

The Board (including the independent non-executive Directors) is of the view that the independent non-executive Directors should be included as Eligible Participants on the basis of the following:

- (i) the objectivity and independence of the independent non-executive Directors shall not be impaired by any potential grant of the Awards under the New Share Scheme based on the following reasons: (i) the independent non-executive Directors will be required to continue to comply with the independence requirement under Rule 3.13 of the Listing Rules; and (ii) approval by independent Shareholders will be required if any Award is to be granted to independent non-executive Directors or any of their respective associates which would result in the Shares issued and to be issued in respect of all options and awards granted to such person in the twelve (12)-month period up to and including the date of such grant representing in aggregate over 0.1% of the Shares in issue (excluding treasury shares);
- (ii) the inclusion of independent non-executive Directors as Employee Participants would provide the Group with flexibility to offer non-cash incentives to the independent non-executive Directors for their continuous contributions to the Group’s growth and development without compromising their objectivity and independence; and
- (iii) it is common to include independent non-executive directors as eligible persons of share schemes among public companies.

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The Board (including the independent non-executive Directors) is of the view that the criteria of selection of the Eligible Participants and the inclusion of independent non-executive Directors as Eligible Participants are fair and reasonable and align with the purpose of the New Share Scheme to recognise contributions made and to be made to the growth and development of the Group and the long-term interests of the Company and the Shareholders.

3.5 Vesting Period

The vesting period of the Awards is set out in the paragraph headed “5. VESTING PERIOD” in Appendix II. The paragraph also sets out circumstances in which the Board may grant Awards with a vesting period shorter than the Minimum Period. The paragraph headed “18. RIGHTS ON A CORPORATE TRANSACTION” in Appendix II to this circular further sets out circumstances in which the Board may in its discretion accelerate the vesting dates of Awards, which may result in a vesting period shorter than the Minimum Period.

The Board and the Remuneration Committee are of the view that (i) there are certain limited instances (for example in circumstances set out in the paragraphs headed “5. VESTING PERIOD” and “18. RIGHTS ON A CORPORATE TRANSACTION” of Appendix II to this circular) where a strict twelve (12)-month vesting requirement would not be fair to the holder(s) of the Awards; (ii) there is a need for the Company to retain flexibility to reward exceptional performers with accelerated vesting period or in exceptional circumstances where justified; and (iii) the Company should be allowed to formulate its own talent recruitment and retention strategies in response to changing market conditions and industry competition. It should have the flexibility to impose vesting conditions such as performance-based vesting conditions instead of time-based vesting criteria depending on individual circumstances.

As such, the Board and the Remuneration Committee are of the view that the circumstances when the vesting period is shorter than the Minimum Period prescribed in the paragraphs headed “5. VESTING PERIOD” and “18. RIGHTS ON A CORPORATE TRANSACTION” of Appendix II to this circular are appropriate and align with the purpose of the Share Scheme.

3.6 Maximum number of Shares subject to the New Share Scheme

The total number of Shares which may be issued (including any transfer of treasury shares of the Company) in respect of all Awards which may be granted under the New Share Scheme is set out in the paragraph headed “7. SCHEME LIMITS AND ADDITIONAL APPROVALS” in Appendix II to this circular.

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As at the Latest Practicable Date, the number of issued Shares is 1,184,538,475 Shares and the Company has no treasury share. Assuming that there will be no change in the number of issued Shares and the Company will not have any treasury share between the Latest Practicable Date and the Adoption Date, the total number of Shares which may be issued upon exercise of all Awards to be granted under the New Share Scheme together with all options and awards which may be granted under any other schemes for the time being of the Company would be 118,453,847 Shares, representing approximately 10% of the issued share capital of the Company (excluding treasury shares) on the date of approval of the New Share Scheme.

3.7 Performance targets and clawback mechanism

The Board may at its discretion specify any condition in the offer letter at the grant of the relevant Award, including condition(s) and/or performance target(s) that must be achieved before any of the Awards can be exercised, as well as the clawback mechanism for the Company to recover or withhold any Share Options or Share Awards granted to any Eligible Participants.

The Board (including the independent non-executive Directors) believes that this will provide the Board with more flexibility in setting out the terms and conditions of the Awards under particular circumstances of each grant and facilitate the Board to offer suitable incentives to attract and retain quality personnel that are valuable to the development of the Group. The Board (including the independent non-executive Directors) also considers that it may not always be appropriate to impose performance targets or prescribe a clawback mechanism particularly when the purpose of granting Awards is to motivate and incentivize employees, and it is impractical to expressly set out a generic set of performance targets in the New Share Scheme, as each Grantee will play different roles and contribute in diverse ways to the Group.

Specifically, the Board may, at its discretion, require at the time of grant any particular Grantee to achieve such performance targets as the Board may then specify in the grant before any Awards granted under the New Share Scheme to such Grantee can be exercised. If performance targets are imposed on a Grantee at the grant of the relevant Award, the Board will have regard to the purpose of the New Share Scheme in assessing the reasonableness and suitability of such performance targets, with reference to factors including but not limited to, as and when appropriate, sales performance (e.g. revenue), operating performance (e.g. operation efficiency) and financial performance (e.g. profits, cash flow, earnings, market capitalization and return on equity) of the Group, as well as corporate sustainability parameters (e.g. accuracy and timeliness in handling customer complaints and feedback and adherence to corporate culture), personal qualities (e.g. discipline, punctuality, integrity and compliance with internal procedures and controls) of the Grantee and individual performance (e.g. key performance indicator achievement) of the Grantee, the satisfaction of which shall be assessed and determined by the Board at its discretion.

LETTER FROM THE BOARD

Generally, the Company will also utilize its internal assessment system to appraise and evaluate whether the Eligible Participants will contribute to the long-term growth of the Group on a case-by-case basis. Specifically, the Eligible Participants' expected contribution will be considered with reference to factors including but not limited to their past contributions to the Group, the nature of job duties or services, position within or related to the Group and other features including geographical location, business strategy focus and corporate culture. Specific weightings will be given to the factors above in order to provide a fair and objective appraisal of the Eligible Participants before Awards will be granted, such that the grants will be on a fair and reasonable basis and in the interest of the Company and its Shareholders as a whole.

On the other hand, if a clawback mechanism is prescribed, at the Board's discretion, on a Grantee at the grant of the relevant Award, if the Grantee's employment has been terminated summarily, or if he or she has been convicted of any criminal offence involving his or her integrity or honesty, or has been involved in any wrongdoing that brings the Group into disrepute or causes damages to the Group (including but not limited to causing a material misstatement in the Company's financial statements), any outstanding Awards not yet vested shall be immediately forfeited, unless the Board determines otherwise at its discretion.

3.8 Others

As at the Latest Practicable Date, the Company has no concrete plans or specific intention to grant Awards under the Share Scheme immediately after its adoption.

The Company understands that the adoption of the New Share Scheme would not constitute an offer to public and would not be subject to the prospectus requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong).

None of the Directors is and will be a trustee of the New Share Scheme nor has a direct or indirect interest in the trustee.

The Company may issue new Shares and/or utilize existing Shares and/or treasury shares (if any) to satisfy grant(s) of the Award(s) under the New Share Scheme.

The Company will, where applicable, comply with the applicable requirements under Chapter 17 of the Listing Rules in respect of the operation of the New Share Scheme.

Save for the Existing Share Option Scheme which will be terminated upon the adoption of the New Share Scheme, the Company has no other share schemes to provide incentives to employees or other eligible participants.

LETTER FROM THE BOARD

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the Latest Practicable Date, no Shareholder had any material interest in the adoption of the New Share Scheme. Accordingly, no Shareholder is required to abstain from voting on the resolution approving the adoption of the New Share Scheme at the EGM.

A summary of the principal rules of the New Share Scheme is set out in Appendix II to this circular. A copy of the rules of the New Share Scheme will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.qtechsmartvision.com) for display for a period of not less than 14 days before the date of the EGM and the rules of the New Share Scheme will be made available for inspection at the EGM.

3.9 Application for Listing

Application will be made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, the Shares which may fall to be issued and allotted in respect of all share options and share awards that may be granted pursuant to the New Share Scheme.

4. THE EGM

The EGM will be convened and held at Room 901, 9/F, Block 4C, Software Industrial Base, Xuefu Road, Nanshan District, Shenzhen, the PRC on Friday, 28 June 2024 at 10:30 a.m. at which resolutions will be proposed (i) for the Independent Shareholders to consider and, if thought fit, pass the ordinary resolution approving the Supplemental Agreements and the transactions contemplated thereunder, including the adoption of the Revised Annual Caps; and (ii) for the Shareholders to consider and, if thought fit, pass the ordinary resolution approving the adoption of the New Share Scheme.

The notice of the EGM is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.qtechsmartvision.com).

Whether or not you intend to be present and vote at the EGM, you are requested to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investors Services Limited located at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjourned meeting. The completion and return of a form of proxy will not preclude you from attending and voting in person at the EGM or its adjournment (as the case may be) should you so wish. If you attend and vote at the EGM in person, the authority of your proxy will be revoked.

LETTER FROM THE BOARD

5. CLOSURE OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 25 June 2024 to Friday, 28 June 2024, both days inclusive, during which period no share transfers can be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of Shares should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investors Services Limited located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 24 June 2024.

6. RECOMMENDATIONS

6.1 Adoption of the Revised Annual Caps

Your attention is drawn to the letter from the Independent Board Committee set out on pages 37 to 38 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM regarding the proposed adoption of the Revised Annual Caps. The Independent Board Committee comprised all the independent non-executive Directors, namely Mr. Chu Chia-Hsiang, Mr. Ko Ping Keung and Ms. Hui Hiu Ching, who have not been involved or interested in, directly or indirectly, the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) and the adoption of the Revised Annual Caps.

Your attention is also drawn to the letter from Gram Capital set out on pages 39 to 64 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) and the adoption of the Revised Annual Caps, and the principal factors and reasons taken into consideration in arriving at its advice.

The Directors (including the members of the Independent Board Committee whose opinion have been set forth in the "Letter from the Independent Board Committee" of this circular after having been advised by Gram Capital in this regard) consider that: (i) the transactions contemplated under the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) are conducted on normal commercial terms which are no less favourable to the Group than those available from Independent Third Parties, are entered into in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the Revised Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the members of the Independent Board Committee whose opinion have been set forth in the "Letter from the Independent Board Committee" of this circular after having been advised by Gram Capital in this regard) recommend the Independent Shareholders to vote in favour of the resolution no. 1 to be proposed at the EGM and as set out in the EGM Notice to approve the adoption of the Revised Annual Caps. You are advised to read the letter from the Independent Board Committee and the letter from Gram Capital mentioned above before deciding how to vote on the resolution no. 1 to be proposed at the EGM and as set out in the EGM Notice.

LETTER FROM THE BOARD

6.2 Adoption of the New Share Scheme

The Directors consider that the proposed adoption of the New Share Scheme referred to in this circular are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution no. 2 to be proposed at the EGM and as set out in the EGM Notice.

7. GENERAL

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

Yours faithfully,
By order of the Board
Q Technology (Group) Company Limited
He Ningning
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation from the Independent Board Committee, prepared for the purpose of inclusion in this circular from the Independent Board Committee to the Independent Shareholders regarding the adoption of the Revised Annual Caps.



Q Tech

Q TECHNOLOGY (GROUP) COMPANY LIMITED

丘鈦科技(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1478)

12 June 2024

To the Independent Shareholders,

Dear Sir or Madam,

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 12 June 2024 (the “**Circular**”) issued by the Company to the Shareholders of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) and the adoption of the Revised Annual Caps are fair and reasonable, and whether the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote on resolution no. 1 at the EGM, after taking into account the recommendations of Gram Capital.

Gram Capital has been appointed by the Board as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements), the transactions contemplated thereunder and the adoption of the Revised Annual Caps. Details of the advice from Gram Capital, together with the reasons for its opinion, the key assumptions made and the principal factors taken into consideration in arriving at such advice, are set out in its letter on pages 39 to 64 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Your attention is also drawn to the letter from the Board set out on pages 10 to 36 of the Circular and the additional information set out in the appendix to the Circular.

Having considered the information as set out in the letter from the Board, the terms of the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder, the factors and reasons considered by, and the opinion of Gram Capital as set out in its letter of advice, we are of the view that (i) the terms of the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder are fair and reasonable, and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) the Revised Annual Caps for the three years ending 31 December 2026 under each of the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution no. 1 to be proposed at the EGM and as set out in the EGM Notice in relation to the adoption of the Revised Annual Caps.

