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Guan Chao Holdings Limited

冠轆控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1872)

CLARIFICATION AND SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE FORMATION OF JOINT VENTURE AND DISCLOSEABLE TRANSACTION RELATING TO THE PROVISION OF FINANCIAL ASSISTANCE TO A JOINT VENTURE

Reference is made to the announcement (the “**Announcement**”) issued by Guan Chao Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 17 January 2025 in relation to, among other things, the formation of a joint venture and the provision of financial assistance to that joint venture (the “**Transaction**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

THE CLARIFICATION

The Company would like to clarify the implications of the Listing Rules for the formation of the Joint Venture, as disclosed on page 2 and page 8 of the Announcement.

The Directors wish to replace the previous statement, which had been disclosed as “As all application percentage ratios (as defined in the Listing Rules) in respect of the establishment of the Joint Venture are below 25%, the formation of the Joint Venture does not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules.”, with the following amendment (the relevant amendment has been underlined for easy reference):

“As all application percentage ratios (as defined in the Listing Rules) in respect of the establishment of the Joint Venture are below 5%, the formation of the Joint Venture does not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules.”

Also the Company would like to clarify the capital contribution as disclosed on page 3 of the Announcement. The Directors wish to replace the previous statement, which had been disclosed as “AlphaMind AI will contribute US\$510 and Reabon Tech will contribute US\$410”, with the following amendment: “the AlphaMind AI will contribute US\$510 and Reabon Tech will contribute US\$490”.

Save as disclosed above, all other information and contents in the Announcement remain unchanged.

THE SUPPLEMENTAL INFORMATION

The Board would also like to provide additional information regarding the Transaction.

1. The funding source for the First Loan and the Second Loan

As stated in the Announcement, the Company will finance the First Loan which is expected to be paid in the first quarter of 2025 and the Second Loan which is expected to be paid in third quarter of 2025 using its internal resources. Furthermore, the Board would like to provide additional information that it plans to allocate the Group’s available cash resources, generated from its existing business operations, to support the provision of the First Loan and Second Loan.

According to the latest available financial information of the Group, the cash and cash equivalents balances of the Group as of 31 January 2025 were approximately HK\$32.6 million. This amount does not include the proceeds of approximately HK\$170.68 million from the rights issue that was completed by the Company on 10 January 2025 (the “**Rights Issue**”). The Company plans to finance the initial loan of RMB26 million through existing cash. The Second Loan will be funded by the cash flow generated from business operations. Given this information, the Directors are confident that the Group has sufficient internal resources to support both the First Loan and Second Loan while effectively managing its daily operations. Accordingly, the Board would like to confirm that there have been no changes to the intended use of the proceeds from the Rights Issue as of the date of this announcement.

2. The projected capital requirements for developing the production line of the Project Company

As stated in the Announcement, the Project Company is currently initiating the development of a production line for 6 to 8-inch acoustic-grade and optical-grade lithium niobate wafers* (聲學級和光學級鋰酸鋰晶圓生產線), where this initiative will be executed in two phases. In the initial phase, the Project Company aims to achieve an annual production capacity of 50,000 niobate wafers* (鋰酸鋰晶圓). The second phase will focus on increasing the production capacity to between 80,000 and 100,000 units.

The Directors would like to provide further information regarding the Project Company's business plan. It is projected that an additional approximately RMB 10 million will be needed to meet the capital requirements for the second phase, and these funds will primarily be used to expand the factory's production capacity.

As a result, the capital requirements for the first and the second phases are set at approximately RMB40 million and RMB10 million, respectively.

As stated in the Announcement, AlphaMind AI and Reabon Tech will provide loans of RMB33 million and RMB4 million, respectively, to meet the capital needs of the first phase. To address the remaining RMB3 million requirement (i.e. RMB40 million minus RMB37 million), Mr. Wang Haoxu will contribute an additional RMB1 million buffer, bringing a total contribution of RMB4 million loan with no interest and repayment on demand for the Project Company before the completion of the Possible Acquisition, where this contribution is a condition for the First Loan in accordance with the Investment Agreement (please refer to condition (i)(c) on page 4 of the Announcement).

The first phase, when production is fully operational, is anticipated to be completed in the first quarter of 2026. To align with such development plan, the First Loan is expected to be provided in the first quarter of 2025. Subsequently, the Second Loan is expected to be provided in the third quarter of 2025.