Yours faithfully

For and on behalf of the Independent Board Committee of

Q Technology (Group) Company Limited

Mr. Chu Chia-Hsiang

Independent non-executive
Director

Mr. Ko Ping Keung

*Independent non-executive
Director*

Ms. Hui Hiu Ching

*Independent non-executive
Director*

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Annual Caps Revisions for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

12 June 2024

To: *The independent board committee and the independent shareholders
of Q Technology (Group) Company Limited*

Dear Sir/Madam,

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed revision of annual caps under the Continuing Connected Transaction Agreements (the “**Annual Caps Revisions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 12 June 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 18 December 2023, the Company entered into the Continuing Connected Transaction Agreements, pursuant to which, the Company will from time to time (i) purchase, or procure its subsidiaries to purchase (A) the VCM Components from Heyuan Youhua and/or its subsidiaries (the “**Heyuan Youhua Transactions**”); and (B) the PCBs from Huangshi C-Flex Electronic and/or its subsidiaries (the “**Huangshi C-Flex Electronic Transactions**”); and (ii) supply or procure its subsidiaries to supply the Automated Equipment and Software to Xiamen Zhonghui and/or its subsidiaries/or designated agents (if any)(the “**Xiamen Zhonghui Transactions**”), during the period from 1 January 2024 to 31 December 2026 (both days inclusive).

LETTER FROM GRAM CAPITAL

Based on the latest information available to the Company, including the Group's projected demand for the VCM Components and the PCBs supplied by Heyuan Youhua and Huangshi C-Flex Electronic, respectively and Xiamen Zhonghui's projected demand for the Automated Equipment and Software supplied by the Group, as well as the Group's customer orders on hand and successful tenders on customers' smartphone and automotive vehicle production projects as of 30 April 2024, it is expected that the existing annual caps in respect of the transactions contemplated under the Continuing Connected Transaction Agreements for the three years ending 31 December 2026 will not be sufficient. Accordingly, on 20 May 2024, the Company entered into the Supplemental Agreements to revise the respective annual caps for the transactions contemplated under the Continuing Connected Transaction Agreements for the three years ending 31 December 2026, subject to approval by the Independent Shareholders at the EGM.

With reference to the Board Letter, the Annual Caps Revisions are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Chu Chia-Hsiang, Mr. Ko Ping Keung and Ms. Hui Hiu Ching (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Annual Caps Revisions are on normal commercial terms and are fair and reasonable; (ii) whether the Annual Caps Revisions are in the interests of the Company and the Shareholders as a whole and conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Annual Caps Revisions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser in relation to the Company's proposed spin-off, details of which were set out in the Company's circular dated 8 December 2022. Save for the aforesaid engagement, there was no other service provided by Gram Capital to the Company relating to any transaction of the Company during the past two years immediately preceding the Latest Practicable Date.

Notwithstanding the aforesaid engagement, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

LETTER FROM GRAM CAPITAL

Having considered the above and that (i) none of the circumstances as set out under the Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagement was only independent financial advisory engagement and will not affect our independence to act as the Independent Financial Adviser, we are of the view that we are independent to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, 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. We have assumed that all information and representations that have been provided by the Directors, for which they 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 Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Annual Caps Revisions. 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 Rule 13.80 of the Listing Rules.

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

LETTER FROM GRAM CAPITAL

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, conducted any independent in-depth investigation into the business and affairs of the Company, Heyuan Youhua, Huangshi C-Flex, Xiamen Zhonghui or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Annual Caps Revisions. 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.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources and such sources are reliable.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Annual Caps Revisions, we have taken into consideration the following principal factors and reasons:

Information on the Group

With reference to the Board Letter, the Group is principally engaged in the design, research and development, manufacture and sales of camera modules and fingerprint recognition modules, with a focus on mid-to-high end camera modules and fingerprint recognition modules markets for intelligent mobile terminals such as global smartphone and tablet brands, Internet of Things (IoT) and smart vehicles. At the same time, the Group is also engaged in the research and development, production, sales and after-sales service of automated equipment and software.

Reasons for and benefits of the Annual Caps Revisions

Certain reasons for and benefits of the Annual Caps Revisions are set out under the section headed “2.4 Reasons for and benefits of entering into the Supplemental Agreements and adoption of the Revised Annual Caps” of the Board Letter.

LETTER FROM GRAM CAPITAL

As mentioned above, the principal activities of the Group are manufacturing and sales of camera modules and fingerprint recognition modules for mobile phones, automobiles, Internet of Things (IoT) and other intelligent mobile terminals. According to the Company's annual report (the "**2023 Annual Report**") for the year ended 31 December 2023 ("**FY2023**"), revenue generated from camera modules accounted for approximately 92% of total revenue for FY2023 (for the year ended 31 December 2022 ("**FY2022**"): approximately 91%) and revenue generated from fingerprint recognition modules accounted for approximately 6% of total revenue for FY2023 (FY2022: approximately 8%).

As advised by the Directors, both VCM Components and PCBs (i.e. products under the Heyuan Youhua Purchase Agreement and the Huangshi C-Flex Electronic Purchase Agreement) will be used as materials for the production of camera modules and/or fingerprint recognition modules, the revenue generated from which accounted for a very significant proportion to the Group's revenue for FY2022 and FY2023. Therefore, the stable supply of VCM components and PCBs is crucial to the Group's production.

In addition, as stated in the Board Letter, Xiamen Zhonghui is a leading intelligent manufacturing company in the industry, which is engaged in the research and development, manufacture and sales of periscope motors and optical image stabilization motors and other relevant motors, and is in good business development. The cooperation with Xiamen Zhonghui would strengthen the Group's understanding and practice in semi-automated and automated equipment production lines with optical automated inspection and algorithm integration as the focus, which would in turn further enhance the Group's ability to design, develop and manufacture automated equipment with optical automated inspection and algorithm integration as the focus.

Based on the latest information available to the Company, including the Group's projected demand for the VCM Components supplied by Heyuan Youhua and the PCBs supplied by Huangshi C-Flex Electronic, respectively and Xiamen Zhonghui's projected demand for the Automated Equipment and Software supplied by the Group, it is expected that the existing annual caps in respect of the transactions contemplated under the Continuing Connected Transaction Agreements for the three years ending 31 December 2026 will not be sufficient.

Having considered that (i) VCM Components and PCBs are purchased for the Group's manufacture of major products; (ii) benefits of the cooperation between the Group and Xiamen Zhonghui as mentioned above; and (iii) it is anticipated that the existing annual caps will not be sufficient which in turn led to the need to revise the existing annual caps to cater for future growth of the Group and our analysis on the fairness of the Revised Annual Caps as discussed below, we are of the view that the Annual Caps Revisions are the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

LETTER FROM GRAM CAPITAL

A. THE HEYUAN YOUHUA SUPPLEMENTAL AGREEMENT

Information on Heyuan Youhua

With reference to the Board Letter, Heyuan Youhua is principally engaged in the development, production and sales of auto-focusing voice coil motors, linear motors, precise electronic products, domestic trade, import and export of goods and technologies.

Heyuan Youhua is owned as to approximately 0.25% and approximately 0.99% by Mr. Hu and Mr. Fan, respectively, both of whom are executive Directors of the Company, and as to approximately 66.11% by Westalgo Great China (a wholly-owned subsidiary of QT Investment, the controlling shareholder of the Company, which in turn is owned as to 100% by Mr. He) and as to approximately 18.01% by Shenzhen Handi (a company wholly-owned by Shenzhen CK, which in turn is owned as to 90% by Mr. He and 10% by Mr. Wang). The remaining 14.64% interests of Heyuan Youhua are owned by Independent Third Parties. Accordingly, Heyuan Youhua is a connected person of the Company under the Listing Rules.

Principal terms of the Heyuan Youhua Transactions

Set out below are the principal terms of the Heyuan Youhua Transactions (as supplemented by the Heyuan Youhua Supplemental Agreement), details of which are set out under the section headed “2.1 The Heyuan Youhua Supplemental Agreement” of the Board Letter:

Date:	20 May 2024
Parties:	(i) the Company (for itself and on behalf of its subsidiaries); and (ii) Heyuan Youhua (for itself and on behalf of its subsidiaries)
Term:	From 1 January 2024 to 31 December 2026 (both days inclusive)
Subject matter:	Pursuant to the Heyuan Youhua Purchase Agreement, the Group will from time to time purchase, and Heyuan Youhua and/or its subsidiaries will from time to time supply to the Group electronic components, such as open-loop motors, closed-loop motors, bi-directional voice coil motors, motors for periscope camera modules, optical image stabilization motors, variable aperture motors, etc. (i.e. VCM Components) in the ordinary and usual course of business.

LETTER FROM GRAM CAPITAL

Pricing policies

With reference to the Board Letter, the price of the VCM Components will be determined with reference to the price at which comparable types of electronic components are sold to the Group by suppliers which are Independent Third Parties on normal commercial terms and in the ordinary and usual course of business and such price shall be no less favourable to the Group than that available from suppliers which are Independent Third Parties. In considering whether to purchase from Heyuan Youhua, the Group will seek quotations from at least two suppliers which are Independent Third Parties offering the same or comparable products. The Group will purchase the VCM Components from Heyuan Youhua if the price and quality of the products offered are comparable to or more favourable to the Group than those offered by such Independent Third Parties for the same or comparable products.

To assess the fairness of the pricing policy, we conducted independent research based on the following criteria:

- (i) continuing connected transactions conducted by other companies listed on the Stock Exchange involving purchase or sale of materials/products/services from/to their connected persons; and
- (ii) the transactions announced from 21 April 2024 to 20 May 2024 (being approximate one month period immediately prior to the date of Supplemental Agreements).

Based on the aforesaid selection criteria, we found over 15 transactions and noted that comparing prices with those offered by/to independent third parties for the same/similar product/service is one of the commonly adopted pricing policies. Therefore, we consider that the pricing policies contemplated under the Heyuan Youhua Purchase Agreement are fair and reasonable.

The Company adopted certain internal control policies and procedures to ensure that the transactions contemplated under the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) are conducted on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as whole. Details of the internal control policies and procedures are set out under the section headed “2.8 Internal control” of the Board Letter. Having considered that there will be quotations and comparison procedures for transactions in relation to the purchase of products from related parties, we consider that the effective implementation of the internal control measures will ensure the fair pricing of Heyuan Youhua Purchase Agreement.

LETTER FROM GRAM CAPITAL

For our due diligence purpose, we obtained from the Company a set of invoices (comprising one invoice from Heyuan Youhua and one invoice from independent third party) for each of the four months ended 30 April 2024 (“the “4M2024”) (i.e. four sets of invoices or eight copies of invoices in total). As the aforesaid invoices indicated the transactions in each month during 4M2024, we consider the number of sampled invoices is sufficient for our analyses purposes. After reviewing the four sets of invoices, we noted that the prices offered by Heyuan Youhua to the Group were no less favourable than those offered by independent third parties to the Group for the same type of products.

Furthermore, we noted from the internal control procedures that the finance department will maintain monthly statistics on the transaction amounts of the Continuing Connected Transactions, and will communicate with the sales and purchase department of the Group in time for possible future changes in the maximum amount of each Continuing Connected Transaction and reasons for such changes. If the cumulative actual transaction amount of the Continuing Connected Transactions reaches certain thresholds, further action will be taken. We also noted that the previous annual caps for the three years ended 31 December 2023 were not exceeded.

Upon our request, we obtained the internal control document of the Heyuan Youhua Transactions. After reviewing the document, we acknowledged that the contents of internal control document contained all relevant procedures for both fair pricing measures and annual cap monitoring measure for the Heyuan Youhua Transactions as disclosed in the Board Letter. In addition, the Company also provided us supporting document, showing that the Board of Directors Office of the Company provided the internal control document to all relevant departments and required such departments to follow the internal control measures as contained in the document. Based on (i) the aforesaid; (ii) our review results on invoices and previous annual caps for the three years ended 31 December 2023; and (iii) the Company’s intention to amend its existing annual caps for the three years ending 31 December 2026 based on current situations, we do not doubt the effectiveness of the implementation of the internal control measures.

LETTER FROM GRAM CAPITAL

Proposed annual caps

The table below demonstrates (i) the existing annual caps of Heyuan Youhua Transactions (the “**Existing Heyuan Youhua Caps**”); and (ii) the revised annual caps of Heyuan Youhua Transactions (the “**Revised Heyuan Youhua Caps**”) for the three years ending 31 December 2026:

	For the year ending 31 December 2024 (the “FY2024”) RMB’million	For the year ending 31 December 2025 (the “FY2025”) RMB’million	For the year ending 31 December 2026 (the “FY2026”) RMB’million
Historical transaction amount	70.9 <i>(Note)</i>	N/A	N/A
Existing Heyuan Youhua Caps	120	120	120
Utilisation rate	Undetermined	N/A	N/A
	For the year ending 31 December 2024 RMB’million	For the year ending 31 December 2025 RMB’million	For the year ending 31 December 2026 RMB’million
Revised Heyuan Youhua Caps	280	280	280

Note: the figure was for the 4M2024.

The basis for determining the Revised Heyuan Youhua Caps is set out under the sub-section headed “Basis of determination of the revised annual caps” of the section headed “2.1 The Heyuan Youhua Supplemental Agreement” of the Board Letter.

Based on the above table, the historical transaction amount of Heyuan Youhua Transactions for 4M2024 was approximately RMB70.9 million. The annualised amount of Heyuan Youhua Transactions for FY2024 was approximately RMB212.7 million, which exceeded the Existing Heyuan Youhua Caps of RMB120 million.

In addition, the Revised Heyuan Youhua Caps represent an increase of approximately 70.9% as compared to the historical transaction amount of Heyuan Youhua Transactions for FY2023. Upon our further enquiry, the Directors advised that the historical transaction amount of Heyuan Youhua Transactions for the four months ended 30 April 2023 (“**4M2023**”) was approximately RMB30.8 million. The historical transaction amount of Heyuan Youhua Transactions for 4M2024 represented an increase of approximately 130.0% as compared to that for 4M2023.

LETTER FROM GRAM CAPITAL

As mentioned above, VCM Components will be used as materials for the production of camera modules. With reference to the Company's voluntary announcements dated 9 May 2024 and 10 May 2023 in relation to the Group's total sales volumes of major products, the total sales volume of camera modules for 4M2024 represented an increase of approximately 28.6% as compared to that for 4M2023.

We further obtained from the Company the historical price of VCM Components offered by Heyuan Youhua to its customers and noted that the average price of VCM Components for 4M2024 represents an increase of approximately 19.0% as compared to that for 4M2023.

Based on the above and on the assumption that the demand of VCM Components is in line with the sales volume of camera modules, the comprehensive impact on transaction amounts of VCM Components for 4M2024 would be an increase of approximately 53.0%. Despite the aforesaid comprehensive impact (i.e. an increase of approximately 53.0%) was less than the increase between the Revised Heyuan Youhua Caps and historical transaction of Heyuan Youhua Transactions for FY2023 (i.e. approximately 70.9%), it is noteworthy to mention that the average monthly price of VCM Components fluctuated during the period from January 2023 to April 2024, with difference of approximately over 100% between the maximum average monthly price and minimum average monthly price of VCM Components during the aforesaid period.

Based on the above, we are of the view that the Revised Heyuan Youhua Cap for FY2024 is fair and reasonable.

We also noted that the Revised Heyuan Youhua Caps for FY2025 and FY2026 are same as that for FY2024.

Although the historical transaction amount of Heyuan Youhua Transactions fluctuated for the three years ended 31 December 2023 (i.e. RMB79.9 million, RMB39.4 million and RMB163.9 million), we are of the view that it is acceptable for the Revised Heyuan Youhua Caps for FY2025 and FY2026 to be same as that for FY2024 after considering the followings factors:

- The trend of Revised Heyuan Youhua Caps for the three years ending 31 December 2026 are the same as the trend of existing annual caps for the three years ending 31 December 2026;
- VCM Components will be used for manufacturing of the Group's camera modules products, which accounted for approximately 92% of the Group's total revenue for FY2023 (FY2022: approximately 91%).

LETTER FROM GRAM CAPITAL

With reference to the Company's annual report for FY2022, the Group's revenue for FY2022 represented a decrease of approximately 26.3% as compared to that for FY2021, which was mainly because that (i) under the impact of the recurrence of COVID-19 pandemic and the slowdown in global economic growth, the global smartphone market, especially high-end models, was in poor demand, and the sales volume of the camera modules and fingerprint recognition modules applied to smartphone reported a year-on-year decline of approximately 12.4% and 2.7%, respectively; and (ii) the decline in proportion of high-specification products of the camera modules and fingerprint recognition modules applied to smartphone resulted in a year-on-year decline in average unit sales price of the camera modules and fingerprint recognition modules of approximately 15.8% and 34.8%, respectively.

With reference to 2023 Annual Report, the Group's revenue for FY2023 represented a decrease of approximately 8.9% as compared to that for FY2022, which was mainly due to the impact of macro factors, the sales volume of smartphones worldwide dropped in FY2023 as compared with that of FY2022, resulting in a decrease in the demand for camera modules and fingerprint recognition modules applied to smartphones, and the sales volume of the Group's camera modules declined by approximately 11.9% year-on-year.

Notwithstanding the above, as stated in the 2023 Annual Report, in 2024, global macro situation remains confusing, with both challenges and opportunities. The "World Economic Outlook Report" released by IMF on 30 January 2024 indicates the growth rate of the global economy to be 3.1% in 2024, representing an increase of 0.2 percentage points from the 2.9% forecast made in October 2023. The IMF continued to be optimistic about the growth momentum in China, the United States and various emerging markets and developing economies, and the global economic growth rate is expected to be 3.2% in 2025, with a stable mid-term development trend. Meanwhile, the IMF raised its forecast for China's economic growth in 2024 to 4.6%, representing an increase of 0.4 percentage point from the 4.2% forecast made in October 2023, to reflect the continuation of the higher-than-expected growth momentum of China's economy in 2023 and the driving force of the relevant policies introduced by the Chinese government. The resilience of economic growth will help restore the confidence of various industries and consumers, which will benefit the increased demand for consumer goods such as smart phones, smart cars and IoT terminals, and leading companies in these sectors will continue to enjoy better development opportunities.

LETTER FROM GRAM CAPITAL

The recovery of demand in industries such as smartphones, meta-universes and IoT intelligent terminals and the rapid growth of the smart car industry will bring impetus to the growth in the number of camera modules and fingerprint recognition modules. Meanwhile, the restoration of consumer purchasing power and consumer confidence is conducive to the sales of high-end mobile phones, thereby bringing positive help to camera modules and fingerprint recognition modules to get back on track with specification upgrades.

- According to publicly available information, a report in April 2024 from International Data Corporation (the “**IDC**”), an independent third-party research organization, stated that the global smartphone shipment volume in first quarter of 2024 was approximately 289.4 million units, which represented a year-on-year increase of approximately 7.8%. Although the industry is still facing challenges, the continuously growth in global smartphone shipment volume for the last three quarters indicated the recovering of the industry.
- With reference to the Board Letter, periscope camera modules, which are technically more advanced than typical camera modules and have a higher per unit price, are increasingly used in high-end smartphones, including Apple’s iPhone 15 Pro Max that was debuted in September 2023 and Huawei’s Pure 70 series that was first marketed in April 2024. The latest product trend is expected to drive the demand for motors for periscope camera modules and PCBs.

In light of the above factors, we consider that the Revised Heyuan Youhua Caps for FY2025 and FY2026 are fair and reasonable.

Shareholders should note that as the Revised Heyuan Youhua Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2026, and they do not represent forecasts of cost to be incurred from the Heyuan Youhua Transactions. Consequently, we express no opinion as to how closely the actual cost to be incurred from the Heyuan Youhua Transactions will correspond with the Revised Heyuan Youhua Caps.

Our conclusion

Having reviewed and considered the terms of the Heyuan Youhua Transactions in particular the key terms as listed above (including the pricing policy and Revised Heyuan Youhua Caps for the three years ending 31 December 2026 being fair and reasonable; and no abnormal term observed), we are of the view that the terms of the Heyuan Youhua Supplemental Agreement are on normal commercial terms and are fair and reasonable.

LETTER FROM GRAM CAPITAL

B. THE HUANGSHI C-FLEX ELECTRONIC SUPPLEMENTAL AGREEMENT

Information on Huangshi C-Flex Electronic

With reference to the Board Letter, Huangshi C-Flex Electronic is principally engaged in the production, development and sales of self-produced mobile phones, mobile communications systems, communications terminals, digital electronic systems, portable micro calculators, precision moulds, new electronic components, third generation mobile communications systems mobile phones, flexible printed circuit boards and relevant parts and auxiliary products.

Huangshi C-Flex Electronic is wholly-owned by Shenzhen Handi, a wholly-owned subsidiary of Shenzhen CK, which in turn is owned as to 90% by Mr. He and as to 10% by Mr. Wang. Accordingly, Huangshi C-Flex Electronic is a connected person of the Company under the Listing Rules.

Principal terms of the Huangshi C-Flex Electronic Transactions

Set out below are the principal terms of the Huangshi C-Flex Electronic Transactions (as supplemented by the Huangshi C-Flex Electronic Supplemental Agreement), details of which are set out under the section headed “2.2 The Huangshi C-Flex Electronic Supplemental Agreement” of the Board Letter:

Date:	20 May 2024
Parties:	(i) the Company (for itself and on behalf of its subsidiaries); and (ii) Huangshi C-Flex Electronic (for itself and on behalf of its subsidiaries)
Term:	From 1 January 2024 to 31 December 2026 (both days inclusive)
Subject matter:	Pursuant to the Huangshi C-Flex Electronic Purchase Agreement, the Group will from time to time purchase, and Huangshi C-Flex Electronic and/or its subsidiaries will from time to time supply to the Group flexible printed circuit boards and rigid-flex printed circuit boards (i.e. the PCBs) in the ordinary and usual course of business.

LETTER FROM GRAM CAPITAL

Pricing policies

With reference to the Board Letter, the price of the PCBs will be determined with reference to the price at which comparable types of the PCBs are sold to the Group by suppliers which are Independent Third Parties on normal commercial terms and in the ordinary and usual course of business and such price shall be no less favourable to the Group than that available from suppliers which are Independent Third Parties. In considering whether to purchase the PCBs from Huangshi C-Flex Electronic, the Group will seek quotations from at least two suppliers which are Independent Third Parties offering the same or comparable products. The Group will purchase the PCBs from Huangshi C-Flex Electronic if the price and quality of the products offered are comparable to or more favourable to the Group than those offered by such Independent Third Parties for the same or comparable products.

To assess the fairness of the pricing policy, we conducted independent research based on the following criteria:

- (i) continuing connected transactions conducted by other companies listed on the Stock Exchange involving purchase or sale of materials/products/services from/to their connected persons; and
- (ii) the transactions announced from 21 April 2024 to 20 May 2024 (being approximate one month period immediately prior to the date of Supplemental Agreements).

Based on the aforesaid selection criteria, we found over 15 transactions and noted that comparing prices with those offered by/to independent third parties for the same/similar product/service is one of the commonly adopted pricing policies. Therefore, we consider that the pricing policies of the Huangshi C-Flex Electronic Transactions are fair and reasonable.

The Company adopted certain internal control policies and procedures to ensure that the transactions contemplated under the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) are conducted on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as whole. Details of the internal control policies and procedures are set out under the section headed “2.8 Internal control” of the Board Letter. Having considered that there will be quotations and comparison procedures for transactions in relation to the purchase of products from related parties, we consider that the effective implementation of the internal control measures will ensure the fair pricing of the Huangshi C-Flex Electronic Transactions.

LETTER FROM GRAM CAPITAL

For our due diligence purpose, we obtained from the Company a set of invoices (comprising one invoice from Huangshi C-Flex Electronic and one invoice from independent third party) for each of February 2024 to April 2024 (i.e. three sets of invoices or six copies of invoices in total). As the aforesaid invoices indicated the transactions in most of months during 4M2024, we consider the number of sampled invoices is sufficient for our analyses purposes. After reviewing the aforesaid three sets of invoices, we noted that the prices offered by Huangshi C-Flex Electronic to the Group were no less favourable than those offered by independent third parties to the Group for the same type of products.

Furthermore, we noted from the internal control procedures that the finance department will maintain monthly statistics on the transaction amounts of the Continuing Connected Transactions, and will communicate with the sales and purchase department of the Group in time for possible future changes in the maximum amount of each Continuing Connected Transaction and reasons for such changes. If the cumulative actual transaction amount of the Continuing Connected Transactions reaches certain thresholds, further action will be taken. We also noted that the previous annual caps for the three years ended 31 December 2023 were not exceeded.

Upon our request, we obtained the internal control document of the Huangshi C-Flex Electronic Transactions. After reviewing the document, we acknowledged that the contents of internal control document contained all relevant procedures for both fair pricing measures and annual cap monitoring measure for the Huangshi C-Flex Electronic Transactions as disclosed in the Board Letter. In addition, the Company also provided us supporting document, showing that the Board of Directors Office of the Company provided the internal control document to all relevant departments and required such departments to follow the internal control measures as contained in the document. Based on (i) the aforesaid; (ii) our review results on invoices and previous annual caps for the three years ended 31 December 2023; and (iii) the Company's intention to amend its existing annual caps for the three years ending 31 December 2026 based on current situations, we do not doubt the effectiveness of the implementation of the internal control measures.