However, the decision to advance to the second phase will depend on a thorough evaluation of the business landscape and current market conditions by the directors and management of the Joint Venture around first quarter of 2026. Should the need for expansion into the second phase be established, financing is anticipated to be derived primarily from the profits generated by the Project Company, augmented by secured bank loans, with the equipment utilised as collateral if necessary. If this is the case, the completion of the second phase is anticipated in the second half of 2026.

3. The management expertise in operating the business of the Project Company

As of the date of this announcement, the Directors do not possess the necessary expertise to operate the business of the Project Company. Nevertheless, the Board wishes to highlight the proactive measures taken to address this concern, including: (i) engaging Mr. Wang Haoxu ("**Mr. Wang**"), Mr. Zhu Zhinong ("**Mr. Zhu**"), and Mr. Shen Xuming ("**Mr. Shen**", collectively, the "**Founders**") as the primary management team of the Project Company, contingent upon the provision of the First Loan; (ii) recognising the Founders to be the shareholders of the equity interests in the Project Company after the Possible Acquisition, which encourages a collaborative environment benefiting all parties involved; and (iii) establishing the Performance Target to ensure accountability and alignment with the Group's strategic goals.

Set out below are the biographies of each of Mr. Wang, Mr. Zhu, and Mr. Shen:

- (i) Mr. Wang is a highly skilled engineer specializing in vehicle engineering, having obtained his degree from Dalian University of Technology (大連理工大學). He also holds a master's degree in human-computer interaction from the University of Nottingham in the United Kingdom (英國諾丁漢大學). Mr. Wang has gained considerable professional experience, including his position on the 5G filter project team at the National Nanotechnology Innovation Institute in the Guangdong-Hong Kong-Macao Greater Bay Area (粵港澳大灣區國家納米科技創新研究院). He has worked as a senior technical consultant at Guangdong Guangna Core Technology Co., Ltd. and as an investment consultant at Guangdong Guangna Financial Services Company (廣東廣納芯科技有限公司). Additionally, he has offered senior consulting services to various domestic semiconductor equipment companies. With a profound understanding of the industry, extensive experience in investment and financing, and a robust network of market and government resources, Mr. Wang is an invaluable asset in his field.
- (ii) Mr. Zhu is an experienced engineer with a degree in Mechanical and Electrical Engineering from Zhejiang Ocean University (浙江海洋大學機). He has extensive experience in the semiconductor industry and has developed a strong skill set in producing radio frequency micro-electromechanical systems (MEMS) chips and device packaging. Mr. Zhu has held significant positions at a well-known publicly listed company in the crystal materials sector and a leading firm specializing in radio frequency MEMS devices. He has a wealth of expertise in managing MEMS production line teams and has built an extensive network of industry contacts. Additionally, Mr. Zhu has contributed to the innovation of several patents related to crystal material processing and MEMS device production, demonstrating his commitment to advancing the field.
- (iii) Mr. Shen is a distinguished senior optics engineer with over 30 years of experience in piezoelectric crystal materials and radio frequency filters. Throughout his career, he has held significant positions at reputable organizations, including the National Nanotechnology Innovation Institute within the Guangdong-Hong Kong-Macao Greater Bay Area (粵港澳大灣區國家納米科技創新研究院). In this role, Mr. Shen successfully led initiatives in process technology and spearheaded critical research and development projects.

4. The detailed plan for operation and development of the Joint Venture and the Project Company

The Board wishes to supplement that the Group aims to leverage the Founders' extensive expertise in semiconductor filters and lithium niobate crystal wafers to diversify the Group's income streams and ensure sustainable growth.

The Founders established the Project Company, which specializes in preparing and mass-producing 8-inch lithium niobate wafers in the PRC. As of the date of this announcement, the Project Company has successfully developed a strategic network with several reputable domestic organisations. By aligning its offerings with the specific needs of downstream customers, the Project Company is committed to customizing and manufacturing lithium niobate crystal wafer products that fulfill those requirements.