LETTER FROM GRAM CAPITAL

Proposed annual caps

The table below demonstrates (i) the existing annual caps the Huangshi C-Flex Electronic Transactions (the “**Existing Huangshi Caps**”); and (ii) the revised annual caps the Huangshi C-Flex Electronic Transactions (the “**Revised Huangshi Caps**”) for the three years ending 31 December 2026:

	For the year ending 31 December 2024 <i>RMB'million</i>	For the year ending 31 December 2025 <i>RMB'million</i>	For the year ending 31 December 2026 <i>RMB'million</i>
Historical transaction amount	58.9 <i>(Note)</i>	N/A	N/A
Existing Huangshi Caps	90	90	90
	For the year ending 31 December 2024 <i>RMB'million</i>	For the year ending 31 December 2025 <i>RMB'million</i>	For the year ending 31 December 2026 <i>RMB'million</i>
Revised Huangshi Caps	200	200	200

Note: the figure was for the 4M2024

The basis for determining the Revised Huangshi Caps is set out under the sub-section headed “Basis of determination of the revised annual caps” of the section headed “2.2 The Huangshi C-Flex Electronic Supplemental Agreement” of the Board Letter.

LETTER FROM GRAM CAPITAL

Based on the above table, the historical transaction amount of Huangshi C-Flex Electronic Transactions for 4M2024 was approximately RMB58.9 million. The annualised amount of the Huangshi C-Flex Electronic Transactions for FY2024 was approximately RMB176.7 million, which exceeded the Existing Huangshi Caps of RMB90 million.

In addition, the Revised Huangshi Caps represent an increase of approximately 46.3% as compared to the historical transaction amount of Huangshi C-Flex Electronic Transactions for FY2023.

Upon our further enquiry, the Directors advised that the historical transaction amount of Huangshi C-Flex Electronic for 4M2023 was approximately RMB31.5 million. The historical transaction amount of Huangshi C-Flex Electronic Transactions for 4M2024 represented an increase of approximately 86.7% as compared to that for 4M2023.

As mentioned above, PCBs will be used as materials for the production of camera modules and fingerprint recognition modules. With reference to the Company's voluntary announcements dated 9 May 2024 and 10 May 2023 in relation to the Group's total sales volumes of major products, the total sales volume of (i) camera modules for 4M2024 represented an increase of approximately 28.6% as compared to that for 4M2023; and (ii) fingerprint recognition modules for 4M2024 represented an increase of approximately 7.6% as compared to that for 4M2023.

We further obtained from the Company the historical price of PCBs offered by Huangshi C-Flex Electronic to its customers and noted that the average price of PCBs for 4M2024 represents an increase of approximately 21.2% as compared to that for 4M2023.

Based on the above and on the assumption that the demand of PCBs is in line with the sales volume of camera modules/fingerprint recognition modules, the comprehensive impact on transaction amounts of PCBs for 4M2024 would be an increase of approximately 55.8% (based on sales volume of camera modules); or an increase of approximately 30.4% (based on sales volume of fingerprint recognition modules). Having also considered that sale volume of camera modules accounted for approximately 80.6% of total sales volume of camera modules and fingerprint recognition modules), the comprehensive impact would be an increase of approximately 50.9% on a weighted average basis. The increase in Revised Huangshi Caps as compared to the historical transaction amount of Huangshi C-Flex Electronic Transactions for FY2022 (i.e. 46.3%) was close to the aforesaid implied growth (i.e. 50.9%).

Based on the above, we are of the view that the Revised Huangshi C-Flex Electronic Cap for FY2024 is fair and reasonable.

We also noted that the Revised Huangshi Caps for FY2025 and FY2026 are the same as that for FY2024.

LETTER FROM GRAM CAPITAL

Having considered the followings factors:

- The trend of Revised Huangshi Caps for the three years ending 31 December 2026 is same as the trend of Existing Huangshi Caps for the three years ending 31 December 2023;
- the historical transaction amounts of Huangshi C-Flex Electronic Transactions for FY2022 and FY2023 were at similar level (i.e. RMB120.4 million and RMB136.7 million respectively); and
- the indication on the recovering of global smartphone industry,

we are of the view that the Revised Huangshi Caps for FY2025 and FY2026 are fair and reasonable.

Shareholders should note that as the Revised Huangshi Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2026, and they do not represent forecasts of cost to be incurred from the Huangshi C-Flex Electronic Transactions. Consequently, we express no opinion as to how closely the actual cost to be incurred from the Huangshi C-Flex Electronic Transactions will correspond with the Revised Huangshi Caps.

Our conclusion

Having reviewed and considered the terms of the Huangshi C-Flex Electronic Transactions in particular the key terms as listed above (including the pricing policy and Revised Huangshi Caps for the three years ending 31 December 2026 being fair and reasonable; and no abnormal term observed), we are of the view that the terms of the Huangshi C-Flex Electronic Supplemental Agreement are on normal commercial terms and are fair and reasonable.

C. THE XIAMEN ZHONGHUI SUPPLEMENTAL AGREEMENT

Information on Xiamen Zhonghui

With reference to the Board Letter, Xiamen Zhonghui is principally engaged in the research and development, manufacture and sales of optoelectronic components such as periscope motors and optical image stabilization motors.

Xiamen Zhonghui is owned as to (i) 13.35% by certain Independent Third Parties; and (ii) 86.65% by Hangzhou CK. Hangzhou CK is wholly-owned by CK Telecom Asia, which is wholly-owned by Mr. He. Accordingly, Xiamen Zhonghui is a connected person of the Company under the Listing Rules.

LETTER FROM GRAM CAPITAL

Principal terms of the Xiamen Zhonghui Supplemental Agreement

Set out below are the principal terms of the Xiamen Zhonghui Transactions (as supplemented by the Xiamen Zhonghui Supplemental Agreement), details of which are set out under the section headed “2.3 The Xiamen Zhonghui Supplemental Agreement” of the Board Letter:

Date:	20 May 2024
Parties:	(i) the Company (for itself and on behalf of its subsidiaries); and (ii) Xiamen Zhonghui (for itself and on behalf of its subsidiaries)
Term:	From 1 January 2024 to 31 December 2026 (both days inclusive)
Subject matter:	Pursuant to the Xiamen Zhonghui Purchase Agreement, the Group will from time to time supply, and Xiamen Zhonghui and/or its subsidiaries will from time to time purchase from the Group semi-automated and automated equipment and related software, algorithms and after-sales services (i.e. Automated Equipment and Software) in the ordinary and usual course of business.

Pricing policies

With reference to the Board Letter, the price of the Automated Equipment and Software will be determined with reference to the cost of raw materials, production costs of the Group’s Automated Equipment and Software and profit margin, and with reference to the cost of materials and manpower required in the after-sale services and profit margin, which is expected to be comparable to the level of profit to be derived from the sales to the customers who are Independent Third Parties, subject to adjustments based on the expected quantity, quality, delivery schedule, specifications and market competition. It is envisaged that from time to time and as required, the Group will provide quotation and estimated delivery time of the specific products to Xiamen Zhonghui according to factors such as the specification and delivery schedule of the Automated Equipment and Software required to be purchased by Xiamen Zhonghui by comprehensively considering the factors such as cost of raw materials, production time, development time, the comparable price of the same or similar products selling to two or more Independent Third Parties, the expected gross profit margin of the same or similar products selling to Independent Third Parties, settlement period, and scale of order of specific products. After acceptance of the quotation and estimated delivery time, Xiamen Zhonghui will place order(s) to the Group or sign specific contract(s) for the purchase of the Automated Equipment and Software, and then the Group will fulfill the order and the contract. For orders with no comparable price from an Independent Third Party, the Group will provide quotations by considering the average gross profit margin of the Group comprehensively.

LETTER FROM GRAM CAPITAL

To assess the fairness of the pricing policy, we conducted independent research based on the following criteria:

- (i) continuing connected transactions conducted by other companies listed on the Stock Exchange involving purchase or sale of materials/products/services from/to their connected persons; and
- (ii) the transactions announced from 21 April 2024 to 20 May 2024 (being approximate one month period immediately prior to the date of Supplemental Agreements).

Based on the aforesaid selection criteria, we found over 15 transactions and noted that comparing prices with those offered by/to independent third parties for the same/similar product/service is one of the commonly adopted pricing policies. Therefore, we consider that the pricing policies contemplated under the Xiamen Zhonghui Supply Agreement are fair and reasonable.

The Company adopted certain internal control policies and procedures to ensure that the transactions contemplated under the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) are conducted on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as whole. Details of the internal control policies and procedures are set out under the section headed “2.8 Internal control” of the Board Letter. Having considered that there will be pricing/profit margin comparison procedures for transactions in relation to the sale of products to related parties, we consider that the effective implementation of the internal control measures will ensure the fair pricing of Xiamen Zhonghui Transactions.

LETTER FROM GRAM CAPITAL

The Directors advised that the Group only entered into three individual agreements pursuant to the Xiamen Zhonghui Supply Agreement before the date of Xiamen Zhonghui Supplemental Agreement. Upon our request, we obtained (a) the aforesaid signed individual agreements; and (b) a breakdown showing the cost (including labour cost, material cost and production cost) and price of products under the aforesaid signed agreements (the price of which in total represented contract value of such individual agreements). The Directors advised that they had made reference to the gross margin profit of two listed companies in Shenzhen Stock Exchange with products comparable to the products under the Xiamen Zhonghui Supply Agreement (i.e. Wuxi Lead Intelligent Equipment Co., Ltd. (stock code: SZ300450): 35.60%; and Shenzhen Inovance Technology Co., Ltd (stock code: SZ300124): 33.55%). We noted that the gross profit margins of transaction contemplated under each signed individual agreements are higher than average gross profit margins of the two comparable companies.

Furthermore, we searched for Hong Kong Main Board listed companies which are principally engaged in sales of automated equipment and software, and have more than 50% of their revenue from such businesses in aggregate based on their respective latest published financial information for the year and found a total of 4 comparable companies on an exhaustive basis. Details of our findings are as follows:

Company name (stock code)	Principal businesses	Gross profit margin
ASMPT Limited (stock code: 522)	An investment holding company principally engaged in the manufacture of machines and tools used in semiconductor and electronic assembly industries.	39.28%
Renze Harvest International Limited (stock code: 1282)	The company and its subsidiaries are principally engaged in the business of automation, property investment and development, financial services, and securities investment.	18.72%
Pentamaster International Limited (stock code: 1665)	The company's solutions include semiconductors and micro-electromechanical systems sensors, optics and photonic sensors, factory automation sensor, and medical industry solutions.	30.30%

LETTER FROM GRAM CAPITAL

Company name (stock code)	Principal businesses	Gross profit margin
Kinergy Corporation Ltd. (stock code: 3302)	A contract manufacturer specializing in the manufacture of equipment, machines, sub-systems, precision tools, spare parts and components in the semiconductor processing equipment industry.	7.57%

Source: Stock Exchange's website and annual reports of relevant comparable companies

We noted that the gross profit margin of transaction contemplated under each signed individual agreements are not less than average gross profit margins of the aforesaid four comparable companies.

Furthermore, we noted from the internal control procedures that the finance department will maintain monthly statistics on the transaction amounts of the Continuing Connected Transactions, and will communicate with the sales and purchase department of the Group in time for possible future changes in the maximum amount of each Continuing Connected Transaction and reasons for such changes. If the cumulative actual transaction amounts of the Continuing Connected Transactions reach certain thresholds, further action will be taken. As mentioned above, the historical transaction amounts of Heyuan Youhua Transactions and Huangshi C-Flex Electronic Transactions did not exceed their respective annual caps for the three years ended 31 December 2023.

Upon our request, we obtained the internal control document of the Xiamen Zhonghui Transactions. After reviewing the document, we acknowledged that the contents of internal control document contained all relevant procedures for both fair pricing measures and annual cap monitoring measure for the Xiamen Zhonghui Transactions as disclosed in the Board Letter. In addition, the Company also provided us supporting document, showing that the Board of Director office of the Company provided the internal control document to all relevant departments and required such departments to follow the internal control measures as contained in the document. Based on (i) the aforesaid; (ii) our review results on invoices and previous annual caps of Heyuan Youhua Transactions and Huangshi C-Flex Electronic Transactions for the three years ended 31 December 2023; and (iii) the Company's intention to amend its existing annual caps for the three years ending 31 December 2026 based on current situations, we do not doubt the effectiveness of the implementation of the internal control measures.

LETTER FROM GRAM CAPITAL

Proposed annual caps

The table below demonstrates (i) the existing annual caps Xiamen Zhonghui Transactions (the “**Existing Xiamen Zhonghui Caps**”); and (ii) the revised annual caps Xiamen Zhonghui Transactions (the “**Revised Xiamen Zhonghui Caps**”) for the three years ending 31 December 2026:

	For the year ending 31 December 2024 <i>RMB'million</i>	For the year ending 31 December 2025 <i>RMB'million</i>	For the year ending 31 December 2026 <i>RMB'million</i>
Historical transaction amount	Nil ^(Note)	N/A	N/A
Existing Xiamen Zhonghui Caps	20	20	20
Utilisation rate	Undetermined	N/A	N/A
	For the year ending 31 December 2024 <i>RMB'million</i>	For the year ending 31 December 2025 <i>RMB'million</i>	For the year ending 31 December 2026 <i>RMB'million</i>
Revised Xiamen Zhonghui Caps	80	40	40

Note: the figure was for 4M2024

The basis for determining the Revised Xiamen Zhonghui Caps is set out under the sub-section headed “Basis of determination of the revised annual caps” of the section headed “2.3 The Xiamen Zhonghui Supplemental Agreement” of the Board Letter.

Although the historical transaction amount for Xiamen Zhonghui Transactions was nil for 4M2024, the amount of orders that have been delivered but subject to inspection and acceptance according to the terms of the contract for the supply of Automated Equipment and Software by the Group to Xiamen Zhonghui and its subsidiaries for 4M2024 was approximately RMB14,708,000. Based on the aforesaid amounts of orders, the annualised amount of Xiamen Zhonghui Transactions for FY2024 would be approximately RMB44.1 million, which exceeded the Existing Xiamen Zhonghui Caps of RMB20 million.

LETTER FROM GRAM CAPITAL

To assess the fairness and reasonableness of the Revised Xiamen Zhonghui Caps, we conducted the following analyses:

- We discussed with the Directors and understood that the Director expected the demand for Automated Equipment and Software from Xiamen Zhonghui for the first nine months ended 30 September 2024 (the “**9M2024 Xiamen Zhonghui Demand**”) to be approximately RMB60.1 million, based on the completion of inspection and acceptance work.

We obtained a breakdown of the 9M2024 Xiamen Zhonghui Demand (i.e. RMB60.1 million). Upon our further request, we obtained (i) certain copies of the signed agreements for executed projects with contract value of approximately RMB16.6 million (tax inclusive) or approximately RMB14.7 million (tax exclusive); and (ii) documents showing quotations for potential projects of approximately RMB51.3 million (tax inclusive) or approximately RMB45.4 million (tax exclusive).

- As 9M2024 Xiamen Zhonghui Demand is approximately RMB60.1 million (tax exclusive), the annualised amount of demand for Automated Equipment and Software from Xiamen Zhonghui for FY2024 is approximately RMB80.2 million (RMB60.1 million/9 x 12 ≈ RMB80.2 million), which approximates the Revised Xiamen Zhonghui Cap for FY2024.

Based on the above, we are of the view that the Revised Xiamen Zhonghui Cap for FY2024 is fair and reasonable.

As advised by the Directors, before finalising of Revised Xiamen Zhonghui Caps for FY2025 and FY2026 (i.e. RMB40 million), the Company intended to set the proposed annual caps for FY2025 and FY2026 the same as the Revised Xiamen Zhonghui Cap for FY2024 (i.e. RMB80 million). As mentioned above, Xiamen Zhonghui is engaged in the research and development, manufacture and sales of periscope motors and optical image stabilization motors and other relevant motors, and is in good business development. The Automated Equipment and Software will be used for Xiamen Zhonghui’s production purposes.

Based on our discussion with the Directors, we understood that as the Automated Equipment and Software mainly contained semi-automated and automated equipment and related software, it would be highly unlikely for Xiamen Zhonghui to continuously maintain a high demand of equipment and related software for a long-term.

Based on the above factors, the Revised Xiamen Zhonghui Caps for FY2025 and FY2026 were set half amount of the Revised Xiamen Zhonghui Cap for FY2024.

LETTER FROM GRAM CAPITAL

In light of the above factors, we consider that the Revised Xiamen Zhonghui Caps for FY2025 and FY2026 are fair and reasonable.

Shareholders should note that as the Revised Xiamen Zhonghui Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2026, and they do not represent forecasts of revenue to be generated from the Xiamen Zhonghui Transactions. Consequently, we express no opinion as to how closely the actual revenue to be generated from the Xiamen Zhonghui Transactions will correspond with the Revised Xiamen Zhonghui Caps.

Our conclusion

Having reviewed and considered the terms of the Xiamen Zhonghui Transactions in particular the key terms as listed above (including the pricing policy and Revised Xiamen Zhonghui Caps for the three years ending 31 December 2026 being fair and reasonable; and no abnormal term observed), we are of the view that the terms of the Xiamen Zhonghui Supplemental Agreement are on normal commercial terms and are fair and reasonable.

LISTING RULES IMPLICATION

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the value of the transactions must be restricted by Revised Annual Caps for the period concerned under the Supplemental Agreements; (ii) the terms of the transactions must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of transactions contemplated under the Continuing Connected Transaction Agreements (together with the Revised Annual Caps) must be included in the Company's subsequent published annual reports.

Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that transactions contemplated under the Continuing Connected Transaction Agreements (i) have not been approved by the Board; (ii) was not, in all material respects, in accordance with the pricing policies of the Group; (iii) was not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) has exceeded the Revised Annual Caps.

In the event that the total amount of any transactions contemplated under the Continuing Connected Transaction Agreements is anticipated to exceed the Revised Annual Caps, or that there is any proposed material amendment to the terms of transactions contemplated under the Continuing Connected Transaction Agreements, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

LETTER FROM GRAM CAPITAL

RECOMMENDATION

Having taken into account that above factors and reasons, we are of the opinion that (i) the Annual Caps Revisions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Annual Caps Revisions are on normal commercial terms and are fair and reasonable. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM to approve the Annual Caps Revisions and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking 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 enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS**(a) Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or its associated corporations**

As at the Latest Practicable Date, save as disclosed below, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were 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 which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

As at the Latest Practicable Date, save as disclosed below, none of the Directors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(i) Long position in Shares and underlying Shares of the Company

Name of Director/ chief executive	Nature of interest	Number of Shares interested	Approximate percentage of interest in the Company (Note 1)
He Ningning	Interest of a controlled corporation	752,491,000 (Note 2)	63.53%
Hu Sanmu	Beneficial owner	1,180,000	0.10%
	Beneficial owner	2,995,000	0.25%
	Beneficial owner (Note 3)	175,000	0.01%
Ko Ping Keung	Beneficial owner	200,000	0.02%
Fan Fuqiang	Beneficial owner	2,635,000	0.22%
	Beneficial owner (Note 3)	175,000	0.01%

Notes:

- (1) Based on the total number of 1,184,538,475 Shares in issue as at the Latest Practicable Date.
- (2) Mr. He Ningning, an executive Director and the chairman of the Board, is the sole beneficial owner of QT Investment which beneficially owns 752,491,000 Shares. He is deemed to be interested in the Shares held by QT Investment by virtue of the SFO.
- (3) On 5 June 2024, each of Mr. Hu and Mr. Fan was granted 175,000 share options under the Existing Share Option Scheme. Details of the grant are set out in the Company's announcements dated 5 and 7 June 2024.

(ii) Long position in shares and underlying shares of QT Investment, an associated corporation of the Company

Name of Director/ chief executive	Nature of interest	Number of shares interested	Approximate percentage of interest in QT Investment
He Ningning	Beneficial owner	2	100%

(b) Directors' service contracts

As at the Latest Practicable Date, none of the Directors had any existing and proposed service contract with any members of the Group other than contracts expiring or determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

(c) Directors' interest in contracts and assets of the Group and other interests

As at the Latest Practicable Date, save for the property lease agreement dated 8 November 2022 (as amended by a supplemental agreement dated 24 April 2023) entered into between 昆山丘鈇生物識別科技有限公司 (transliteration “Kunshan QTech Biological Recognition Technology Limited”) (which is an indirect wholly-owned subsidiary of the Company) as lessee and 唯安科技有限公司 (transliteration “Van Telecom Limited”) (which is indirectly wholly-owned by Mr. He) as lessor in relation to the leasing of certain factory buildings and workers' dormitories situated at No. 1999 Hanpu Road and Building No. 3, 1999 Hanpu Road, Kunshan, Jiangsu Province, the PRC for a term from 1 January 2023 to 31 December 2025 and a maximum amount of rent and management fees for each of the three years ending 31 December 2025 of approximately RMB6,594,800, RMB5,899,200 and RMB5,899,200, respectively (for details, please refer to the Company's announcements dated 8 November 2022 and 24 April 2023), none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2023, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries.

As at the Latest Practicable Date, save for (i) service contracts of the Directors, (ii) the Connected Transaction Agreements and the Supplemental Agreements, and (iii) the supply agreement dated 18 December 2023 entered into between the Company (for itself and on behalf of its subsidiaries) as purchaser and 西可通信技術設備(河源)有限公司 (transliteration “CK Telecom Technology and Equipment (Heyuan) Limited”) (which is indirectly wholly-owned by Mr. He) as supplier for a term from 1 January 2024 to 31 December 2026 (both days inclusive) in relation to the purchase of camera modules and fingerprint recognition modules by the Group and a maximum transaction amount for each of the three years ending 31 December 2026 of RMB5,000,000 respectively (for details, please refer to the Company's announcement dated 18 December 2023), none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

(d) Directors' interests in competing business

As at the Latest Practicable Date, in so far as the Directors were aware of, none of the Directors and their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

3. MATERIAL ADVERSE CHANGE

The Directors confirm there is no material adverse change in the financial or trading position of the Group since 31 December 2023 (being the date to which the latest published audited financial statements of the Group were made up) up to and including the Latest Practicable Date.

4. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given its opinion or advice which is contained in this circular:

Name	Qualification
Gram Capital Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

The above expert has given and has 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 it appears.

As at the Latest Practicable Date, the above expert did not have any shareholding in 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 any member of the Group.

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any asset which had been acquired, disposed of by, or leased to any member 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, being the date to which the latest audited financial statements of the Group was made up.

5. DOCUMENTS ON DISPLAY

A copy of each of the following documents will be published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.qtechsmartvision.com) from the date of this circular up to and including the date of the EGM:

- (1) the Continuing Connected Transaction Agreements;
- (2) the Supplemental Agreements;
- (3) the letter of advice from Gram Capital, the text of which is set out on pages 39 to 64 of this circular;

- (4) the written consent of the expert referred to in the paragraph headed “4. Qualification and Consent of Expert” in this appendix; and
- (5) the rules of the New Share Scheme.

6. MISCELLANEOUS

- (a) The Company’s branch share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (b) In the event of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

The following is a summary of the principal terms of the New Share Scheme to be approved and adopted by an ordinary resolution at the EGM, but such summary does not form part of, nor was it intended to be, part of the New Share Scheme, nor should it be taken as affecting the interpretation of the rules of the New Share Scheme:

1. PURPOSE

The purpose of the New Share Scheme is to provide incentive to the Eligible Participants in order to promote the development and success of the business of the Group. The New Share Scheme will give the Eligible Participants an opportunity to have a personal stake in the Company and will help motivate the Eligible Participants in optimising their performance and efficiency and attract and retain the Eligible Participants whose contributions are important to the long-term growth of the Group.

2. ADMINISTRATION OF THE NEW SHARE SCHEME

The New Share Scheme shall be subject to the administration of the Board whose decision on all matters arising in relation to the New Share Scheme or its interpretation or application or effect shall (save as otherwise provided in the New Share Scheme and in the absence of manifest error) be final and binding. The Board shall exercise its administrative power in accordance with the Listing Rules requirement. For the avoidance of doubt, subject to compliance with the requirements of the Listing Rules and the provisions of the New Share Scheme, the Board shall have the right to (i) interpret and construe the provisions of the New Share Scheme; (ii) determine the persons who will be offered Awards under the New Share Scheme, and the number of Shares and the Exercise Price or Purchase Price in relation to such Awards; (iii) make such appropriate and equitable adjustments to the terms of Awards granted under the New Share Scheme as it may deem necessary; and (iv) make such other decisions or determinations or regulations as it shall deem appropriate for the administration of the New Share Scheme.

Subject to compliance with the Listing Rules, the authority to administer the New Share Scheme may be delegated by the Board to a committee of the Board or to any other person(s) deemed appropriate at the sole discretion of the Board.