As mentioned previously, the timeline indicates that the production line is projected to become operational, with customer product verification scheduled to commence by the end of the third quarter of 2025. By the end of 2025, the Project Company is anticipated to secure batch orders and achieve a production line utilization rate exceeding 50%. As disclosed in the Announcement, the initial production phase is expected to yield an annual output of 50,000 lithium niobate wafers. The Project Company will offer the flexibility to supply lithium niobate acoustic and optical sheets in 4-inch, 6-inch, and 8-inch formats tailored to meet market demand. As of the date hereof, the team has successfully received intentional orders amounting to approximately 100,000 pieces per year.

The Project Company will be primarily operated by the Founders and managed by the board of the Joint Venture, which the Company is authorised to appoint two out of three directors in accordance with the Investment Agreement. The parties involved in the Investment Agreement will mutually agree to hold regular board meetings to report on and monitor the development progress of the Project Company. Furthermore, appropriate internal control procedures will be implemented to ensure compliance with applicable rules and regulations. In particular, the Group will adopt the following internal control measures to monitor the development progress of the Joint Venture:

- (i) establish a formal authority matrix delineating the approval requirements and procedures for evaluating the departure of key management and supervisory personnel;
- (ii) create formalized policies and procedures to govern cash and treasury activities, thereby ensuring the proper handling of receipts and payments pertaining to operating funds;
- (iii) engage external consultants, when applicable, to conduct independent reviews of the risks associated with, and controls over, the principal operations of the Joint Venture;
- (iv) implement a formal reporting mechanism to communicate significant issues to the board of the Joint Venture;
- (v) the finance department of the Company shall monitor and ensure that the departments managing the Joint Venture regularly review and assess whether the Joint Venture is adhering to the projected development timeline;

- (vi) conduct an annual review of the adequacy of resources, staff qualifications and experience, training programs, and budget allocated to the Joint Venture;
- (vii) undertake a regular examination of the development progress and financial position, assessing the effectiveness of the risk management and internal control systems of the Joint Venture, with results reported regularly to the Board; and
- (viii) provide training to the board of the Joint Venture to ensure compliance with the requirements under the Listing Rules.

The Board believes that the ability to control and monitor the operations of the Project Company, along with the investment terms established in the Investment Agreement to safeguard the Company's interests, will render the investment risk in the Project Company through the Joint Venture manageable and under control.

After thoroughly reviewing the development plan, the Group recognises the significant potential for the Project Company to deliver long-term financial returns and considers that the formation of the Joint Venture is in the interest of the Company and its shareholders as a whole.

5. The potential consequences if the Project Company does not achieve the Performance Target

In accordance with the Investment Agreement, if the Project Company fails to meet the Performance Target, AlphaMind AI and/or the Company reserve the right to issue a formal written notification to Reabon Tech within twelve months of recognizing this shortfall. This notification will include (i) a request for Reabon Tech to transfer 33.6% of its equity interest in the Joint Venture to the Company or a designated third party without any consideration, while the remaining 15.4% of the equity will continue to be pledged to AlphaMind AI; and (ii) an assertion of the right to compel Mr. Wang, Mr. Zhu, and Mr. Shen to transfer a total of 5.13% of the Project Company's equity to the WFOE without any consideration.

Given that the Group has a stake as one of the shareholders in the Joint Venture, and considering that the funds from both the First Loan and the Second Loan will be used to establish a new production line and support a business with significant growth potential, the Directors believe that (i) the value of the Joint Venture, bolstered by these production lines, will be sufficient to cover the loan obligations; and (ii) the ongoing operations, supported by the Founders' commitment to maintaining continuous employment, will effectively sustain the business and generate financial returns for the Company. Therefore, if the Project Company fails to meet the established Performance Target, one option for the Company to protect its interests is to recover the loan by transferring equity interests.

This announcement is supplemental to and should be read in conjunction with the Announcement. Save as disclosed above, the Board confirms that the above supplemental information does not affect other information contained in the Announcement and the content of the Announcement remains correct and unchanged.

By order of the Board
Guan Chao Holdings Limited
Tan Shuay Tarng Vincent
Co-chairman and executive Director

Hong Kong, 14 February 2025

As at the date of this announcement, the Board comprises Mr. Tan Shuay Tarng Vincent, Mr. Zhang Xiaoyang, Ms. Ng Hui Bin Audrey, Ms. Beng Lee Ser Marisa and Mr. Jin Zhehui as executive Directors; and Mr. Chow Wing Tung, Mr. Zhong Lili and Mr. Tam Yat Kin Ken as independent non-executive Directors.

* *For identification purpose only*