The Company may establish one or more trusts (“**Trust(s)**”) which will be independent of the Company and appoint one or more trustee(s) for the purposes of: (i) holding Award Shares upon Trust(s) which are reserved for specified Eligible Participants; (ii) subscribing for new Shares to be allotted and issued by the Company, purchasing existing Shares from the open market, holding treasury shares that are transferred out of treasury by the Company, and/or holding Returned Shares, in each case to serve as a pool of Shares upon Trust(s) which may be used to grant and/or satisfy Awards; (iii) settling Awards; and (iv) taking other actions for the purposes of administering and implementing the New Share Scheme. The trustee(s) of the Trust(s) shall be instructed by the Company. No Director will act as trustee(s) or have any direct or indirect interest in any trustee(s) of the Trust(s).

The Company shall not give instruction to any trustee of the Trust(s) to subscribe for or purchase any Shares for the purpose of the New Share Scheme under any of the following circumstances: (i) if the subscription or purchase will result in the Company failing to comply with the public float requirement with respect to the Shares as applicable under the Listing Rules from time to time; or (ii) after inside information (having the meaning as defined in the SFO) has come to its knowledge, until (and including) the Business Day after such inside information has been announced by the Company pursuant to the requirements of the Listing Rules; or (iii) at a time when any Director would be prohibited from dealing in the Shares by the Listing Rules (including the Model Code for Securities Transactions by Directors of Listed Issuers, set out in Appendix C3 to the Listing Rules).

The trustee of the Trust holding unvested Award Shares, whether directly or indirectly, shall abstain from voting on matters that require Shareholders' approval under the Listing Rules, unless otherwise required by law to vote in accordance with the beneficial owner's direction and such direction is given.

3. ELIGIBLE PARTICIPANTS AND THE BASIS OF ELIGIBILITY

The Eligible Participants are the Employee Participants.

In determining the basis of eligibility for Employee Participants, the factors in assessing whether any person is eligible to participate in the New Share Scheme include: (1) the performance of the Employee Participant; (2) the skill, knowledge, experience, expertise and other personal qualities of the Employee Participant, (3) time commitment, responsibilities or employment conditions of the Employee Participant according to the prevailing market practice and industry standard; (4) the length of employment with the Group; and (5) the contribution or potential contribution of the Employee Participant to the development and growth of the Group.

4. OFFER AND ACCEPTANCE

Subject to and in accordance with the provisions of the New Share Scheme and the Listing Rules, the Board shall be entitled (but shall not be bound), at any time and from time to time and within a period commencing on the Adoption Date and ending on the Termination Date (both dates inclusive), to make an Offer to such Eligible Participant as it may, in its absolute discretion, select, and subject to such conditions as the Board may think fit, provided that no such Offer shall be made if a prospectus is required to be issued under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) or any applicable laws or if such grant will result in the breach by the Company or any of the Directors of any applicable securities laws and regulations in any jurisdiction.

An Offer shall be made to an Eligible Participant in writing (and unless so made shall be invalid) in such form as the Board may from time to time determine specifying the terms of the Award which may include number of Award Shares, the Purchase Price or Exercise Price (as applicable), the vesting criteria and conditions, the Exercise Period, and if any, minimum performance targets that must be achieved and, if applicable, the clawback mechanism for the Company to recover or withhold any Share Options or Share Awards granted to any Eligible Participants, and any such other details as the Company may consider necessary, and requiring the Grantee to undertake to hold the Award on the terms of the offer letter and be bound by the provisions of the New Share Scheme. An Offer shall remain open for acceptance by the Eligible Participant concerned (and by no other person, including the Eligible Participant's personal representative) for a period of twenty-one (21) days from the date of the offer. For the avoidance of doubt, the Board may at its discretion specify any condition in the offer letter at the grant of the relevant Award, including conditions and/or performance target(s) that must be achieved before any of the Awards can be exercised, as well the clawback mechanism for the Company to recover or withhold any Share Options or Share Awards granted to any Eligible Participants.

An Offer shall be deemed to have been accepted by an Eligible Participant concerned in respect of all the Award Shares which are offered to such Eligible Participant when the duplicate letter comprising acceptance of the Offer duly signed by the Eligible Participant, together with a payment in favour of the Company of HK\$1.00 or such other amount (if any) as may be determined by the Board as consideration for the grant thereof, is received by the Company.

Any Offer may be accepted by an Eligible Participant in respect of less than the number of Award Shares which are offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof. The relevant Award Shares offered but not accepted shall lapse.

5. VESTING PERIOD

Save for the circumstances prescribed below and in paragraph 18(a), an Award must be held by the Grantee for a period that is not shorter than the Minimum Period before the Award can be exercised.

The Board may at its absolute discretion grant Awards to Employee Participants only with a vesting period shorter than the Minimum Period in the following specific circumstances:

- (1) grants of "make-whole" Awards to new joiners to replace the award shares they forfeited when leaving the previous employers;
- (2) grants to an Employee Participant whose employment is terminated due to death or disability or occurrence of any out of control event;

- (3) grants that are made in batches during a year for administrative and compliance reasons (such as to save administrative time and compliance costs, to coincide with the regular or scheduled meetings of the Board and/or the Remuneration Committee, etc.), which include Awards that should have been granted earlier if not for such administrative or compliance reasons but had to wait for a subsequent batch;
- (4) grants of Awards with a mixed or accelerated vesting schedule such as where the Awards may vest evenly over a period of twelve (12) months; or
- (5) grants with performance-based vesting conditions in lieu of time-based vesting criteria,

each of which are considered appropriate to provide flexibility to grant Awards (a) as part of competitive terms and conditions to induce valuable talent to join the Group (sub-paragraphs (1) and (4)); (b) reward past contribution which may otherwise be neglected due to administrative or technical reasons (sub-paragraphs (2) and (3)); (c) reward exceptional performers with accelerated vesting (sub-paragraph (4)); (d) to motivate exceptional performers based on performance metrics rather than time (sub-paragraph (5)); and (e) in exceptional circumstances where justified (sub-paragraphs (1) to (5)), which is consistent with the purpose of the New Share Scheme.

6. EXERCISE PRICE AND PURCHASE PRICE AND EXERCISE OF AWARDS

- (a) The Exercise Price shall, subject to any adjustment made pursuant to the terms of the New Share Scheme, be determined by the Board at its absolute discretion, provided that it shall be not less than the highest of:
 - (1) the closing price of the Shares as shown in the daily quotations sheet of the Stock Exchange on the offer date, which must be a Business Day;
 - (2) the average of the closing prices of the Shares as shown in the daily quotations sheets of the Stock Exchange for the five (5) consecutive days on which the Shares are traded on the Stock Exchange immediately preceding the offer date; and
 - (3) the nominal value of the Share on the offer date.
- (b) The Purchase Price shall be such price determined by the Board in its absolute discretion and notified to the Grantee in the offer letter. For the avoidance of doubt, the Board may determine the Purchase Price to be nil. The Company will disclose the Purchase Price for Share Awards in the announcement on grant of the relevant Awards and in its annual and interim reports to the extent required under Chapter 17 of the Listing Rules.

- (c) Where an Award is to be granted under paragraph 8 or paragraph 9, for the purposes of the paragraph (a)(1) and paragraph (a)(2) above, the date of the meeting of the Board (or its authorized committee for the administration of the New Share Scheme) or the Remuneration Committee (as the case may be) at which the Offer was proposed shall be taken to be the offer date for the relevant Award, and the provisions as set above shall apply *mutatis mutandis*.
- (d) Subject to the terms of the New Share Scheme and the fulfillment of all terms and conditions as set out in the Offer, including the attainment of any performance targets stated therein (if any), an Award shall be exercisable in whole or in part by the Grantee (or, in the case of death of the Grantee, by the Grantee's personal representative) giving notice in writing to the Company stating that the Award is thereby exercised and the number of Award Shares in respect of which it is so exercised.
- (i) Each of such notice must be accompanied by a remittance for the full amount of the Exercise Price or the Purchase Price (as applicable) for the Award Shares in respect of which the notice is given.
- (ii) Within twenty-one (21) days (or such longer period if the Company in its sole discretion considers it appropriate due to applicable legal or regulatory restrictions) after receipt of the notice and the remittance, the Company shall, at its discretion, arrange for the Exercised Award Shares to be satisfied in the following methods:
- (aa) allot and issue the relevant number of Shares to the Grantee (or, the Grantee's estate in the event of an exercise by the Grantee's personal representative) credited as fully paid and instruct the share registrar to issue to the Grantee (or the Grantee's estate in the event of an exercise by the Grantee's personal representative) a share certificate for the Shares so allotted and issued;
- (bb) arrange for the Exercised Award Shares to be transferred to the Grantee (or the Grantee's estate in the event of an exercise by the Grantee's personal representative) credited as fully paid and issue to the Grantee (or the Grantee's estate in the event of an exercise by the Grantee's personal representative) a share certificate in respect of the Shares so transferred;

- (cc) pay to the Grantee (or the Grantee's estate in the event of an exercise by the Grantee's personal representative) by remittance to the bank account designated and provided by the Grantee (or the Grantee's personal representative), the Actual Sale Proceeds from on-market sale of the Exercised Award Shares through the facilities of the Stock Exchange at prevailing market prices; and
- (dd) arrange for Exercised Award Shares to be issued or designated as vested shares held for the economic benefit of the Grantee (or the Grantee's estate in the event of an exercise by the Grantee's personal representative), following which, the Grantee (or the Grantee's estate in the event of an exercise by the Grantee's personal representative) shall be entitled to future dividends paid or payable on the Exercised Award Shares and the Grantee (or the Grantee's personal representative) will have a one-time option to request the Company to cause payment to the Grantee (or the Grantee's estate in the event of an exercise by the Grantee's personal representative) by remittance to the bank account designated and provided by the Grantee, the difference in the prevailing market prices of the Exercised Award Shares between the vesting date and the date that the Grantee notifies the Company of exercising the one-time option.

7. SCHEME LIMITS AND ADDITIONAL APPROVALS

The Scheme Mandate Limit

- (1) The total number of Shares which may be issued (including any transfer of treasury shares of the Company) in respect of all Awards which may be granted at any time under the New Share Scheme together with options and awards which may be granted under any other schemes of the Company shall not exceed such number of Shares as equals 10% of the Shares in issue (excluding treasury shares) as at the Adoption Date, being 118,453,847 Shares (the "**Scheme Mandate Limit**"). Awards lapsed in accordance with the terms of the New Share Scheme (and other schemes of the Company) will not be regarded as utilised for the purpose of calculating the Scheme Mandate Limit. For the avoidance of doubt, Awards granted in accordance with the terms of the New Share Scheme (and other similar schemes of the Company) the underlying Shares of which are existing Shares purchased by the trustee of the Trust (or any other party(ies) authorised by the Board) in the open market upon the instruction of the Board from time to time will not be regarded as utilised for the purpose of calculating the Scheme Mandate Limit.

- (2) If the Company conducts a share consolidation or sub-division after the Scheme Mandate Limit has been approved in general meeting, the maximum number of Shares that may be issued in respect of all options and awards to be granted under all of the schemes of the Company under the Scheme Mandate Limit as a percentage of the total number of issued Shares at the date immediately before and after such consolidation or sub-division shall be the same, rounded to the nearest whole share.

Refreshment

- (3) (a) The Company may seek approval of the Shareholders in a general meeting of the Company to refresh the Scheme Mandate Limit under the New Share Scheme on or after the third (3rd) anniversary of the date of the Shareholders' approval for the last refreshment or the Adoption Date. The total number of Shares which may be issued (including any transfer of treasury shares of the Company) upon exercise of all (i) the Awards under the New Share Scheme and (ii) the options and awards to be granted under any other schemes of the Company as "refreshed" must not exceed 10% of the Shares in issue (excluding treasury shares) as at the date of approval of the refreshment. For the purpose of seeking approval of the Shareholders under this paragraph (3), the Company must send a circular to the Shareholders containing the information required under the Listing Rules; and
- (b) any refreshment within any three (3)-year period shall be subject to independent Shareholders' approval pursuant to Rule 17.03C(1)(b) and (c) of the Listing Rules.

Grant in excess of the Scheme Mandate Limit

- (4) The Company may seek separate approval of the Shareholders in a general meeting of the Company for granting Awards exceeding the Scheme Mandate Limit provided that the Awards in excess of the Scheme Mandate Limit are granted only to Eligible Participants specifically identified by the Company before such approval is sought. For the purpose of seeking approval of the Shareholders under this paragraph (4), the Company must send a circular to the Shareholders containing a generic description of the specified Eligible Participants who may be granted such Awards, the number and terms of the Awards to be granted, the purpose of granting Awards to the specified Eligible Participants with an explanation as to how the terms of the Awards serve such purpose, and such other information as required under the Listing Rules. The number and terms (including the Exercise Price or the Purchase Price) of the Awards to be granted to such Eligible Participant must be fixed before the Shareholders' approval. For the grant of Share Options, the date of Board meeting for proposing such grant should be taken as the date of grant for the purpose of calculating the Exercise Price.

8. GRANT OF AWARDS TO A DIRECTOR, CHIEF EXECUTIVE OR SUBSTANTIAL SHAREHOLDER OF THE COMPANY OR ANY OF THEIR RESPECTIVE ASSOCIATES

- (1) Any grant of an Award to a Director, a chief executive of the Company or substantial shareholder (as defined under the Listing Rules), or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who or whose associate is the proposed Grantee of the Award).
- (2)
 - (a) Where any grant of an Award to an independent non-executive Director or a substantial shareholder of the Company, or any of their respective associates, would result in the Shares issued and to be issued (including any transfer of treasury shares of the Company) in respect of all options and awards granted (excluding any options and awards lapsed in accordance with the terms of the relevant schemes) to such person in the twelve (12)-month period up to and including the date of such grant representing in aggregate exceeding 0.1% of the Shares in issue (excluding treasury shares), or
 - (b) where any grant of Share Awards (i.e., excluding grant of Share Options) to any Director (other than an independent non-executive Director) or chief executive of the Company, or any of their respective associates, would result in the shares issued and to be issued (including any transfer of treasury shares of the Company) in respect of all awards granted (excluding any Awards lapsed in accordance with the terms of the relevant schemes) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the Shares in issue (excluding treasury shares) at the date of such grant,

such grant of Award must be approved by the Shareholders in a general meeting of the Company.

- (3) The Company must send a circular to the Shareholders. The circular must contain such information required by the Listing Rules.
- (4) The Grantee, his associates and all core connected persons of the Company must abstain from voting in favour of the proposed grant at such general meeting. Parties that are required to abstain from voting in favour of the proposed grant at the general meeting of the Company pursuant to the Listing Rules may vote against the resolution at the general meeting of the Company, provided that their intention to do so has been stated in the relevant circular to the Shareholders.

- (5) Any vote taken at the general meeting of the Company to approve the grant of such Award must be taken on a poll and comply with the requirements under the Listing Rules.
- (6) Any change in the terms of Awards granted to an Eligible Participant who is a director, chief executive or substantial shareholder of the Company, or any of their respective associates must be approved by the Shareholders in the manner as set out in the Listing Rules if the initial grant of the Awards requires such approval (except where the changes take effect automatically under the existing terms of the New Share Scheme).
- (7) Applications shall be made by the Company to the Listing Committee of the Stock Exchange for the listing of and the permission to deal in any Shares that may fall to be allotted and issued under the New Share Scheme.

9. MAXIMUM ENTITLEMENT OF EACH ELIGIBLE PARTICIPANT

Where any grant of an Award to an Eligible Participant would result in the Shares issued and to be issued (including any transfer of treasury shares of the Company) in respect of all options and awards granted to such Eligible Participant (excluding any options and awards lapsed in accordance with the terms of the relevant schemes) in the twelve (12)-month period up to and including the date of such grant representing in aggregate exceeding 1% of the Shares in issue (excluding treasury shares), such grant must be separately approved by the Shareholders in a general meeting of the Company with such Eligible Participant and the person's close associates (or associates if the Eligible Participant is a connected person) abstaining from voting.

The Company must send a circular to the Shareholders and the circular must disclose the identity of the Eligible Participant, the number and terms of the Awards to be granted (and Awards previously granted to such Eligible Participant during the twelve (12)-month period), the purpose of granting the Awards to the Eligible Participant, an explanation as to how the terms of the Awards serve such purpose and such information as may be required by the Stock Exchange from time to time. The number and terms (including the Exercise Price or Purchase Price) of the Award to be granted to such Eligible Participant must be fixed before the Shareholders' approval. For the grant of Share Options, the date of the meeting of the Board for proposing such grant should be taken as the offer date for the purpose of calculating the Exercise Price.

10. TIME OF EXERCISE OF OPTIONS

Subject to the terms of the New Share Scheme, an Award may be exercised in whole or in part at any time during the period stipulated in the Offer, provided that such period shall not go beyond the day immediately prior to the tenth (10th) anniversary of the offer date with respect of the relevant Award.

11. PERFORMANCE TARGET(S) AND CLAWBACK MECHANISM

The Board may at its discretion determine and provide in the offer letter at the grant of the relevant Award any performance target(s) as the Board may then specify which must be achieved by the Grantee before any of the Awards can be exercised, as well as the clawback mechanism for the Company to recover or withhold any Share Options or Share Awards granted to any Eligible Participants.

Specifically, if performance targets are imposed on a Grantee at the grant of the relevant Award, the Board will have regard to the purpose of the New Share Scheme in assessing the reasonableness and suitability of such performance targets, with reference to factors including but not limited to, as and when appropriate, sales performance (e.g. revenue), operating performance (e.g. operation efficiency) and financial performance (e.g. profits, cash flow, earnings, market capitalization and return on equity) of the Group, as well as corporate sustainability parameters (e.g. accuracy and timeliness in handling customer complaints and feedback and adherence to corporate culture), personal qualities (e.g. discipline, punctuality, integrity and compliance with internal procedures and controls) of the Grantee and individual performance (e.g. key performance indicator achievement) of the Grantee, the satisfaction of which shall be assessed and determined by the Board at its discretion.

Generally, the Company will also utilize its internal assessment system to appraise and evaluate whether the Eligible Participants will contribute to the long-term growth of the Group on a case-by-case basis. Specifically, the Eligible Participants' expected contribution will be considered with reference to factors including but not limited to their past contributions to the Group, the nature of job duties or services, position within or related to the Group and other features including geographical location, business strategy focus and corporate culture. Specific weightings will be given to the factors above in order to provide a fair and objective appraisal of the Eligible Participants before Awards will be granted, such that the grants will be on a fair and reasonable basis and in the interest of the Company and its Shareholders as a whole.

On the other hand, if the clawback mechanism is prescribed, at the Board's discretion, on a Grantee at the grant of the relevant Award, if a Grantee's employment has been terminated summarily, or has been convicted of any criminal offence involving his or her integrity or honesty, or has been involved in any wrongdoing that brings the Group into disrepute or causes damages to the Group (including but not limited to causing a material misstatement in the Company's financial statements), any outstanding Share Awards not yet vested shall be immediately forfeited, unless the Board determines otherwise at its discretion.

12. RESTRICTIONS ON THE TIME OF OFFER

No Offer may be made:

- (1) after inside information (having the meaning defined in the SFO) has come to the knowledge of the Company until (and including) the Business Day after it has been announced pursuant to the requirements of the Listing Rules; and
- (2) during the period commencing from thirty (30) days immediately preceding the earlier of:
 - (a) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for approving the Company's results for any year, half-year or quarterly or any other interim period (whether or not required under the Listing Rules); and
 - (b) the deadline for the Company to publish its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),and ending on the date of the results announcements (or during any period of delay in publishing results announcements); and
- (3) at a time when the relevant Eligible Participant would be prohibited from dealing in the Shares by the Listing Rules (including the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules).

13. RIGHTS ARE PERSONAL TO GRANTEES

Subject to the rules in the New Share Scheme, an Award shall be personal to the Grantee and shall not be assignable or transferable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest whatsoever in favour of any third party over or in relation to any Award or enter into any agreement so to do. Any breach of the foregoing by a Grantee shall entitle the Company to cancel any Award or any part thereof granted to such Grantee to the extent not already exercised.

The Stock Exchange may consider granting a waiver to allow a transfer of an Award to a vehicle (such as trust or private company) for the benefit of the Grantee and any family members of such Grantee that would continue to meet the purpose of the New Share Scheme and comply with the requirements of the Listing Rules.

14. RIGHTS ON CESSATION OF EMPLOYMENT OR DIRECTORSHIP

In the event that the Grantee ceases to be an Eligible Participant by reason of termination of his employment with any member of the Group on any one or more of the following grounds:

- (1) that the Grantee has been guilty of serious misconduct;
- (2) that the Grantee has been convicted of any criminal offence involving the person's integrity or honesty or in relation to any member of the Group (if so determined by the Board);
- (3) that the Grantee has become insolvent, bankrupt or has made arrangements or compositions with the Grantee's creditors generally; or
- (4) on any other ground as determined by the Board that would warrant the termination of the Grantee's employment at common law or pursuant to any applicable laws or under the Grantee's service contract with any member of the Group,

before exercising the Award in full, the Grantee's Award (to the extent not already exercised) shall automatically lapse and shall not be exercisable on the date of cessation, or such longer period as the Board may determine.

In the event that the Grantee ceases to be an Eligible Participant by reason of the Grantee's retirement as an employee of the Group in accordance with the Grantee's contract of employment (evidenced to the satisfaction of the Board), or the termination of the Grantee's employment or directorship with the Group (other than a termination of employment or directorship by the Grantee ("**Voluntary Termination**") as evidenced by notice or payment in lieu of notice (if permitted by any applicable laws and the relevant contract of employment or directorship) served or made by the Grantee to the relevant member of the Group), in each case provided that none of the events which would be a ground for termination of the Grantee's employment or directorship set out in the paragraph above arises, before exercising the Award in full, the Grantee may exercise the Award (to the extent vested but not already exercised) in whole or in part within six (6) months following the date of such cessation, or such longer period as the Board may determine and such Award to the extent not so exercised shall lapse at the end of the abovementioned period. In the event of a Voluntary Termination, the Grantee's Award (to the extent not already exercised) shall automatically lapse and shall not be exercisable on the date of cessation, and the date of cessation shall be the date on which notice or payment in lieu of notice is served or made by the Grantee to the relevant member of the Group.

15. RIGHTS ON DEATH

In the event that the Grantee ceases to be an Eligible Participant by reason of the person's death before exercising the Award in full (and if the Grantee is an Employee Participant, provided that none of the events which would be a ground for termination of the person's employment or directorship under paragraph 14 above arises):

- (a) in the case of Share Options, the Grantee's personal representative may exercise the Share Options (to the extent vested but not already exercised) in whole or in part in accordance with the provisions of paragraph 6 within one hundred and eighty (180) days following the date of death, or such longer period as the Board may determine, and any Share Options not exercised shall lapse at the end of the abovementioned period;
- (b) in the case of Share Awards, any outstanding Share Awards not yet vested shall immediately lapse, and the Company shall deliver (i) such number of vested but not yet delivered Award Shares or (ii) such amount which is equal to the Actual Sale Proceeds less any Purchase Price (as applicable) (hereinafter referred to as "**Benefits**") of such Share Awards at its discretion to the Grantee's estate within two (2) years following the date of death, or such other period as the Board may determine, or if the Benefits would otherwise become bona vacantia, the Benefits shall be forfeited and cease to be transferable and such Benefits shall lapse.

16. RIGHTS ON INJURY, DISABILITY OR ILL-HEALTH

In the event that the Grantee, by reason of the Grantee's employment with any member of the Group, ceases to be an Eligible Participant by reason of injury, disability or ill-health inflicted upon the Grantee in the course of his performance of duty as employee or director of any member of the Group (evidenced to the satisfaction of the Board), provided that none of the events which would be a ground for termination of the person's employment or directorship under paragraph 14 above arises, before exercising the Award in full, the Grantee may exercise the Award (to the extent vested but not already exercised) in whole or in part in accordance with the terms of the New Share Scheme within six (6) months following the date of such cessation, or such longer period as the Board may determine and to the extent such Award not so exercised shall lapse at the end of the abovementioned period.

17. RIGHTS ON CESSATION FOR OTHER REASONS

In the event that the Grantee ceases to be an Eligible Participant for any reason other than the reasons specified in paragraph 14 to paragraph 16 above, the Grantee's Award (to the extent vested but not already exercised) shall lapse and shall not be exercisable on the date of cessation provided that in each case, the Board may, in its absolute discretion, decide that such Award or any part thereof shall not so lapse or determine such conditions or limitations to which the exercise of such Award will be subject to.

18. RIGHTS ON A CORPORATE TRANSACTION

- (a) If there is an event of change in control of the Company as a result of a merger, scheme of arrangement or general offer, or in the event of a dissolution or liquidation of the Company, the Company shall at its sole discretion determine whether the vesting dates of any Awards to Employee Participants will be accelerated and/or determine such conditions or limitations to which the exercise of such Award will be subject.
- (b) For the purpose of paragraph 18(a), "control" shall have the meaning as specified in the Takeovers Code from time to time.

19. CANCELLATION OF AWARDS

Subject to the terms of the New Share Scheme, the Board may cancel any Award granted but unexercised (and whether or not vested) on such terms and conditions and with the consent of the relevant Grantee, as the Board may in its absolute discretion see fit and in a manner that complies with all applicable legal requirements for such cancellation. Where the Company cancels any outstanding Awards (whether or not vested) and makes a new grant to the same Grantee, such new grant may only be made under the New Share Scheme with the available limit approved by the Shareholders as set out in paragraph 7 above. The Awards cancelled (whether or not vested) will be regarded as utilised for the purpose of calculating the Scheme Mandate Limit.

20. EFFECT OF ALTERATIONS TO SHARE CAPITAL

In the event of any alteration in the capital structure of the Company whilst any Award remains exercisable or whilst the New Share Scheme remains in effect, and such event arises from a capitalisation issue, rights issue, consolidation, sub-division or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction), then, in respect of any such adjustments (other than any made on a capitalisation issue) the Company shall instruct the auditors or independent financial adviser to certify in writing to the Board the adjustment, if any, that ought in their opinion fairly and reasonably to be made either generally or as regards any particular Grantee, to:

- (1) the number or nominal amount of Shares to which the New Share Scheme or any Awards relates (insofar as it is/they are unexercised); and/or
- (2) the Exercise Price or Purchase Price of any unexercised Award,

and an adjustment as so certified by the auditors or the independent financial adviser shall be made, provided that:

- (a) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
- (b) any such adjustment shall be made on the basis that a Grantee shall be given the same proportion of the issued share capital of the Company for which such Grantee would have been entitled to subscribe or purchase had the person exercised all the Awards held by him immediately prior to such event (as interpreted in accordance with FAQ13 – No. 16 (the “**FAQ**”) and the related Appendix 1 entitled “Supplementary Guidance on MB Rule 17.03(13)/GEM Rule 23.03(13) and the Note to the Rule” published by the Stock Exchange (the “**Supplemental Guidance**”) or any further or updated guidance or interpretation of the Listing Rules issued by the Stock Exchange from time to time);
- (c) the issue of securities of the Company for cash or as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and
- (d) in respect of any such adjustments, the auditors or the independent financial adviser must confirm to the Board in writing that the adjustments satisfy the requirements set out in the above, the requirements of Rule 17.03(13) of the Listing Rules, the FAQ, any relevant provisions of the Listing Rules and any guidance/interpretation of the Listing Rules issued by the Stock Exchange and the note thereto from time to time.

Subject to the above principles and certification procedures, and any further or updated guidance or interpretation of the Listing Rules issued by the Stock Exchange from time to time, the default method of adjustment is set out below:

- (1) In the case of a capitalisation issue or rights issue, the Company would calculate the adjusted number of Awards and adjusted exercise price by applying the formula prescribed (and as updated from time to time) by the Stock Exchange in section I entitled “Capitalisation or Bonus Issue and Rights Issue or Open Offer of Shares” of the Supplemental Guidance published by the Stock Exchange, set out below:

New number of Awards = Existing Awards × F

$$\text{New Exercise Price} = \text{Existing Exercise Price} \times \frac{1}{F}$$

Where

$$F = \text{CUM/TEEP}$$

CUM = Closing price as shown in the daily quotation sheet of the Stock Exchange on the last day of trading before going ex-entitlement

$$\text{TEEP (Theoretical ex entitlement price)} = \frac{\text{CUM} + [M \times R]}{1 + M}$$

M = Entitlement per existing Share

R = Subscription price

- (2) In the case of a consolidation or subdivision of share capital, the Company would calculate the adjusted number of Awards and exercise price by applying the formula prescribed (and as updated from time to time) by the Stock Exchange in section II entitled “Subdivision or Consolidation of Shares” of the Supplemental Guidance, set out below:

$$\text{New number of Awards} = \text{Existing Awards} \times F$$

$$\text{New Exercise Price} = \text{Existing Exercise Price} \times \frac{1}{F}$$

Where F = Subdivision or consolidation factor

Any dispute arising in connection with the number of Shares of an Award and any of the matters referred to this section shall be referred to the decision of the Company’s auditors or the independent financial advisers of the Company who shall act as experts and not as arbitrators and whose decision, in the absence of manifest error, shall be final, conclusive and binding on all persons who may be affected thereby.

21. RANKING OF SHARES

Awards do not carry any right to vote at any general meeting of the Company, nor any right to dividends, transfer or other rights, including those arising on the liquidation of the Company. No Grantee shall enjoy any of the rights of a Shareholder by virtue of the grant of an Award unless and until the Shares underlying an Award are issued and delivered to the Grantee pursuant to the vesting and exercise of such Award.

Shares allotted and issued upon the exercise of an Award will be subject to all the provisions of the Articles and will rank *pari passu* in all respects with the other existing Shares in issue on the date of allotment and issue of the relevant Shares (the “**Allotment Date**”) other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Allotment Date. The Shares allotted and issued upon the exercise of an Award shall not carry any right of a Shareholder (including voting rights) until registration of the Grantee as the holder thereof on the register of members of the Company.

22. DURATION OF THE NEW SHARE SCHEME

The New Share Scheme shall be valid and effective until the Termination Date, after which period no further Awards will be granted but the provisions of the New Share Scheme shall remain in force to the extent necessary to give effect to the exercise of any Awards granted on or prior to the Termination Date or otherwise as may be required in accordance with the provisions of the New Share Scheme.

23. ALTERATIONS TO THE TERMS OF THE NEW SHARE SCHEME

The Share Scheme may be altered in any respect by a resolution of the Board provided that:

- (1) any alteration to the terms and conditions of the New Share Scheme which is of a material nature or any alteration in relation to any matter contained in Rule 17.03 of the Listing Rules to the advantage of the Eligible Participants must be approved by the Shareholders in a general meeting of the Company;
- (2) any change to the terms of Awards granted to a Grantee must be approved by the Board, the Remuneration Committee, the independent non-executive Directors and/or the Shareholders (as the case may be) if the initial grant of the Awards was approved by the Board, the Remuneration Committee, the independent non-executive Directors and/or the Shareholders (as the case may be) (except any changes which take effect automatically under the terms of the New Share Scheme);
- (3) any change to the authority of the Directors or the administrator of the New Share Scheme to alter the terms of the New Share Scheme must be approved by the Shareholders of the Company in a general meeting of the Company;
- (4) the amended terms of the New Share Scheme or the Awards shall remain in compliance with Chapter 17 of the Listing Rules; and

- (5) no such alteration shall operate to affect adversely the terms of issue of any Award granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the Grantees as would be required of the Shareholders under the memorandum of association of the Company and the Articles being for a variation of the rights attached to Shares.

24. CONDITION OF THE NEW SHARE SCHEME

The New Share Scheme is conditional upon the passing of the necessary ordinary resolution at a general meeting of the Company approving the adoption of the New Share Scheme.

25. LAPSE OF AWARDS

An Award shall lapse automatically (to the extent vested but not already exercised) on the earliest of:

- (a) subject to paragraph 14 to paragraph 18, expiry of the Exercise Period;
- (b) the date on which the Grantee commits a breach of paragraph 13;
- (c) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraph 14 to paragraph 18; and
- (d) the date of the commencement of the winding-up of the Company.

26. TERMINATION

The Company by an ordinary resolution in a general meeting of the Company may at any time terminate the operation of the New Share Scheme. In such event, no further Awards will be offered but in all other respects, the provisions of the New Share Scheme shall remain in force to the extent necessary to give effect to the exercise of any Awards granted prior thereto or otherwise as may be required in accordance with the provisions of the New Share Scheme and the Awards granted prior to such termination shall continue to be valid and exercisable in accordance with the New Share Scheme.

27. MISCELLANEOUS

The Company will bear the costs of establishing and administering the New Share Scheme.

The terms of the New Share Scheme (and any other schemes adopted by the Company from time to time) shall be in accordance with the requirements set out in Chapter 17 of the Listing Rules.

NOTICE OF EGM



Q Tech

Q TECHNOLOGY (GROUP) COMPANY LIMITED

丘鈦科技(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1478)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Q Technology (Group) Company Limited (the “Company”) will be held at Room 901, 9/F, Block 4C, Software Industrial Base, Xuefu Road, Nanshan District, Shenzhen, the PRC on Friday, 28 June 2024 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company.

Unless otherwise defined, capitalised terms used herein shall have the same meanings as ascribed to them in the circular of the Company dated 12 June 2024 (the “Circular”).

ORDINARY RESOLUTIONS

1. “THAT:

- (a) the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) (each as defined in the Circular) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the Revised Annual Caps (as defined in the Circular) for the three years ending 31 December 2026 for the transactions contemplated under the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) be and are hereby approved, confirmed and ratified; and
- (c) any one of the Directors be and is hereby authorised to sign, execute, seal (where required) and deliver all such documents and take such action as he/she may deem necessary, desirable, expedient or appropriate in connection with or to implement or give effect to the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) and the transactions contemplated thereunder and the adoption of the Revised Annual Caps.”

NOTICE OF EGM

2. “**THAT:**

- (a) the rules of the new share scheme of the Company (the “**New Share Scheme**”) (a copy of which is tabled at the meeting and marked “**A**” and initialled by the chairman of the meeting for identification purpose) be and are hereby approved and adopted, and the Directors be and are hereby authorised, (i) to grant share options and share awards in accordance with the rules of the New Share Scheme; (ii) to allot, issue, and deal with from time to time such number of award shares as may be required to be issued pursuant to the exercise of the options and awards under the New Share Scheme; (iii) to purchase and deal with such number of Shares from the open market as may be required pursuant to the grant or exercise of options and awards under the New Share Scheme; (iv) to administer the New Share Scheme; (v) to appoint and give instructions to one or more trustee(s) for the purpose of the New Share Scheme; (vi) to modify and/or amend the New Share Scheme from time to time provided that such modification or amendment is effected in accordance with the terms of the New Share Scheme and subject to the Listing Rules; and (vii) to do such acts and things and enter into such transactions, arrangements and agreements as the Directors may in their sole discretion consider necessary, desirable or expedient in order to give full effect to and implement the New Share Scheme;
- (b) the total number of Shares which may be issued in respect of all options and awards to be granted under the New Share Scheme and any other share schemes of the Company as may from time to time be adopted by the Company shall not exceed such number of Shares as equals 10 per cent. of the Shares in issue (excluding treasury shares) as at the date of passing of this resolution; and
- (c) conditional upon the New Share Scheme becoming effective, the existing post-IPO share option scheme of the Company adopted on 13 November 2014 (the “**Existing Share Option Scheme**”) be and is hereby terminated with effect from the adoption of the New Share Scheme (without prejudice to the rights and benefits of and attached to any outstanding options which have been granted under the Existing Share Option Scheme prior to the date of the passing of this resolution).”

Yours faithfully

By order of the Board

Q Technology (Group) Company Limited

He Ningning

Chairman

Hong Kong, 12 June 2024

NOTICE OF EGM

Registered office:

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal place of business in Hong Kong:

Room 828, 8/F, Topsail Plaza, 11 On Sum Street,
Shatin, New Territories,
Hong Kong

As at the date of this notice, the executive Directors are Mr. He Ningning (chairman), Mr. Hu Sanmu (chief executive officer) and Mr. Fan Fuqiang; and the independent non-executive Directors are Mr. Chu Chia-Hsiang, Mr. Ko Ping Keung and Ms. Hui Hiu Ching.

Notes:

1. Any member of the Company (the “**Member**” or the “**Shareholder**”) entitled to attend and vote at the EGM of the Company convened by the above notice or its adjourned meeting (as the case may be) is entitled to appoint one or more proxies to attend and vote on his/her/its behalf. A proxy need not be a Member but must be present in person at the EGM to represent the Member. If more than one proxy is so appointed, the appointment shall specify the number of Shares in respect of which such proxy is so appointed.
2. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 48 hours before the time for holding the EGM or its adjourned meeting. Completion and return of a form of proxy will not preclude a Member from attending and voting in person at the EGM or its adjourned meeting should he/she so wish.
3. For determining the entitlement of the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from 25 June 2024 (Tuesday) to 28 June 2024 (Friday) (both days inclusive), during which period no transfer of shares will be registered. In order to qualify to attend and vote at the EGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 24 June 2024 (Monday).
4. Where there are joint holders of any share of the Company, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which names stand in the register of members of the Company in respect of the joint holdings.
5. In compliance with Rule 13.39(4) of the Listing Rules, voting on all resolutions proposed at the EGM will be decided by way of poll except where the chairman of general meetings, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted by show of hands.

After considering their own situations, Members should decide on their own whether or not they would attend the EGM under any bad weather condition and if they do so, they are advised to exercise extra care and caution.